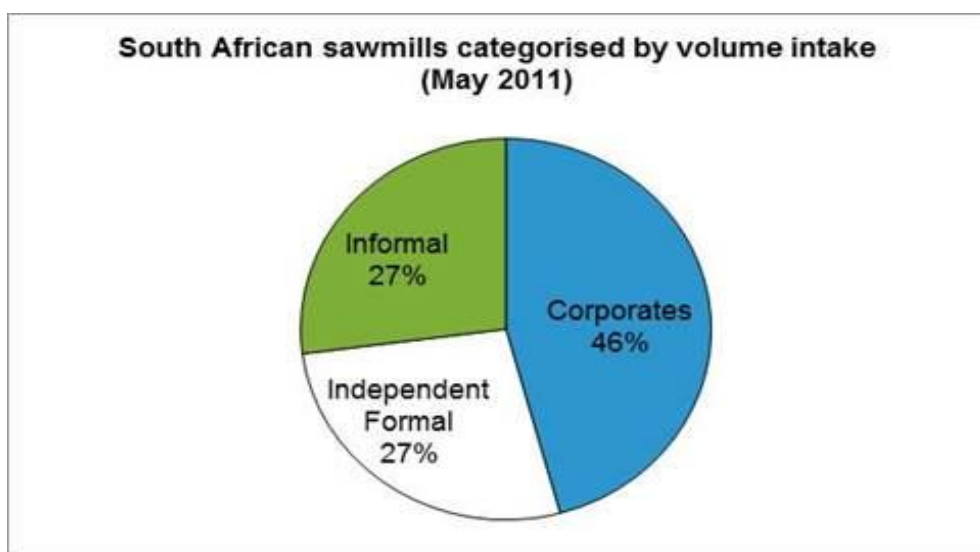


EXECUTIVE DIRECTORS REPORT TO THE EXECUTIVE COMMITTEE AND AGM OF SAWMILLING SOUTH AFRICA JUNE 2011 JHB

MEMBERSHIP:-

This has been one of the most difficult years on record for the sawmilling industry in SA and as a result the membership of SSA has shown no growth through the year. This does not mean that there is no potential for growth in membership however as if one considers that although SSA members account for 80% of the intake into South African sawmills. This 80% is cut by only 46 millers and the remaining 20% of the total SA intake is cut by a further ±150 small and micro (s/m) millers. This is not to say that we do not have any small and micro millers as members, we do, but we certainly don't represent the majority of them.

Government would like us to recruit as many of these (s/m) millers as possible as they see SSA as their only means of communicating with them. This means that we need to take a conscious decision as to whether we should and how we would, attract as many of these millers to our membership as possible. The graph below illustrates the ownership of the SA sawmilling industry by intake. SSA membership includes all the corporate players, most of the Independent Formal millers and a selection of the Informal sector.



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EXECIUTIVE COMMITTEE:-

The Executive Committee met three times through the year at which time it considered matters of a strategic nature effecting the association and the industry. The year saw the resignation of two of the standing members of the Exco namely Messer's Gay Mokoena and Nthato Motlana we also experienced the loss of our chairman Mr Moses Qomoyi who was tragically killed in a motor accident in the Eastern Cape. This left the Executive committee with just two representatives in Messer's Billy van Zyl and Erik Soderlund. Despite this setback the executive committee remained within the constitution. Both Mr Claus Lippert and Mr Sean Pretorius attended meetings as co-opted non-voting participants, thus ensuring balanced deliberation. The executive director was appointed as the interim chairman of the association until the 2011 AGM.

FINANCIAL:-

The audited financials of the association are attached to this report for your consideration. From these you will notice that the association is still in a sound financial position but has now after three years of cost cutting come to the point where it can no longer provide the service its members expect unless it either dips into reserves or increases the levies slightly.

Also attached to this report is the association's budget for 2011/12. You will note from this that the Exco's recommendation is that an increase of, 02c/m³ be added to the ,27cents general membership levy thus taking the cost of membership to ,29 c/m³.

In addition to this the Forestry Council raised its requirement from the industry by 8% resulting in the necessity of raising an additional 01c/m³ to cover the industries contribution to the council. As mentioned above increases have been budgeted for and will require ratification by the AGM.

TECHNICAL:-

The technical subcommittee (Tech Com) has been active this year, probably the most important work it has overseen this year is the preparation of the industries pricing recommendation to NERSA for power generated from sawmill woody biomass. At a mini seminar on Power from Woody Biomass arranged and facilitated by SSA a select subcommittee was appointed to draft the industries submission. It also necessitated the employment of an outside expert, Mr Dave Long of IES Energy a consultant in the field of power generation. Following the work done by this committee a presentation was made to NERSA at the COFIT public hearings on the 6th May. The industry suggested to NERSA that it consider increasing its allocated rate for power generated from sawmills biomass from the original proposal of 0.76 R/kWh to 1.36 R/ kWh. We are expecting an announcement on the COFIT rates within this month.

