

President's Report

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GLOBALISATION OF THE FERTILIZER INDUSTRY

The recent trend in globalisation of the fertilizer industry is likely to continue. As regards nitrogen, this trend has been manifested in a shift towards the production of exportable surpluses of ammonia and nitrogen fertilizer in countries where natural gas is plentiful and cheap. According to the International Fertilizer Industry Association (IFA), this is demonstrated by the predominance of nitrogenous export surpluses of the FSU (Russia and the Ukraine), Trinidad and the Near East. In contrast, during the 1960s, Western Europe, North America and Japan dominated the nitrogen market.

As regards phosphates, there has been a trend over the past two decades towards the processing of phosphate rock in countries, especially in North America and North Africa, with abundant reserves of the material. Although on a smaller scale, recent developments in the Phalaborwa-Richards Bay axis, fall in this category.

As can be expected, globalisation has had a major impact on the volume of world trade in fertilizers and intermediates. Trade in nitrogen fertilizer products has increased more than threefold to 23 million tonnes N, while ammonia trade increased nearly 6 fold to 12 million tonnes during the past 30 years.

Norsk Hydro's acquisition of the controlling interest in AECI's fertilizer arm, Kynoch, the latter's closure of its ammonia and nitrogen fertilizer facilities early last year, and Foskor's expansion of its Richards Bay phosphoric acid operation are local manifestations of the globalisation trend.

The restructuring and rationalisation of the Kynoch-Hydro merger is progressing well. However, the restructuring is taking longer than expected to complete. Hydro is continuing to invest in its South African operations, for example the upgrading of the Potchefstroom facilities. The process of acquiring the remainder of AECI's interest in Kynoch is being completed and it is expected that Kynoch will be fully owned by Hydro in the foreseeable future.

The expansion and upgrading of Foskor's Richards Bay facilities will be commissioned by the middle of 2002. This facility, where phosphate rock mined at Phalaborwa, and transformed into phosphoric acid (770 000 t P_2O_5 after expansion; present capacity is 440 000 t) and granular intermediates MAP and DAP (30 000 t) at Richards Bay, forms the basis of Foskor's production strategy. When completed, the bulk of

Foskor's rock phosphate production will be utilised in Richards Bay and the local market. In 2000, Foskor earned R1,32 billion in foreign exchange through export of phosphate rock and fertilizers.

The transformation of Sasol Fertilizers to Sasol Agri has been effected successfully. Sasol Agri has enlarged its product portfolio with the Agrisol range of products, and obtained full control of Fedmis and Polifos in Phalaborwa where a wide range of phosphoric acid grades, for industrial and agricultural use, are produced. Sasol Agri is well positioned to face the challenges and opportunities of the future.

Omnia recently upgraded its phosphoric acid plant with the installation of a new Prayon Rupel phosphoric acid reactor. The new state-of-the-art granulation plant installed at Omnia's Sasolburg factory in 1999 at a cost of R96 million produced products of exceptional quality in its first year of operation.

FERTILIZER EXPORTS

Apart from Foskor's export earnings of R1,32 billion mentioned earlier in this report, other members of the industry have earned the equivalent of R639 million in foreign exchange through exports of phosphoric acid (Sasol-Fedmis) and NPK compounds (Sasol Agri, Kynoch and Omnia). This brings the total estimated foreign exchange earnings to R1,95 billion in 2000 (1999 = R1,8 billion).

FERTILIZER IMPORTS

A consequence of the restructuring and on-going rationalisation in the industry, is the sudden increase in demand for imported fertilizer (mostly nitrogen) to replace lost production through plant closures.

Prior to the restructuring, industry typically imported raw materials (mostly KCl) and the odd shipment of urea to smooth out local supply and demand. Import volumes seldom exceeded 300 000 tonnes per annum. After the restructuring and plant closures this demand suddenly more than doubled to approximately 750 000 tonnes in 2000. Unfortunately, harbour and rail infrastructure could not cope adequately with the sudden surge in traffic, causing major logistical problems and late deliveries to inland destinations. The level of service provision by both transport operators Spoornet and Transnet exposed serious deficiencies in their capabilities to deal with the problem. This forced some members of the industry to substitute rail with road, thereby adding to the existing pressure on an already fragile road network.

