

CHAIRMAN'S REPORT

S A G ANDERSON, AE & CI Ltd

This has been a year full of uncertainties and challenges for the Fertilizer Industry and therefore for the FSSA as well. It has been a year in which agricultural production in the Republic reached record levels, in which fertilizer demand showed excellent growth but was not quite matched by availability, in which cost pressures made it necessary for there to be two increases in prices with a third in February 1975, and in which the major producers faced sharply reduced profit margins. During 1974, the total gross sales value of fertilizers reached approximately R170 million. It may be of interest to note that in the 10-year period 1965-1974 the average growth in plant food consumption has been 10,4 per cent and in price only 4,5 per cent. However, prices increased by 22 per cent in 1974 alone, and a further 38 per cent increase has already been necessary in 1975. These increases may however be compared with rises of between 85 and 145 per cent in USA and Europe in 1974/75.

It is customary in this report merely to highlight some of the more important aspects of the Society's activities over the past twelve months. However, before doing so it is perhaps worthwhile briefly to summarise what the Society is supposed to do so that what has been done falls into some perspective and can be judged more appropriately. The main objectives of our Society are:

- (a) To represent members in dealings with the Government or other bodies concerning matters affecting the Fertilizer Industry.
- (b) To seek and develop the economic use of fertilizer in order to improve soil fertility, produce better crops and increase the prosperity of Agriculture generally
- (c) To seek active collaboration with the Department of Agriculture, Organised Agriculture and the Co-operative Movement in the interests of crop production and the stability of the farming industry.
- (d) To protect the public and members by promoting proper standards of service, product quality and ethical trading.
- (e) To collect and make available to members, Government and the public information contributing to the profitable use of fertilizers by the farming community.
- (f) To do research and provide technical service in any field which may fall within the objectives of the Society.

Firstly, then, does the Society really represent the Fertilizer Industry? In this regard I am happy to report that the

activities of our members in 1974 covered some 98 per cent of NPK sales in the Republic and some 85 per cent of lime sales, and that at our meetings yesterday, two further members of the Industry became members of the Society, namely, H. Pistorius & Co. and Atlas Organic Fertilizers. Our membership now can therefore be said to cover the Industry entirely.

In these times of economic uncertainty and inflation, it is perhaps appropriate to deal with matters arising under the heading of "Supply and Economics" first.

We have experienced during the last twelve months the full effects of the oil crisis, and of local and imported inflation, on raw materials and operating costs, harbour congestion and surcharges, rail transport difficulties and shortages in our own production capacities. In the case of nitrogenous fertilizers, we had expected at the beginning of the year only to import certain quantities of anhydrous ammonia in the first 9 months and had anticipated that we had sufficient production capacity in down-stream urea and LAN plants to generate a small surplus for export. In the event, however, due to late commissioning of AE & CI's new coal-based ammonia plant at Modderfontein and some plant breakdowns, the Industry had to import more ammonia and both urea and LAN at short notice and at very high prices at the end of the year. Delays in arrival and offloading meant that delivery of much of this was only possible in 1975. On the phosphate side, due also to late commissioning of new plant and, initially, to transport difficulties, insufficient supplies of phosphate rock were available to meet requirements. As a result of both of the above, combined with the necessity of meeting unavoidable export commitments made in 1974, amounting however to no more than 3-4 per cent of production, some farmers did not receive their full requirements. The position should be better in 1975/76 although, unfortunately, a number of technical problems has been encountered in several plants in the early part of this year and have not yet been fully overcome.