A rate of 1.36 R/kWh or close to it will, we believe afford sawmillers the opportunity of considering the alternative of power generation. This may well prove to be of interest to many of

the more rural of our members who find themselves a fair distance from the traditional markets for chips, sawdust and shavings.

Other projects overseen by the Tech Com are the two projects commissioned to the University of Stellenbosch. These are, "Strength Characteristics of lumber from younger pine (18 to 23 year old) and its Ability to conform to the Requirements of the S5 Grade" and "The effect of MOE in the design and Implementation of a Typical Roof Truss".

The Strength of lumber from younger pine project has been running now for the last year and was the basis of a Master's thesis by a post graduate student. Preliminary results showed that the boards tested (sourced in Mpumalanga) exceeded the requirements of the grade in all aspects except MOE. The role of MOE in truss design and application is not fully understood and so this led to SSA commissioning the university to undertake a further study to establish what role and to what extent MOE plays in typical truss design & application in South Africa. Further as a result of the preliminary findings it was deemed necessary that the original project be extended to include lumber from a greater sample, including KZN, Limpopo and other districts of Mpumalanga. Mr Brand Wessels of the University of Stellenbosch who is responsible for these two important projects will be presenting an up-date at the AGM.

2010 saw us take a one day "Kiln Drying" course to each of the regions. The course was conducted by Dr Peter Stohr and was presented at a host sawmill in each of the regions starting in Limpopo and ending in the Western Cape. I would like to thank those millers who agreed to have us invade their mills for the day and am sure that they did get some constructive advice as a result. The course was aimed at kiln and boiler operators and proved to be extremely well supported with 96 delegates in total attending. This has shown us that in-service training is indeed needed and well supported by members.

SKILLS DEVELOPMENT:-

SSA played a meaningful role on the board of FIETA this past year but as you are aware FIETA has now been dissolved and incorporated into a combined and much larger SETA.

FIETA continued to serve the industry well during 2010, being one of the most efficient of the 23 SETA's. This in part was due to the competent leadership of its CEO Mr Simangaliso Mkwanazi and his staff as well as the dedication of its board members representing the forest industry.

Despite this good performance the National Skills Authority (NSA) nevertheless announced its intentions during the year to reduce the No of SETA's from 23 to 21. Included in this proposal was a realignment of the SETA landscape. This proposal saw the split of Forestry to the agricultural SETA and the balance (forest products, pulp & paper and furniture) being hived off to the manufacturing SETA. It is pleasing to report that after considering a submission from the board of FIETA the NSA agreed to keep forestry together with the manufacturing side of the industry and so

now we remain one value chain and as from the 1st of April moved into the new SETA “Fibre Processing and Manufacturing SETA” (FP&M SETA) along with the printing, packaging & publishing sub-sectors of MAPPP plus the entire Clothing, Textile, Footwear & Leather SETA. This retention of the value chain will at least see that the Forest industry retains a better voice on the new SETA than had it been split.

SSA continues to participate on the faculty advisory boards of both Stellenbosch University and NMMU (Saasveld) and I am pleased to report that both of these institutions value the associations participation and consult us regularly with issues pertaining to the training of their students. Both these institutions have seen an increase in the number of students choosing to study wood science, an encouraging development for the future of the industry.

As mentioned above the association undertook a kiln drying workshop program through the year that proved to be extremely popular with the majority of sawmillers. It is planned to extend this to sawdoctoring during the course of 2011. One of the observations made during the kiln drying workshops was the almost complete lack of industry based in-service skills training and the importance of regular up updating. With the financial help of new FP&M SETA SSA plans to expand on these workshops in the future.

GOVERNMENT:-

2010 saw a renewed initiative from the association with regard to engagement with various Government departments (DAFF, DTI, NERSA, IDC) on a number of issues. This positive initiative was vigorously led by our chairman Mr Moses Qomoyi until his untimely passing and without his drive came to somewhat of a stand still. The challenge in the New Year will be to reignite the enthusiasm to ensure that the industry always gets its fair share of consideration from these departments going forward.

OTHER REPRESENTATIVE BODIES:-

SSA once again enjoyed positive and fruitful relations with the majority of the other associations in the broader forestry industry. None more so that our dealings with Forestry South Africa (FSA). FSA have a particularly productive relationship with government and regularly represent our views in negotiations with government institutions. We are constantly lobbying the sawmillers’ case for increased production of sawlogs, a crusade shared by FSA. Relations with the Pulp and Paper Industry (PAMSA) are less frequent but no less productive. One example of this was their assistance with our submission to NERSA earlier this year. They also play an expanded role with respect to the general promotion of forestry and forest product to the public.

SSA has a special working relationship with the SA Wood Preservers association (SAWPA) as most formal millers are also wood treaters in their own right. SAWPA play an enormous role with regard to the technical aspects of wood preservation and we rely on them for much support in this sphere.