We believe the maintenance of an efficient rail transport system is essential for sustained economic growth. From what we have seen and experienced over the past 15-18 months has led me to believe that the very existence of an effective rail system is at risk, with serious consequences for the economy and the road infrastructure. We urge the Ministry of Transport to take note of the seriousness of the situation but at the same time we pledge our support in giving the Ministry every assistance in finding workable solutions to a major problem.

FERTILIZER DEMAND

Comparative consumption figures for the past number of years are shown in Table 1.

Table 1. Domestic fertilizer consumption* in South Africa ('000 tonnes) and percentage average plantfood concentration

	1995	1996	1997	1998	1999	2000	% Change 99/98
N	371	415	407	416	413	429	-3,9
P	106	112	102	95	99	82	-17,6
K	112	119	114	132	113	111	-2,1
TOTAL	588	646	623	643	625	622	-0,6
Physical	1998,8	2170,8	2088,4	2054,2	2051,5	2008,1	-2,1
Average plantfood concentration	29,4	29,7	29,8	31,3	30,5	31,0	

* Including non-affiliated imports

Source: FSSA

Since the late eighties, fertilizer demand in the RSA has stabilised around 2 million tonnes (600 000 tonnes NPK). Seasonal variations are caused by regional droughts and short term fluctuations in the financial position of the farm sector. Provisional consumption figures for 2000, including estimated non-affiliated imports of 154 000 tonnes, amounted to 2,0 million tonnes (1999 = 2,05 million tonnes). However, for a variety of reasons this number appears to be on the optimistic side. A validation process has been set in motion and a corrected figure, if indeed the provisional figure is found to be incorrect, will be made public in due course.

As regards regional consumption: Mpumalanga, Western and Eastern Cape provinces showed significant declines compared with '99 of 13, 9 and 24% respectively. Consumption in other provinces was marginally lower, except North West and Northern Cape which showed marked increases against the general trend.

FERTILIZER PRICES

International and domestic fertilizer price trends

In a deregulated fertilizer market economy, fertilizer prices inevitably follow world market commodity price

trends. Ammonia, which is a basic raw material in nitrogen fertilizer production, demonstrated great volatility in the commodity markets over the past twelve months.

The FOB (ME) price of ammonia first dropped from \$160 per ton in May 2000 to \$140 in August, only to rise sharply over the next four to five months to \$210 per ton - its highest level since 1996. Having reached this peak in January, it went nearly immediately in a virtual free-fall, shedding nearly \$100 off its peak price by April 2001. Urea followed the same pattern, rising from \$110 (FOB, ME) last October to \$137 in December, and, piggy backing on the falling ammonia price, shedding more than \$40 by April 2001.

For a variety of reasons, domestic markets world-wide do not respond immediately to such wild fluctuations in commodity prices. Market realities such as sales agreements concluded in a previous phase of the price cycle which have to be honoured, carry-over stock purchased at previously higher or lower prices and currency fluctuations against the US\$ (the currency in which commodity markets operate), simply do not allow for this to happen. Domestic markets therefore experience a decided time lag in price changes, relative to commodity markets.

The FSSA's fertilizer price index showed an 11% increase for the H2, 2000 and a further 7% for Q1, 2001. This increase of 17% over the past three quarters is not a fair reflection of the effect of international price movements as well as the weakening of the R/\$ exchange rate. Prices have stabilised during Q1 and are expected to soften in tandem with world market price trends. These price increases came about at a bad time for both the industry and the farming community. For the industry, because members of the industry had to absorb some of the costs associated with increased commodity prices in a very tight and competitive market environment. For the farming community, because farmers were caught in a similar trap of rising costs and falling farm incomes.

Over the same period, phosphate and potash prices

remained relatively stable in dollar terms. Domestic price changes of phosphate fertilizers basically reflected the declining value of the Rand. Recently, sulphur prices dropped substantially from around \$38 to \$22 per ton (FOB Vancouver/Saudi Arabia); this has already resulted in a softening in phosphate derivatives' prices on world markets.