On the price side, very large and rapid changes in raw material and operating costs in December 1973/January 1974 made fertilizer prices gazetted in 1974 out of date before they were printed by an amount of nearly R19 million, too large a sum for the Industry to absorb itself. Although Government came to our assistance in helping to meet the increased costs of certain imports, the position in July 1974 was that the Industry was still under-recovering some costs to the extent of R11 million for the year. Increases in interest rates and in the capital costs of plant extensions and replacements also forced the Industry to repeat, in the very strongest terms possible, two year old representations to Government not only for recovery of

these costs but for a basic improvement in the allowed profitability under the Price Control formula applied to the Industry. This formula, based on an average $13\frac{1}{2}$ per cent return before interest and tax on depreciated fixed capital plus working capital and a depreciation rate of 6 per cent per annum for plant, which had been in operation for over 30 years, was shown to be completely inadequate for present day conditions. Low average profitabilities had forced member companies over the years to merge and rationalise their activities. Now, with all the plants in the Industry operating at full capacity and the benefits of past rationalisation fully passed on to the consumer, the Industry was completely unable to absorb any portion of additional cost increases and/or attract the finance necessary to expand its operations to meet the growing local demand. The price increase of approximately 9 per cent that was eventually granted by Government in September 1974 incorporated an increase in the average allowed profitability from $13\frac{1}{2}$ per cent to 16 per cent per annum, although still on depreciated capital. While grateful for this consideration, it must be stated that still further representations will have to be made for the Industry to generate cash flows which will allow it to meet future demand. We surely cannot live with the situation where, as for instance in our phosphate plants, no new capacity is being installed for the local market, only for exports. And diversion of products from these plants on to the local market will, for contractual and financing reasons, be virtually impossible. Of the 38 per cent increase gazetted in February 1975, 28 per cent was due to imported raw materials (sulphur, potash, and oil-based feed stock) 5 per cent to increased costs of local materials and transport, and 5 per cent to increased operating costs.

Maize producers consume between 55 and 60 per cent of fertilizers produced, and the effect of this increase will be to raise their 1975 costs by some R4,30 per ton of grain. At 1975 maize prices, fertilizer costs will now account for about 18,5 per cent of gross income compared with a low of 13,0 per cent in 1973 and 17,1 per cent in 1956. This increase is regretted but is unavoidable if our industry is to remain viable.

While on the subject of price, it has been traditional for new fertilizer prices to be introduced, whenever possible, from the beginning of each calendar year. For administrative reasons, this has given rise to considerable difficulty over the last few years and attempts will be made in 1975 to find a better date, suitable to consumers, Government and the Industry. The possibility of advancing the date to the 1st December each year has been suggested.

The second main branch of the Society's activities is in the Research, Technical and Extension fields. The main theme of the Society's research work has for some time been the identification of plant food requirements for optimum maize cultivation and sound guide lines have now been established based on the various soil series and climatic conditions in the country. The results of all maize

trials to date have been incorporated in the so-called NPK calculator, and a manual for its use, and on maize production, was issued in late 1974. Recently, work on other crops has been commenced, notably on sunflowers and *Cenchrus ciliaris*.

In the 1975/1976 season, work will also be started on groundnuts and grain sorghums as well, and it is expected that a total of seventy-six field trials will be laid down, compared with sixty-nine in this year.

The development of the grassland fertilization and animal production programme, now in its second to third year, is very satisfactory and it is becoming increasingly evident that a considerable fertilizer and beef production potential can be exploited by the implementation of intensive production systems. A total of twenty-nine projects are now under way, seven of which are being conducted by the Department of Agriculture Technical Services, with financial assistance from the Society, ten by member companies in conjunction with the FSSA, seven by the FSSA itself, and five by the FSSA in conjunction with stock owners, universities or members of the meat industry. The Society has now found it necessary to engage an experienced animal scientist in order to further its work in this field, and we have been fortunate in obtaining the services of Dr Parsons, who is also qualified in Agricultural Economics. To meet the growing interest amongst farmers in all aspects of grass fertilization and beef production, study groups have been formed and numerous lectures and slide stories have been held on farmers' days.

A start has been made on an economic assessment of the projects although, of course, there are still a number of years of further work ahead before a more complete picture is available.

