

## THE FERTILIZER INDUSTRY – SOCIALIZED OR FREE ENTERPRISE?

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It is not my intention to enter the present popular debate whether the State should, and if so to what extent, enter into or conversely withdraw from owning and operating business or industrial enterprises, but rather to look specifically if critically at the fertilizer industry with its unique characteristics and position in our society.

The fertilizer industry is part of the chemical industry today, sharing this industry's characteristic of high capital intensity and economy of large-scale operation. This was foreseen by the Viljoen Commission of Enquiry into the Fertilizer Industry in 1961, who also characterised it as an oligopolistic industry.

It is in its relation to its customers, ie the farming community that the fertilizer industry finds itself in a, possibly unenviable, position which does not to my knowledge apply to any other industry.

Farming requisites, in as far as they are used to produce food for the nation, have socio-economic-political implication. Of these requisites, fertilizer is probably unique in that its effect cannot be as decisively sensed as is the case with other requisites. After all, if you do not fence, cattle can trespass; if you do not use fuel the tractor won't go; if you do not sow seed nothing grows; if you do not use weedkiller or harrow, weeds will choke your crop; if you don't use insecticides or fungicides pests will visibly destroy your crop, and if you don't reap, the crop will rot in the field. However, the use, omission or misuse of fertilizer has less clearcut effects and is virtually unquantifiable unless the result is compared with a control or with different treatments.

Is this perhaps at the root of the mixed feelings of so many farmers, excepting for the moment the cream of this community, toward fertilizer. They are broadly aware that it is a good thing, may even concede its necessity, yet are not quite sure whether it is quite what the salesman cracks it up to be.

In the context of the latter it has always intrigued me that the fertilizer industry in South Africa, has, for the three decades I have known it, produced for or attracted to top executive positions many individuals hardly versed in either agricultural, manufacturing or even professional management skills. Rather have they been of the entrepreneurial sales type, the type people either swear by or at. With their quality of generating strong feelings reputations could tarnish as quickly as they glittered. Very seldom in the past 30 years has our industry been free of a maverick or two, whether associated with large or small companies, not industry-conscious and with personal images transcending that of their company's and the industry's.

Small wonder then that customers looked for protection by State controls over the industry, and the State responded readily with price, product and other controls and frowned on technical service and advice by companies. In common with most controls, these have had a long-term stifling effect, both economic and technical, on the industry and I doubt seriously whether they have been to the benefit of the customers ultimately. The ramifications and effects of Price Control are too well-known here for me to elaborate on them, and have been the subject of papers before this Society previously, notably by Anderson at the 1977 Annual General Meeting. Suffice it to summarize that, in its present form and where prices are still subject in the final instance to Cabinet control where they can be influenced by a wide variety of factors, efficiency of the industry has been impaired, innovation and progress hindered and the economic state of the industry rendered parlous.

Controls over the industry have thus had the effect of near-stagnation, which as we know is the death knell for any private enterprise. Much lip service has been paid to the rationalization of the industry, but we all know that entry into the industry has been achieved by those determined enough.

Thus we have a straitjacketed, controlled, so-called free enterprise today, subject to and suffering from all the evils both of a socialised industry and of free enterprise without the good points or advantages of either. The question thus fairly arises whether we should not opt clearly for either one or the other and improve the present position.

The most conspicuous argument for a socialized industry is that the profit levels could be kept low. This, in a capital intensive industry would mean a low return on capital utilized. This loses sight of the fact that capital has to be ploughed back from profits, borrowed on the money market, or be raised from taxes. Whichever way one looks at it, accepting a low return means a subsidy by the taxpayer, hence robbing Peter to pay Paul. In fact there are broad indications that our Government is dismantling the subsidy structure in favour of free economic cost structures, and the charges and rates latterly of the Railways, Escom, the Post Office and other Government or semi-State trading organisations, show a strong tendency towards actual cost structure and basic business principles.

In so far as operating costs and efficiency are concerned, State or semi-State organisations are not always highly rated. I am not prepared to join the critics who claim automatic inefficiency for a State enterprise but conversely I do not see any means by which they can out-perform a well-run private enterprise. In the absence of a competitive

atmosphere, the profit motive and responsibility to shareholders, the main spur to performance is lacking and it would take dedicated and motivated management indeed to achieve the heights that these factors force private enterprise to. I have had sufficient experience to know that there are such men, but they are the exception rather than the rule.

It may be argued that the necessary economy of scale and elimination of unnecessary distribution and marketing costs could be achieved by the creation of a socialized, and necessarily monopolistic, enterprise. This is theoretically undeniable but would again demand dedicated management able to act efficiently without the normally required human spurs.

In the last instance a socialized industry may be able to avoid the taint of mistrust to which I have referred earlier. He would however have to accept a monopoly supply, and have no active recourse in the case of dissatisfaction.

In fact the advantages of a socialized industry are as real as that of a dictatorship. It is accepted that a dictatorship can be more forceful and efficient than a democracy, provided the person entrusted with the power is devoid of and above the common human foibles and weaknesses — if not, there is no means to avert a disaster.

