THE SOUTH AFRICAN SUGAR INDUSTRY – A LOOK AHEAD

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Thank you for the invitation to speak to your Annual General Meeting. As Chairman of the South African Cane Growers' Association I represent some of the clients of the Fertilizer Industry, am aware of their needs and have an idea of the new and the changing pattern of demands that is liable to eminate from the sugar industry over the next decade. Accordingly I welcome the opportunity to discuss some of these issues with you.

By identifying the changes taking place in the sugar industry one can see how these will influence aggregate demand for fertilizer, and analyse the supply responses necessary to meet the new and changing demands for fertilizer.

The sugar industry secures its supply of raw material from approximately 400 000 hectares. Each year 280 000 hectares are harvested, nearly 30 000 hectares are planted and in excess of 140 000 tons of fertilizer are applied to these fields. Sugar cane farms vary from very large estates owned by sugar milling companies to peasant holdings which are often no more than one hectare in extent. Over the years the big estates have continually lost share of the industry. Moreover since the Trade Unions will inevitably concentrate on establishing membership on the large estates and because of the reluctance to "face up to" Unions in agriculture there may be a sell off of some of these estates to individual farmers many of whom may be black farmers. Commercial family farms, which average little over one hundred hectares, account for over 70% of the total production of the industry but their share has also declined during the last decade. The reason for this is the very rapid increase in production by peasant farmers, mainly in KwaZulu.

In 1975 there were fewer than 4 000 such peasant farmers producing 250 000 tons of cane per annum. Within ten years this number had risen to over 22 000 and their production today is nearly 2 000 000 tons per annum. The sugar industry has participated actively in this development. It established a revolving credit scheme known as the Small Growers Financial Aid Fund which makes loans to peasant farmers who do not have access to commercial finance. Since its inception the Fund has made more than 23 000 individual loans totalling over R35 million. Milling companies and commercial farmers have supplied contractual services to these small growers and the KwaZulu Department of Agriculture has done much to improve the basic infrastructure.

Apart from areas in KwaZulu, Transkei and Kangwane, where an additional 12 000 hectares were established to cane, the industry has stood still for the last decade. The increase in yields has been offset by the contraction of areas under cane. This contraction has been a response to the poor financial circumstances of the industry, the very weak world sugar price and the new incentives applied to the individual producer.

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The new incentives arose out of two structural changes. The first was to ensure that all the costs of transporting sugar cane from the field to the factory were borne by the primary producer. Previously the costs of transporting sugar cane were shared by the grower and the miller. The second was to ensure by means of a two pool price system that every producer received the world price for his marginal production. In the past there was one average price which bore little relationship to the prices being received on any of the markets supplied by the sugar industry. By restoring the economics of situation and by ensuring that each producer received directly the signal the world price of sugar was sending, those producers far distant from sugar mills ceased production and others reduced production on marginal fields.

The two pool pricing system makes the sugar industry unique among major agricultural commodity producers in South Africa. In general they receive a composite price and are not exposed to the actual returns received from marginal production.

Recently timber has proved a competitive alternative "crop" to sugar cane on certain of the soils found along the Natal coast. This has further eroded the areas under cane and while the overall losses are small compared to the total sugar cane area the losses have been significant in certain areas causing fears that specific sugar mills will lose their viability.

The lack lustre performance of the sugar industry over the last decade has had serious implications for the wider economy in the eastern parts of our country. Sugar is the major economic activity of this region and is the most significant export. It is also the major employer. The fact that the sugar industry has shown no growth has had serious consequences on the economic performance of the region.

In 1985 the sugar price on the New York Commodity Exchange fell below 3c per pound and the sugar industry incurred really large losses on the export market. Unfortunately it entered this period of low world sugar prices seriously weakened by the two most serious droughts of this century. The following year the Canadian and the lucrative United States markets were lost because of sanctions. Both Cyclone Demoina in 1984 and the Natal floods in 1987 undermined the economy of certain areas of the industry. Individual producers were faced with rising debts and the industry itself had borrowed R327 million to tide it over some of these problems. There is little wonder that during this period it was reluctant to accept additional responsibilities by expanding production.

However the turn around in the fortunes of the sugar industry has been rapid. Today world prices are over four times the level they were in 1985. The drought cycle appears to have ended and the crops reaped during the last two seasons have been reasonable. The current crop shows considerable promise. Good progress has been made in repaying industrial loans. Sugar concumption has continued to grow despite the poor performance of the economy. No additional sanctions have been applied to the industry during 1987 and 1988. Indeed if South Africa continues to be seen to be working for peace in Angola and independence for Namibia and provided it shows movement towards creating a democracy in which all our citizens participate, some sanctions may be lifted thereby improving prospects for economic growth. Finally, there is a reasonable prospect of the sugar industry producing up to 200 million litres of ethanol at Richards Bay to be used as a fuel extender and an octane enhancer.