THE AGLIME MARKET

Since 1994 aglime consumption in the RSA seemed to have stabilised at around 1,2 million tonnes per annum. Most experts regard this level of use as being insufficient to keep progressive acid soil degradation in check; let alone increasing soil pH levels. Alarm bells were therefore ringing when, in 2000, lime sales reported by the FSSA fell by 32% to reach a two decade low of 851 000 tonnes. Although the year 2000 was a difficult one, and a downward seasonal adjustment was expected halfway through the lime season, the sharp drop nevertheless came as a shock. Current consensus of opinion in the industry is that should this trend continue it could lead to an accelerated level of soil acidification and a threat to sustainable crop production.

The management committee of the Society has taken note of this potential threat. The Society has initiated a project in an attempt to quantify the status of soil acidity in the RSA from soil analysis data banks. Depending upon the outcome, a plan of action will be decided upon. We again call on government, and particularly the National Department of Agriculture, to consider the implementation of a rebate system which would encourage farmers to effectively ward off the threat of environmental degradation of our soils. We believe this is an issue of national concern.

Recent good news is that FSSA lime statistics show a recovery of lost ground albeit from a low base; in 2001 Q1, lime sales are up by 85%, compared with 2000.

Aglime prices

The FSSA's aglime price index remained virtually unchanged in 2000. The actual average price for 2000 amounted to R55,61 per ton (1999 = R55,22). Since 1997 aglime prices have increased on average by only 2,85% per annum. This remarkable feat (some 2,5 times better than the inflation rate) has been achieved mainly through increased productivity and rationalisation in the industry.

AGRICULTURAL OUTLOOK

With a direct contribution of 3,4% to the GDP, agriculture is an important generator of wealth in the economy. On account of the extent of its forward and backward linkages, issues which affect agriculture and the farmer, inevitably also affect ours and other agricultural input industries. Indeed, our industry's prosperity is directly linked to that of the farming community.

I am concerned about a number of issues in agriculture: declining real land values and its effect on the lending potential of farmers, growth in total farm debt, falling net farm incomes and the future impact of HIV/Aids. Due to time constraints, I will focus on two issues viz the liberalisation of agricultural markets and farm crime. Both of these have, to a greater or lesser extent, some bearing on the points mentioned above.

It is fair to say that South African farmers have been thrown in the deep end in the transition from a strongly regulated, to a so-called market driven agricultural economy. I have no doubt that the South African farmer, or at least those that have survived the first "battles" in this process, will eventually adjust successfully to new demands and circumstances. Many already have. However, they have to contend with outside influences, most of which are entirely beyond their control, which impact unfairly on their ability to compete.

First, is the farmer's exposure to practical manifestations of the so-called liberalisation of agricultural markets. One can rightly ask: what liberalisation? According to the Organisation for Economic Co-operation and Development (OECD), as quoted by Martin Wolf in an editorial in the *Financial Times* of 5 April, *"the tax on consumers imposed through raised prices, buttressed by import restrictions, was 36 per cent of the European Union farm gate output in 1999, well above the 25 per cent in 1997."*

It is not only the EU, nor the tax on consumers, which is at stake here, but the gross distortion of a so-called free market system on a massive scale. Of course, it is not only the EU which affords large subsidies to its farmers, but also the US and to a lesser extent countries such as Japan, Korea and Switzerland. These support measures sustain an uneconomic level of world agricultural output with dire consequences for farmers in countries, like South Africa, which receive little or no government support under far more adverse conditions.

A consequence of the deregulation of the agricultural market is the disappearance of a strategic grain reserve. This is understandable in a market environment where no one seems to be prepared to carry the burden of cost. My concern is the effect a major crop failure could have on our balance of payments and the value of the Rand, let alone the questionable ability of the harbour/rail/road infrastructure to cope with such a crisis. Have the cost implications of such a hypothetical crisis been sufficiently weighed against the alternative of the cost of a strategic reserve?

Second, the continuing high level of crime, particularly attacks on farmers, is intolerable. Not only does it threaten rural stability, it also holds serious consequences for the prosperity of agriculture and the national economy as a whole.

