

**SAWMILLING SOUTH AFRICA EXECUTIVE DIRECTORS REPORT TO THE
EXECUTIVE MANAGEMENT COMMITTEE AND AGM OF SAWMILLING SOUTH
AFRICA APRIL 2010**

MEMBERSHIP:-

Membership of SSA now seems to have stabilised at approximately 85% of the formal sawmilling sector and despite efforts to recruit and encourage mills that are not members some millers are just not interested in belonging to a collective association. This is disappointing but I believe reflects the attitude of certain participants in the industry. The Chairman and I have both been active with attempting to recruit millers from the previously disadvantaged and micro milling group and to this effect we have had some success. Most of these millers are situated in the rural areas and do not even have the convenience of email which makes them difficult to locate and correspond with. All of these emerging sawmillers have one common challenge however, that of, a lack of resource. If it were not for this I know that there would be a far greater percentage of emerging millers. These are entrepreneurs who would like to create opportunity and employment in some of the most rural areas of the country. One way established sawmillers could aid this expansion is to subcontract work out to aspirant millers for example, the operating of small log lines or the control of the log deck etc etc.

FINANCIAL:-

The financial position of the association remains favourable and is testament to the fact that your executive has been prudent in the way that they have managed the association. This has resulted in the fact that the levies have not had to be increased over the last two years. This unfortunately cannot remain the case if we are to expand our service to the industry. The executive is fully aware that even tighter financial discipline will be needed in the year ahead and so with this in mind have decided to limit a levy increase to 0%. The bad news however is that SSA was tasked with the responsibility of securing the industries contribution to the Forestry Transformation Charter Council and this will require us to add .03 cents to our collections. The executive will need to consider how we administer this and so you may notice an increase from .27c per m³ to .30c per m³ in your levy.

The association's relationship with Mazars our accountants and auditors continues to develop into a healthy working one.

TECHNICAL:-

ZA Dry Q formally approached SSA for support and following our regional and technical subcommittee meetings held through the year it was resolved that the Technical subcommittee would take over the management of ZA Dry Q and attempt to encourage millers to make use of the program. Dr Stöhr has been tasked with condensing, simplifying and digitizing the system so that it can be made available to SSA members in electronic format which should make it easier and more acceptable to millers to use.

It was also decided by the technical subcommittee that we would co-opt Mr Butch James, Ivan Welch and Dr Peter Stöhr onto the tech committee and hold technical workshops in strategic venues around the country. You will all be aware of the questionnaire that was circulated to all members asking for their specific needs. This will enable us to tailor design the workshops for each specific regions needs. These workshops are scheduled to start in May.

The project **“The mechanical properties of SA Pine and the optimisation of structural timber yield”** that SSA have sponsored at the University of Stellenbosch and being led by Mr Brandt Wessels of the universities staff and will be completed by the end of June this year. We are hopeful that this may well lead to improved and increased yields from the industries available resource.

In the year SSA made representation to NERSA to have electricity generated from “Under Utilized Sawmill product” (chips & sawdust) to be included in the REFIT 11 program. Nersa have undertaken to include it in the COFIT program and to consider it for REFIT 11 at a later stage. This would have the effect of introducing an alternative for this product and result in the lifting of prices for chips and sawdust in the future. Our friends in the pulping business may not be totally happy with these developments.

SSA commissioned “Crickmay Supply Chain Evolution” to draft a document on the effect of electricity consumption within the sawmilling industry. This has been completed in “draft” format and will be finalised within the next month. This will give sawmillers an insight as to the effect of future power cost escalations and may lead to millers changing their strategy towards power generation and consumption.

SKILLS DEVELOPMENT:-

SSA has been active on the board of the wood and furniture chamber of the FIETA and I am pleased to announce that things in FIETA seem to be in a better position than they have been in the past. There is no evidence of corruption and there is a genuine desire among the staff to put the resources to best use. SSA has been active in ensuring that sawmilling will get its fair share of

attention. The uncertainty surrounding the future of the entire SETA program however is having a negative impact on the activity at FIETA, as it does at all the SETAS.

The planned technical workshops will also it is hoped be attended by many of the emerging sawmillers and contribute greatly to the development of skills in this subsector. It is important for the association to be continuously developing the particular skills needed in our industry (e.g.; sawdoctoring & kiln drying) as no one else will provide this and these skills are continuously in demand.

GOVERNMENT:-

Needless to say there has not been a lot of contact with either DAFF or the ministry as a result of the recent changes to the ministry. This however is now rectifying itself as the department settles down to its new role and SSA in the form of our chairman is in regular contact with the DDG and her staff.