We have to conclude that a socialized industry is not necessarily a panacea, has no built-in balance against malpractice, and could result in a powerless and helpless customer with no redress. It is thus as well to have a close look at the private enterprise structure, identify and eliminate its present weaknesses, and see how its full potential for efficiency and virility can be realised.

I can identify three areas which merit attention to eliminate or improve upon present shortcomings.

In the first instance management and their boards must realise that this is a basic long-term industry of considerable social and economic significance and they must be fully aware of their grave responsibility in these fields. This is not a field for short-term high-return investment. It is a relatively stable and growing market; in return for this they must be satisfied with a fair return and refrain from exploitation.

Secondly, the industry must establish a reputation for integrity and efficiency. This can only be achieved by co-operation within the industry on common objectives and service, and rules out negative competition, gimmicks and stealing the quick march on a competitor which may be of dubious benefit to the customer.

If the industry achieves a thorough house-cleaning in these aspects, State controls can and should be minimized.

The first area requires a basic adaptation of attitude within the higher echelons of the industry, and this is a pre-

requisite to its soundness, the generation of trust and goodwill on the part of customers and authorities alike, and gaining the responsible freedom to operate the business of the industry on a sound footing and according to sound principles.

The industry tried to unite its objectives in the FTA before 1960. Although probably mercifully dimmed by the passage of time, the image of the FTA remains that of squabbling members with so little positive direction that was not considered the mouthpiece of the industry by anybody, and it suffered the demise it merited.

The founders of the FSSA had sound ideals as embodied in the constitution. They envisaged a promotional body which would give the industry some professional standing in the technical field to promote its products, and to provide a mouthpiece for the industry when dealing with authorities and organised agriculture. I consider that very good progress has been made in these directions, particularly in gaining acceptance of the Society by agriculture and Government departments. Although it has been a slow, laborious and sometimes painful process, much has been accomplished if we compare the situation in 1961 with that of today, but because memories are short and the process of establishing credibility was slow, the results, not to speak of the effort, are often not appreciated today. Much of the credit must go to the present Director of the Society and his small but inspired staff. I am of the personal opinion that the work done by the FSSA over the last decade, and its acceptance by the Department of Agricultural Technical Services and Organised Agriculture has been one of the prime factors in the growth of the fertilizer market in this period. This growth has been the saving grace for the industry.

It is therefore the more regrettable that there has been a loss of interest in or lack of enthusiasm for the Society in some quarters of the industry. For the Society to function properly and to its members' advantage it must have the active and whole-hearted support of the Boards and chief executives of the companies. If there are executives who feel negative and jaundiced about the Society I would strongly suggest that they take a more direct active part in its management and steer it towards better meeting their objectives, rather than let it languish in the care of their company's lower management.

It may be that such disinterest as has arisen stems from the Society's technical orientation, and particularly a lack of understanding of the fundamental importance of this aspect, thus not having the full impact on the more commercial outlook of certain executives. If there is a need and I believe there could be, for the Society to be more active in the economic and industry policy fields, the activities of the Society should be enlarged and restructured to encompass these fields rather than that the Society should be bypassed with each company hoeing its own row, most likely unnecessarily at variance with fellow members of the industry.

For the benefit of those who are still sceptical of the benefit of an industry-encompassing channel and the favour extended to it by Government and other sectors, I would like to point at the authoritative standing and achievements of organisations such as Assocom, Seifsa, the TCOA, Naamsa and others. If an adequate hegemony can be achieved in big private sectors where there is the more chance of divergent individual interests simply because of the larger number of members, it should be that easier in a smaller and more homogenous sector such as our industry, given the will to do so, good faith and an understanding and appreciation of the benefits to follow.

Our industry has latterly entered the export field seriously. Since there are only a few readily identifiable companies engaged, my following remarks may be construed as direct criticism of specific members of the industry. They are however offered in good faith and with a view to being constructive. It is an inescapable fact that the size of our home market, our basic economics and the muscle of our industry, do not put it in a competitive position against the overseas giants, and that we are at a distinct disadvantage in a depressed world market. However, it is an old marketing truism that in a field of giants there is always room for a good little 'un. I would like to stress the *one* in the South African context, for it is positively suicidal for several little ones to fight amongst themselves for that favourable niche.

There is room and there is need for all parties in this country engaged in export trade, raw material suppliers included, to abandon any "I am all right Jack" attitude and to heed the country's motto "*Ex unitate vires*".

I have mentioned relaxation of controls following on the industry proving itself responsible, rational and integrated. The most irksome of these has been and is price control — not so much the principle as the methods and basis applied. For nearly ten years now industry has been putting forward proposals to replace the archaic basis which dates back 25 years, and it is certainly high time that the authorities review this system in the light of modern conditions, business practice and requirements. The time is also ripe for the rigid system of product acceptance and registration to be reviewed and adapted so that progress and innovation is not sacrificed on the altar of "rationalisation".

We have to face it that our private enterprise-based industry is in a state where a question such as I used for the heading of this paper is to be expected and is justified. I personally have never believed that a system need be scrapped because of abuse, or that a new system will necessarily eliminate malpractice. The free enterprise system has proved that it can elicit the highest human endeavours, and I hope that if you share this conviction, you will have the courage honestly to face up to the attitudes, approach and actions necessary to give this key industry the image and status it deserves.