

In response to “Is all well in the teak forests of South Sudan?” by Aly Verjee. Published March 14, 2013 in African Arguments

Maris appreciates the sentiment of the article written by Aly Verjee (“Is all well in the teak forests of South Sudan?” published March 14, 2013 in African Arguments) regarding the teak forests of South Sudan. In particular, Maris supports Aly Verjee in wanting to draw attention to a country that has long been plagued by conflict but whose natural resources offer significant potential for the growth and re-development of the country. Extensive damage was done to the forests across South Sudan during the years of conflict, and forest growth was hampered by poor management over this time, but the future looks promising for this abundant resource.

Maris is committed to facilitating the regeneration of the sustainable teak industry in South Sudan, and rehabilitating the Western Equatoria region (now known as Gbudue State) that has lacked investment and employment for so long. In 2010, Maris acquired a controlling stake in Equatoria Teak Company (ETC), a concession for five land blocks near Nzara, Western Equatoria, on a total area of 18,700 hectares, of which 1,700 hectares are currently planted. The concession was acquired from the CDC/Actis, who themselves had negotiated a 32-year, renewable concession in 2006.

Maris invited Aly Verjee to visit ETC to see the operations first hand, however to date he has not taken up this offer. The following addresses specific concerns in the article

1. Ownership and governance

Whilst the implication of the article by Aly Verjee is that questions remain about the original land deals secured by ETC in 2006, including the ownership structure and terms and conditions of the concessions, these were granted at the time by the Ministry of Agriculture and Forestry (Government of South Sudan) and approved by the Council of Ministers. The aims of the original deals were to provide a sustainable business model in the Western Equatoria region to enable steady employment and increase economic benefit to the region, as well as contributing to the country as a whole. Since 2010 Maris has held majority ownership of ETC. Shareholder confidentiality precludes Maris from releasing names and ownership, however Maris itself holds 83% of ETC, with the remainder of the company being owned by Ugandan and Sudanese shareholders. Since Maris has held majority ownership the main ownership challenges have come from illegal loggers, not national or regional government entities or communities. Illegal loggers contribute nothing formally to national or state revenues, have no formal mechanism of returning benefit to the community, and provide only sporadic employment for community members, defeating the aims of the original concession agreements. Going forwards, ETC will continue to work with both national and regional leaders as well as the communities in which it operates to ensure that the original aims of the agreements are met.

2. Royalties and Community Contributions

Since business operations began in 2013, ETC has contributed significantly to the economy of South Sudan. Between 2010 (when Maris acquired its controlling stake in ETC) and 2013, ETC had limited activity, due to political uncertainties in South Sudan before and after the referendum, and business changes that needed to be implemented under the new ownership. In 2013, ETC began teak exports. In that year, ETC’s total contributions to South Sudan’s economy amounted to nearly USD\$500,000. This could be broken down as follows

SME Procurement	USD\$75,000
Local Salaries	USD\$160,000
Royalties to County	USD\$16,000

Royalties to State	USD\$63,000
Duties and Taxes to State	USD\$10,000
Duties and Taxes to National Govt	USD\$40,000
PIT/NSIF	USD\$7,000
Community Contributions	USD\$61,000

Over time, ETC's contributions have grown significantly. In 2017 alone, contributions totalled USD\$2.4m, broken down as follows

SME Procurement	USD\$172,000
Contractor Payments	USD\$914,000
Local Salaries	USD\$293,000
Royalties to County	USD\$77,000
Royalties to State	USD\$309,000
Duties and Taxes to State	USD\$52,000
Duties and Taxes to National Govt	USD\$208,000
PIT/NSIF	USD\$26,000
Community Contributions	USD\$300,000

This has brought the total ETC contributions to South Sudan's economy over a 5 year period (2013-17) to USD\$6.9m. This figure is projected to reach USD\$14.7m by 2020.