According to Agri SA's information, 119 farm dwellers were killed in 804 attacks during 2000, as opposed to 144 murders in 813 attacks in 1999. Preliminary figures indicate that 229 farm attacks, which resulted in 31 murders, occurred in the first quarter of 2001. Clearly, three years after the Rural Safety Summit and despite progress in certain areas, the threat to lives of farmers, their families and workers has not diminished significantly. We support initiatives taken by Agri SA with the relevant authorities in instituting measures aimed at combating crime.

President Mbeki, in his address to the nation in February, has singled out Agriculture as one of the sectors worthy of special attention, because of its potential to contribute to the objectives of higher growth rates and job creation. Subsequently, he has commissioned an urgent investigation into the status and potential of agriculture in South Africa. This initiative could not have come at a more opportune time. No doubt the issues mentioned above would be covered in the report and we keenly await the findings thereof.

ZIMBABWE

The ongoing violence in Zimbabwe continues to bedevil the economic prosperity in that country and also threatens the stability of the entire region. Not only do illegal farm invasions continue unabated, but businesses have also been attacked by war veterans and personnel held at ransom. Members of the Society who conduct their businesses in Zimbabwe have not been spared this ordeal.

We urge government to do more, and be seen to do more, to influence events in Zimbabwe before it is too late and irreparable damage done.

FERTILIZER DEMAND - LOOK INTO THE FUTURE

According to IFA, world fertilizer nutrients consumption increased from 5 to 30 Mt nutrients between 1930 and 1960. From 1960 to 1990 total nutrient consumption rose to 138 Mt. Today, the level is slightly higher at 140 Mt.

The rate of increase of the world's population is slowing down and with it, the need for ever increasing quantities of fertilizers. However, the FAO's most recent forecast projects an increase in world crop production for the next 34 years of 57%, against 117% over the preceding 34-year period. The rate of increase will be greater in developing countries than developed countries; the latter is expected to account for 72% of world crop production in 2030 compared with 66% in 1995/97. However, unless the threat of HIV/Aids is not properly dealt with, one could foresee a levelling off in population growth and in food demand in South Africa and other countries in the region. I am concerned about the apparent lack of a national Aids strategy and the urge to apply such strategy in fighting the pandemic.

SOCIETY AFFAIRS

In conclusion, I want to touch briefly on Society affairs.

The previous annual congress was held in Cape Town on 12 May 2000, with attendance of 105 delegates. Dr David Dibb, president of IPI, delivered the keynote address. His presentation entitled *"Fertilizers, Food Production and the Environment"* was very well received. The standard of presentations was both informative and of a high quality.

The third fertigation symposium was held on 25 August 2000 at the CSIR Conference Centre and was attended by 136 delegates. For the time being, this symposium concludes the trilogy of FSSA symposia on fertigation. The introductory papers on irrigation scheduling, fertigation management and phenology were followed by short papers of 15 minutes duration each, on practical aspects of fertigation on a variety of crops.

In October, the FSSA co-hosted an international workshop with the International Fertilizer Development Center (IFDC) in Cape Town. The theme of the workshop was *"Economic Policy Reforms and Agricultural Input Markets: Experiences, Lessons and Challenges"*. The workshop was well attended by some 80 delegates, mostly government and parastatal officials from developing countries.

Fertilizer Advisors Training Course (BASOS)

The editing and revision of modules 3-8 and full revision of module 7 were completed and implemented in May 2000.

One hundred and twenty candidates have successfully completed the course. One hundred and fifty seven candidates were still in the system by the end of 2000. Forty candidates have enrolled for the short course (3rd week in May 2001) and 65 candidates have registered for examinations in 2001.

Regulatory matters

The FSSA/Act 36 liaison committee has met several times and considerable progress was made in finalising recommendations for the revised regulations and the *Draft Fertilizers, Animal Feeds and Pesticides Bill*.

Our understanding is that the Draft Bill is scheduled for parliamentary approval during September. It is hoped that this matter will be taken to its final conclusion sooner rather than later.

Publications : Revision of *"Bemestingshandleiding"*

An editorial committee was formed in May 2000 to direct and manage a complete revision of *"Bemestingshandleiding"*. Considerable progress has been made. Some chapters, or parts thereof, have been referred to independent specialists for revision. Completion date of the revision is February 2002.