The Department of Trade and Industry (DTI) have requested a meeting between themselves and SSA to discuss the situation in the sawmilling industry with regard to the importation of sawn lumber as well as skills development in the industry, but we have not as yet been able to come up with a suitable date.

SSA was asked to make a presentation on "The state of the Sawmilling Industry in South Africa" with special reference to Mpumalanga, to the MEC for economic development of the Mpumalanga provincial Government. This was done by myself, the chairman and the past chairman and was well received by the MEC who pledged to hold a further conference on the importance of the Sawmilling industry to the region and to explore ways that the provincial government can help to expand and support the industry.

The sawmilling industry is referred to as a growth nodule in the Government's "**Industrial Policy Action Plan**" (IPAP) and so the industry will face further scrutiny and demands from the government through its agencies and departments like the IDC and DAFF. DAFF has also had drafted and is in the process of discussing and evaluating a document called "**INTEGRATED SMALL ENTERPRISE DEVELOPMENT STRATEGY FOR THE FOREST SECTOR IN SOUTH AFRICA**" this document if and when accepted by government will also have an influence on our industry and so SSA will need to remain in close cooperation with these departments and agencies to help guide our member through any possible resultant changes to policy.

REGIONAL MEETINGS:-

This year's round of regional meetings started with the Mpumalanga meeting being held in Sabie in June. This meeting was well attended by millers from both Mpumalanga and Limpopo. This is

followed by the KZN region in PMB in September and the Cape meeting in George in November. It has been suggested that we split the Cape meeting into two regions, East & West and the Limpopo province have also enquired as to whether they should also not have their own meeting. 2009 taught us that it is not advisable to hold the regional meetings spread throughout the year but that it would be better to hold all the meetings at the same time in the various regions. This way the current problems facing the industry will be discussed at the same time of the year in each region. Therefore you will notice that all the regional meetings are scheduled all in the same week in 2010.

PROMOTIONS:-

The Timber Marketing Forum (TMF) was established during the year and is up and running, it includes all the various industry sector associations including FSA, SAWPA, ITC, SAUPA, TFBA, the Thatches Association of SA, as well as the Pulp and Paper and Board industries.

The inaugural meeting of all interested parties was held early in the year in JHB and was well supported by 63 delegates from all sections of the forest industry. As one of the founding members SSA has a seat and a vote on the executive, in fact SSA is one of the main drivers behind the forum. It was decided to change the name of the TMF to the "Wood Foundation" as this better represented the overall forest and wood industry. The main aim of the Wood Foundation (WF) is **"to promote the use and application of wood and/or wood products and encourage the growing of trees"**. The WF is to be officially launched in the month of April and members will start to see the promotions campaign being rolled out via various industry publications.

IMPORT REPLACEMENTS:-

Imports of sawn board have started to decline as the demand for our product has slowed. The latest figures from Crickmay indicate a reduction of 33% year on year. (2008 120,336 m³ / 2009 81,152 m³ including Zimbabwe). This is to be expected in the current climate but will undoubtedly pickup once the climate starts to change and so we must not stop monitoring this. As an industry it is extremely important that we remain in close co-operation with both the DTI and Customs and Excise so that we fully understand its impact on our business.

FUTURE AND CHALLENGES:-

The next period will be a challenging one for SSA as we continue to recruit as many of the small and micro millers as possible and we present ourselves to the new powers at the department of Agriculture, Forestry and Fisheries (DAFF).

I firmly believe that the creation of the Wood Foundation could not have come at a better time for our industry and that we will need to work hard to make it the meaningful contributor I am convinced it will be.

There are one or two developments in the industry that will need the executive committee's attention in the immediate future, they are, the concentration of buying power in the hands of fewer and fewer corporate buyers and the increasing demand from the market for ever increasing Environmental product information and credibility.

An additional challenge that the sawmilling industry shares with the wider forest industry is the land redistribution issue. Apart from the overall forest resource situation the problems associated with land redistribution need our attention and support or we run the risk of witnessing a further reduction in the supply of sawlogs. This will of course be mitigated by the importation of sawn board and once again this industry needs to be of influence when drafting of any policy in this regard.

Since the establishment of SSA it has been in mind that all the Forest industry associations will one day need to be represented by a forest products federation and so we will need to keep considering the amalgamation of SSA with the broader industry but at the same time retain our peculiar identity.

In closing I must say that it has been an interesting and challenging year and I am forever grateful for the much needed support of the Chairman and the executive committee. It has been a privilege working with you gentlemen and I look forward to working equally as successfully with the new Chairman and executive.

RD Southey 1/04/2010