The preliminary figures suggest that gross margins per hectare can be increased between 400 and 600 per cent over natural grazing. In a programme of this nature, early achievement of full potential will be prevented by successive barriers which must be identified and overcome; initially these are technical and financial, but ultimately managerial, and their solution will involve a wide range of disciplines and be beyond the scope of this Society. We can only play the role of catalyst, helping to ensure that action is taken by the many bodies that must play their part. We are grateful to the SAAU for taking the initiative in establishing as co-ordination committee for increasing red meat production on which the FSSA is represented. I would also like to thank Karoo Vleis Unie Bpk for their financial support of R10 000 which will assist in the financing of five of the projects.

The continued secondment of a member of the staff of Vleissentraal, Mr A. Penderis, is also gratefully acknowledged.

Since 1967, the FSSA has continually attempted to co-ordinate its own agricultural activities with those of other

organisations in the same field, i.e. the Department of Agricultural Technical Services, Organised Agriculture, Control Boards, member companies, etc. Our approach has been particularly aimed at drawing together research, promotion and education to avoid unnecessary dissipation of effort and to secure agreement on priorities. I am happy to report that constructive and far-reaching results are now within sight of being achieved. Apart from the much-needed Liaison Committee on which senior members of the Department of Agricultural Technical Services and the FSSA serve, the Society now has representation on the Advisory Committees for Maize and Grain Sorghum, Potatoes, and Cotton and Fibre Crops, and is a co-opted member of the Grassland Working Committee. There is also a very healthy degree of co-operation at working level with members of the Department in a variety of regional programmes. A start has also been made on compiling an inventory of all research work in the agronomic field.

Since the beginning of 1975, the FSSA has taken over responsibility for administering a soil analysis test programme in which test soil samples are now analysed monthly by the twelve different laboratories offering this service using the same standard methods of analysis. This programme was essential in order to ensure that results reported to farmers were meaningful and consistent. A manual of soil analysis methods has been prepared and issued this year.

The highlights of the Society's promotional work were the following:

The publication and distribution of the first twenty-two chapters of a fertilizer handbook. This handbook is designed to provide comprehensive information on all types of fertilizers and their uses.

Four technical symposia have been held in the period under review, two dealing with nitrogen in agriculture, and two with all aspects of lime.

In the Bantu homelands, the Society's work has embraced the provision of prizes in farming competi-

tions, and for students short courses on soil fertility, slide stories, and talks on grass, carrying out work in the determination of soil potential in areas of Lebowa and Bophuthatswana, the planning of demonstrations in many areas and the issue of booklets on soil fertility and fertilization of maize and similar topics.

The cost of operating the Society in 1974 reached R247 000 and our budget for 1975 is R288 000. I think, you will agree, that this is a relatively modest sum for the contribution which the Society is making to the Agricultural Industry. The enormous amount of work which is done is handled by a full-time staff of fifteen, and I would like to record my grateful thanks for their untiring efforts. During the year, we lost our Secretary, Mr D J E Erasmus, who left us to take up a position with the Cotton Control Board, but we have been fortunate to obtain the services of Mr Vorster in his place. While it is perhaps invidious to single out individuals for special mention, I feel it is worthy of note that during the year our Director, Dr Luitingh, was awarded the S A Society of Animal Production Gold Medal for 1975, that he served as Vice-Chairman on the Board for Professional Animal Scientists, and as Vice-Chairman on the Liaison Committee for Professional Societies concerned with Agriculture. Dr Möhr officiated as President of the Crop Science Society of South Africa, and has done outstanding research work as head of the Research Division. Dr Parsons was elected Vice-President of the Agricultural Economics Society of South Africa, and Mr Hyam was elected Secretary of the Grassland Society of South Africa. Given the continued dedicated work of our high-calibre staff and the continued support of our members, I believe our Society has an ever-increasing part to play in acting as a catalyst for change and improvement in the Agricultural Industry. In a changing environment, it behoves all of us continually to examine our objectives. At the present price of fertilizers, increasing attention will have to be given to methods of application and their more effective use, and the avoidance of loss. Barriers to increased productivity will have to be identified and more and more our work will be involved with studies of total farming systems.