In accordance with its original agreement, ETC contributes \$105 per m³ of teak exported to national and county government and community contributions. In total, \$80 per m³ is given to the national government, \$20 per m³ to the county government, and \$5 per m³ to the community fund. Production, transport and royalty costs make ETC the most expensive teak to produce and transport in the world. Transport costs alone are \$200 per m³ to transport the teak from South Sudan to Kampala, largely due to poor infrastructure across South Sudan. This excludes all royalty and production costs. This compares to the industry standard for total teak production and transport of \$200 m³ elsewhere in the world.

As alluded to in the article, the community contributions from ETC are largely controlled by the Nzara Social Fund, with membership from the local community. The total community contributions to date have been USD\$767,000. Through this, the fund has developed a secondary school in Nzara and is nearing completion on a primary school in Mborizanga. Outside the fund, ETC has donated generators to the Nzara Hospital, completed construction work on the facilities of the Comboni Sisters, Italian nuns who offer health and social services to the Nzara population, sponsored Independence Day celebrations in Nzara, introduced the Moringa plant into the nursery, Nzara Hospital and at the Rainbow Clinic (this plant has strong medicinal properties, which are known to alleviate the symptoms of HIV/AIDS sufferers), and assisted the local government of Nzara in repairing the county court house, the county administration block, main roads, the airstrip and digging pits for garbage disposal using ETC personnel, vehicles and equipment.

ETC currently employs 560 staff, both directly and indirectly through the local subcontractor network, over 90% of who are from the local region.

ETC is committed to improving the economy of South Sudan as a whole, as well as improving the economic and social benefit of the business to the Western Equatoria/Gbudue State region in which it operates.

3. FSC certification

The article correctly states that ETC obtained FSC certification in 2009, following an evaluation by accreditation company SGS, but lost its certification in January 2011 because an annual compliance audit had not been conducted by SGS. It is worthy of note that ETC did not lose its certification due to any change in the management of the concessions. While this was misrepresented on the ETC website initially, this was an oversight that corrected once attention was bought to it.

A decision has now been made not to renew the certification in the near term. There are a number of factors that have played into this decision. Firstly, the cost of certification and its annual audit requirements are prohibitively high. The individual certification bodies that carry out assessments on behalf of FSC each determine their own fees, and there is an annual administration fee paid to the FSC.

Secondly, the benefits of certification also remain in doubt. The first stated business benefit on the FSC website is that certification raises industry standards in forest management, and the forth stated benefit is that certification protects forest ecosystems and helps fight climate change. However, in recent years both of these statements have been called into question by a number of organisations, including Greenpeace which was historically a key pillar of support for the FSC. Several key NGO members have left FSC due to shortcomings in fulfilling these roles, including FERN, Friends of the Earth EWNI, Robin Wood and SSNC. Some issues highlighted by Greenpeace include a failure to maintain High Conservation Values (HCV) in certified forests, Intact Forest Landscapes (IFLs) being degraded by logging, FSC-certified operators being involved in, or exacerbating conflict with local and indigenous communities over land and use rights, FSC certification in regions with gross human rights violations, weak assessment of “controlled wood” classification, and weak interpretation / application of standards and poor certification body performance. This is ontop of criticisms regarding the conflict of interest that the assessors are paid by the companies wanting to get certified. An organisation called FSC-Watch has been set up to directly address some of these concerns with the FSC, a group which includes Simon Counsell, one of the Founder Members of the FSC itself.

The second stated business benefit on the FSC website is that certification creates tangible economic benefits for your business, and the third is that certification creates stronger links between your business and your customers. ETC has not found this to be the case, but rather found that the additional premium that the product can command through having certification is insufficient to cover the cost of its acquisition.

The final stated business benefit of certification is that it ensures you will be up to date with government requirements. However, ETC ensures this through its business operations, not through additional certification (see below).

As a result of all of these issues ETC is not currently considering renewing FSC certification.