There has been one other significant change in our marketing environment. It is widely recognised that the South African sugar industry is amongst the lowest cost producers in the world. However it has been unable to exploit this comparative advantage because the world sugar market has been one of the most unstable of the world commodity markets, with the price often well below the cost of production of the most efficient producers for long periods.

Unites States Agriculture Secretary Clayton Yeutter recently announced that his country would not alter its sugar policy without significant sugar policy concessions from other nations. He said "We're not about to make major changes here in sugar policy, until and unless other people make them as well. Sugar is one of the most severely distorted commodities in the entire world of international trade, and we're among the distorters, but there are lots of other distorters, as well. If we fix this matter, we have to fix it together with all the major sugar producers of the world."

Through such protectionist policies sugar producing countries protect their domestic markets from imports, stabilise the returns to producers from the domestic market and allow world market exports to be undertaken at prices below the marginal cost of production.

There are signs that the Uruguay round of GATT talks are leading the major "players" to review their domestic agricultural policies with the intent of reducing the extent of the producer support programmes. Recently the EEC Agricultural Commissioner introduced a five percent cut in the sugar intervention price. Sugar beet growing had become disproportionately profitable compared with cereals in the Common market and the high domestic price has funded the dumping of sugar on world markets.

Provided these new policy directions are pursued further the extent of protection of agricultural producers will be dramatically decreased during the "nineties" and the world food commodity markets will strengthen. For the efficient producer this is good news and I expect the economic position of the sugar industry to improve further.

I have described a number of changes in the environment affecting the sugar industry. Any one of them is significant. In aggregate they represent a remarkable change. It is time for the industry to look forward again.

Assuming my predictions about sanctions prove correct and assuming the ethanol distillery at Richards Bay becomes a reality, several new developments are likely. Perhaps the most significant is the proposal that in the place of the existing quota system there should be free access to the industry for all potential producers within a thirty kilometre radius of existing sugar mills. It is further proposed that existing and new small growers, defined as those producing less than 1 200 tons of sugar cane per year, will receive the preferential A Pool price. The combination of freer access and a preferential price is expected to boost small holder agriculture in KwaZulu and Kangwane very significantly. An additional 40 000 hectares could be planted to sugar cane producing one and a half million tons per annum. This would have a major impact on economic growth in depressed areas and provide new opportunities to many thousands of disadvantaged people.

The next most significant development would be the establishment of a new sugar mill in the Eastern Transvaal not far from Komatipoort. Additional water storage would be required and this could delay the start of the project but approximately 15 000 hectares of new land would be established to sugar cane in the Eastern Transvaal producing over 1,2 million tons per annum. The impact of a new sugar mill surrounded by viable sugar cane production in the Komatipoort area would have a very significant effect on the socio-economic environment of Komatipoort and adjacent areas of Kangwane. It would represent a new export industry in the area from which there will be numerous "multiplier effects" leading to additional economic growth and development.

Other areas liable to expand sugar cane production are Pongola and the Transkei bringing a further 6 000 to 7 000 hectares of land under sugar cane. There is also a prospect of a large irrigation scheme based on the Goedetrou Dam in the Umhlatuzi valley. This would double production in the Heatonville area and also bring water to approximately 2 000 hectares in KwaZulu.

In aggregate the sugar industry could expand by as much as 65 000 hectares of which over 20 000 would be under irrigation. Production is expected to increase by more than three million tons per annum and fertilizer demand could rise by up to 30 000 tons.

It is important to grasp the changing structure of demands. The most rapid developments are liable to take place in small holder peasant agriculture where problems of access and distribution are very significant. I have briefly described some of the efforts the sugar industry and other development agencies have made to assist small holder agriculture particularly in KwaZulu and Kangwane. Certain parties in the sugar industry stand to benefit from these developments and as such have a direct vested interest in promoting them. I suggest that the fertilizer industry also has a direct vested interest and believe that a constructive response to meeting some of the problems of small cane growers would be in the long term interests of that industry.

I have concentrated on changes in the sugar industry that might impact on the demand for fertilizer. We need to investigate the supply response of the fertilizer industry and the changes in the patterns of supply that need to emerge.

Recently Symond Fiske commented on the extent to which our economy is concentrated. "One concern markets all the wool. One markets all the sugar. One markets nearly all the dried fruit. One handles all the ostrich products. One all the chicory. Three share out the tobacco market. One buys all the malting barley. One sells all the wattle extract. One negotiates and handles all our maize exports. One handles all citrus exports. One most of the deciduous fruit. One all the rooibos tea. One all the lucerne seed. One all the mohair. There are only three suppliers of artificial fertilizers and you rarely have a choice of more than two suppliers of any particular packing material you may need. One organisation slaughters nearly all the beef which is allowed into our main urban areas". He goes on to draw some unfortunate but compellingly argued conclusions. It is a pity that both the fertilizer industry and the sugar industry are part of that list. Apart from the lack of competition that is implied this is a serious criticism of the fertilizer industry and the sugar industry. While in excess of 25 000 individual growers compete in the sugar industry over 80% of sugar milling is in the hands of two companies. Much the same position applies in the fertilizer industry. There is a question as to whether our industries are "consumer driven". I would hope that consumer concerns have become of utmost importance in the plans and the responses of the sugar industry. No doubt major customers of ours would not agree with that pious wish. What is the view of the customers of the fertilizer industry? Is it a "consumer driven" industry? Or does it exhibit all the characteristics of a cartel of a few companies limiting competition, forcing the customer to "take it or leave it"?