CHARTER COUNCIL:-

SSA unfortunately lost its representation on the forestry council due to the resignation of both Gay Mokoena and Nthato Motlana but I am pleased to announce that the Exco took the decision to appeal to the Council that both men be replaced by Mr Lulamile Xate and Mr Roy Southey respectively. The Chairman of the council Mr Pasco Dyani has approved this and so we await the ratification from the full council. 2010 was a rather turbulent year for the council as it saw the suspension of its CEO Dr Simelane following a recommendation from both the Audit and HR subcommittees.

PROMOTIONS:-

2010 was a big year for promotions with the launch of the Wood Foundation. This initiative is aimed at the entire value chain across all sections of the forest and wood industries. July saw the official launch of the foundation at the Star Build it Expo in Johannesburg. The Timber Frame Builders association erected a complete house on a stand in one of the exhibition halls and this was in turn manned by representatives of each of the associations. A cocktail party to host the official launch of the foundation to members of the media was held on the stand resulting in the Wood Foundation receiving a number of editorials in building and architectural magazines. This was followed up by three Radio and two Television interviews.

The beauty of the Wood Foundation is that it not only covers the entire value chain but that it also promotes the growing of trees and the use of wood as a preferred material.

The chairmanship of the Wood Foundation currently sits with us sawmillers in the form of your Executive Director and so for the next two years the sawmilling industry will supplying much of the direction needed by the foundation. Positive feedback about the foundations work thus far is, that it is refreshing to see that all segments of the industry are working together to spread the good story about wood and its many applications.

In addition to its work with the Wood Foundation the association this year developed a website at which any person wanting basic information on the sawmilling industry may find it. It is planned to expand this in the future and to add a regular interactive feature where sawmillers can interact with each other and up-date themselves on matters of a technical nature.

FUTURE:-

Looking at the future and what it holds for sawmillers and the association it is best to discuss the most urgent issue as follows.

International Networking; No organisation or industry can survive in seclusion in today's fast paced technological world. The simple fact that the world is experiencing challenges such as a shrinking forest resource (yes, not only South Africa), climate change, global marketing developments and worldwide knowledge transfer, means that unless our industry remains vigilant and connected to the rest of the world it will be left behind, a struggling unviable relic of the past. Your association needs to lead its members in this respect and ensure that South African sawmillers take advantage of developments in similar industries around the world. This can be done through study groups, tours, student exchanges and industry co-operation agreements.

Research; For a number of years the sawmilling industry ignored this aspect and is today trying to catch up with the very basic research requirements needed to support our primary product, structural lumber. If one looks at the work done and the inroads made by light structural steel in to our traditional markets one will soon realise that the timber industry has been resting on its laurels for too long now and there has been no development towards lighter sections or more "log" friendly sawing patterns, we are still living in a world of 38X114, 2,7 to 6,6. If we do not initiate or get involved in product research & Development we are bound to find ourselves with not enough logs and producing repair material for old buildings at yesteryears prices. Any and all research does not come cheap and it's only a combined industry led effort, that will succeed.

CPD's; It is through discussion with architects and structural engineers that you realise the very limited or total lack of participation by the timber industry to these two professional institutes. Structural Engineers for example require a minimum of six CPD points per year in order to remain accredited with the engineering council. Many other industries provide experts in their fields and products, to lecture at these CPD sessions and courses. This is an enormous opportunity for the industry to promote the use and application of its products and could hopefully lead to timber being offered as an alternative in future building planning.

BEE Development; This aspect is starting to sound like a stuck record but believe it or not is a daily necessity of doing business in this country and for the industry, is a non negotiable. For the future development of the sawmilling industry in South Africa we have got to be introducing, educating, assisting, developing and encouraging young black people into becoming the future owners and operators of sawmills. An industry supported program of bursaries, training and mentorship is the only way to achieve this objective.

Legislation; We are living not only in an ever increasing legislative South Africa but also a world that, as a result of globalisation is finding an ever increasing and controlled workspace, with regard to environmental, human rights and basic conditions of employment. These are proving challenging to a lot of South African sawmillers and the industry needs to stand up and debate these and were necessary prepare its members for the impact.

Information; In order to stay ahead and keep pace with the future the industry needs to constantly improve its statistical information & intelligence gathering. This it needs to do in partnership with other industry bodies and players as well as its consultants. The sawmilling industry was once well supported by a host of expert consultants both technical and management and these alliances need to be reignited.

APPRECIATION;

Whilst 2010 will go down as one of the toughest years ever to confront the sawmilling industry and despite trading conditions that showed even greater challenges the bulk of sawmillers' hung in to see the light of day and to fight for their survival. To this end we say congratulations and thank you to all our members. A special thank you must go to our executive management committee who under trying times and despite the loss of its chairman continued to remain active and steer the association in a positive direction. A vote of thanks must also go to our bookkeepers Mazars who did a sterling job of keeping us in the money. It has been a privilege to serve this industry for another year and we look forward with confidence to the challenges of the year ahead.

R D Southey
June 2011