4. New Regulations

ETC is compliant with all existing required regulations, and will continue to ensure that it complies with those introduced in the future. The article specifically references EU timber import regulations (the EUTR, Regulation 995/2010), that came into force in March 2013. This has three main obligations:

1. Timber accompanied by a Forest Law Enforcement, Governance, and Trade (FLEGT) or Convention on International Trade in Endangered Species (CITES) licence will be accepted as legal. In all other cases, operators must exercise ‘due diligence’ when they introduce imported and domestic timber or timber products on the EU market.
2. It prohibits the placing of illegally harvested timber, and products made from illegally harvested timber, on the EU market, whether the timber is of domestic or imported origin.

3. Traders (those after the operators in the supply chain) need to keep records of their suppliers and customers (except end consumers). In this way, the operators can always be traced.

Whilst the FSC has worked to ensure that its certification is aligned with EUTR so that operators exercising “due diligence” for non-FLEGT and non-CITES licensed timber can use FSC certification as part of their risk assessment, it is in no way a requirement or the only mechanism for operating “due diligence” on timber and the associated companies. ETC is committed to compliance with appropriate regulations, and to transparency of its operations for anyone wishing to undertake due diligence on the company.

Maris hopes that this response addresses some of the concerns outlined in the article by Aly Verjee (“Is all well in the teak forests of South Sudan?” published March 14, 2013 in African Arguments), and continues to extend its welcome to Aly Verjee or any other concerned individuals to visit ETC to gain a greater understanding of its operations in South Sudan. A recent USAID report on forestry in South Sudan (“Forestry and prospects for stability, livelihoods and peace building in the Equatorial States of South Sudan” by Bryan Adkins. Published June 2015) stated the following about ETC

"Beyond the creation of a substantial number of jobs, ETC has demonstrated the role that a vibrant forestry industry can play in South Sudan. In addition to their operations, they have also built the only functional secondary school in Nzara County. Other corporate social responsibility emphases have included a comprehensive health package for their staff, an employment insurance scheme, a vegetable production centre for local HIV treatment facilities, and an active capacity building/skills transfer program." USAID Report 2015

Maris remains extremely proud of what the team at ETC continues to achieve in a challenging environment.

About Maris

Maris is an investment holding company that is diversified across eight African countries and actively invests in four key strategic domains; Property Services, Business Services, Mining, and Agriculture and Forestry. Maris currently has 20 holdings in which it has a controlling interest. The group brings distinctive capabilities with a Management Team and Board with extensive operational and management experience in emerging and frontier markets, widespread networks both globally and within key markets, and a rigorous investment approach developed through decades of global investment experience.

Maris has a strong focus on social responsibility in each of the areas in which it operates. Maris believes that one of the most critical ways of protecting an investment for the long term is through building a very close association with the local community, particularly in very remote areas. Maris adheres to the IFC performance standards throughout its businesses and through its people, community and environmental programmes it works to maximise the environmental and social benefit of its investments, alongside returns to shareholders.

Maris Limited is headquartered in Mauritius. Its companies are supported from the office in Nairobi that is home to its investment, operations, finance, procurement, and human resource functions, and additional offices in Maputo and London.

About Equatoria Teak Company (ETC)

Equatoria Teak Company (ETC) is South Sudan's leading sustainable forestry company. ETC was founded in 2006, and currently manages five teak concessions in Gbudue State (formerly Western Equatoria State) totalling 1,700 ha. of planted teak and over 18,000 ha. of concession area. The company plants and sustainably harvests Tectona Grandis, the highest quality plantation teak outside Myanmar. The average tree age at harvesting is 50 years, producing a fine grain, high density, well coloured timber suitable for all applications. The teak is sold both regionally and internationally for indoor and outdoor applications.

ETC is passionate about the sustainability of forest lands in the region and has developed South Sudan's most advanced nursery and replanting scheme. The company is actively coppicing existing plantations and expanding new planted areas that will come to maturity within 20-25 years.

The company has developed a close association with the local community and invests heavily in its development. Over 90% of the workforce is drawn from the local Nzara community, who receive significant investment in employee training programmes. Beyond this, the company has formed a unique community fund programme to fund projects to directly benefit the local community.

ETC is managed by Ian Paterson and has been majority owned by Maris Limited since 2010.

<http://equatoria-teak.com/>