What are the needs of the customer, the farmer? Correct analysis of his requirements is essential. Here the Fertilizer Society needs to continue its excellent work of the past. I know that a close working relationship exists between the Sugar Association Experiment Station and the Fertilizer Society. However in the past the Society conducted a really good field experiment programme besides providing services such as the analytical control scheme and assessments of methods of analysis. From the customers viewpoint it is a pity to see the decline in the budget and the number of personnel committed to ensuring that the best analysis and the best advice is available to them.

Apart from overcoming financial constraints the farmer having analysed his needs requires the right fertilizer at the right quantities in the right place at the right time. Can this be achieved with the present system?

If we follow the tortuous route of a bag of fertilizer from the factory to the fields we must question the present system. Currently once a mixture is bagged it is stored at the factory before being loaded onto rail and then transported to the market via fertilizer depots. Present custom means that the fertilizer will be offloaded at a railway station onto road transport, transported to a depot, offloaded and stored before being loaded again for transport to the farmers' sheds where it is offloaded and stored. Finally it is loaded onto farm transport, taken to the fields and distributed.

When it is distributed in the sugar cane field four different systems are commonly used; workers carry half bags of fertilizer using old oil cans to distribute it over the rows; workers carry knapsacks of fertilizer allowing it to "bleed" onto the rows; workers push wheelbarrows which apply fertilizer one row at a time, tractor mounted distributors spread fertilizer across four rows at a time. All these systems are difficult to supervise and are dependent on absolutely even granules of fertilizer for accurate application. The system is generally inefficient and inexact.

Storage of fertilizer on the farm is a necessary part of the distribution network. This not only forces the farmer to establish storage areas which are used for only a few months each year but it also exposes each farmer to serious losses through theft.

I have been asked to look ahead. I have been as frank as possible about future production developments in the sugar industry. May I be equally frank about what is required by the fertilizer industry to meet the new demands that lie ahead.

Firstly the fertilizer industry should be responsive to the needs of the small black farmer. While dealing with many people and with small individual requirements may not be profitable initially I believe an efficient modus operandi can be established. It is in both parties interests that the fertilizer industry give thought to how they can best assist these new peasant farmers.

Secondly as far as larger scale commercial agriculture is concerned the fertilizer bag should become a thing of the past. A system which efficiently delivers bulk fertilizer from factory and depot, direct onto the field at the right time, accurately applied, is a goal worth striving for. It may be necessary to split applications of fertilizer by applying the major ingredients of potash and phosphate earlier in the season and nitrogen during the spring or early summer. The additional cost of application could well be justified by the reduction in storage in the factory and the depot, the elimination of storage on the farm and the better utilisation of equipment distributing the fertilizer in the field.

Finally I believe the Fertilizer Society should be aware of the forces moving against the existing agricultural structures which are fundamentally vulnerable. To build one's own business on such structures will have costly consequences. Perhaps I can best illustrate this point by referring to the maize industry. The high rainfall of the seventies saw the maize industry expand "into the Kalahari". As it expanded into more and more marginal land so the price was adjusted to cover the costs of the new producers. The fertilizer industry expanded behind these developments which were economically unsound. The producer price bore no relation to the price realised on the new markets towards which this production was directed. The subsequent adjustments have been very painful. The first adjustments were forced by the change in the weather patterns. The second adjustments are still working their way through the market place.

Set out below is data provided by the Maize Board illustrating the consumption of maize from 1978/79 to 1987/88. This data, shows clearly the impact which the sudden increase in consumer prices of maize and maize products had on sales in the mid-80's. The attempt to supply a mixture of yellow and white maize to the consumer is an additonal explanation of the sudden fall in human consumption from 1984 to 1986.

The maize industry is still struggling under the impact of loss of sales of two million tons or nearly 30% of its local market over a period of two years.

I can give you no better illustration of the consequences of putting the consumer low on your list of priorities.

Marketing season	Human consumption	Animal consumption	Industrial use	Other	Total
1978/79	2 935	2 587	103	70	5 695
1979/80	3 038	2 823	123	66	6 050
1980/81	2 920	2 834	133	75	5 962
1981/82	3 072	2 962	146	99	6 279
1982/83	3 220	3 245	141	65	6 671
1983/84	3 374	3 495	155	108	7 132
1984/85	2 921	2 564	154	85	5 724
1985/86	2 555	2 682	163	82	5 050
1986/87	2 414	2 461	136	39	5 038
1987/88	2 425	2 557	196	26	5 192
1988/89	2 500	2 650	220	-	5 300
1989/90	2 575	2 600	-	-	5 400