

# President's Report

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## INTRODUCTION

The world fertilizer industry experienced a difficult year in 2001. Agricultural commodity prices remained low despite world grain utilisation exceeding production for the third consecutive year. Unfavourable weather conditions prevailed during the first half of 2001 in many parts of the world. Global economic conditions continued to deteriorate, especially after the tragic events of September 11 in the USA. The world fertilizer industry was not unaffected by these events and, according to the International Fertilizer Industry Association (IFA), global fertilizer demand contracted by 2.7% in 2000/2001; the first downturn in eight years.

## TRENDS IN DOMESTIC FERTILIZER CONSUMPTION

### Consumption

To some extent, domestic fertilizer consumption in 2001 was a mirror image of the global trends mentioned above. The plant nutrient (NPK) consumption in 2001 declined by 3.8%, compared with 2000 (see Table 1).

Fertilizer off-take from January to September 2001 was particularly slow compared with normal deliveries. Uncertainties in the market place as regards expected producer prices for major commodities and very tight credit contributed to this state of affairs. However, towards the end of the year producer

prices of commodities in rand terms firmed substantially, weather conditions improved and the general mood in agriculture changed from a wait-and-see disposition to one of greater optimism. Despite a steep increase in fertilizer demand for the remainder of the year (September to December), the accumulated backlog over the preceding nine months could not be fully recovered.

Total nutrient (NPK) consumption has been demonstrated in previous reports to have stabilised around 600 000 tons, and fluctuates between 540 000 and 650 000 tons per annum since the late eighties. The 2001 figure of 588 000 tons plantfood falls in the lower half of this spectrum. However, phosphate consumption has declined since the late eighties/early nineties, when consumption levels dropped consistently below 100 000 tons P and reached its lowest level of 82 000 tons in 2000 (Table 1). The increase in P consumption in 2001 to 90 000 tons may be an indication that the downward trend has bottomed out.

Potassium consumption in 2001 has fallen below 110 000 tons K for the first time since 1992, but this is more likely the result of seasonal variation, rather than the beginning of a new trend.

Recent FSSA statistics show a substantial increase in plant nutrient consumption of 23% in Q1 2002, compared with the same period in 2001. This can be ascribed in part to a bigger than usual carry-over of nitrogen side-dressing business from 2001 for summer crops and to the improved financial position

**Table 1. Domestic consumption of fertilizers (1000 tons)**

|                       | 1990 - 99 (av.) | 1999       | 2000 <sup>(1)</sup> | 2001       |
|-----------------------|-----------------|------------|---------------------|------------|
| Nitrogen (N)          | 386             | 413        | 416                 | 393        |
| Phosphorous (P)       | 103             | 99         | 82                  | 90         |
| Potassium (K)         | 111             | 113        | 114                 | 104        |
| <b>NPK total</b>      | <b>600</b>      | <b>625</b> | <b>611</b>          | <b>588</b> |
| Physical tons         | 2 034           | 2 052      | 2 012               | 1 933      |
| Plant food content, % | 29.5            | 30.5       | 30.4                | 30.4       |

<sup>(1)</sup> Values in this column have been adjusted by between 2 and 3%, relative to those previously reported.

of grain farmers, which I will refer to later on in my report. However, it should be noted that the industry is experiencing some pressure to increase credit lines, which is a matter of concern.

### Exports

Foskor's export earning in 2001 from phosphate rock, phosphoric acid and granular intermediate sales amounted to R1.36 billion (2000 = R1.32 billion). Exports by other members of the industry in the form of phosphoric acid (Sasol Agri), granular NPK compounds and straights (Sasol Agri, Omnia and Kynoch) amounted to R623 million (2000 = R639 million), which brings the total foreign exchange earnings to R1.98 billion, virtually unchanged from R1.95 billion in 2000.

The commissioning dates of Foskor's sulphuric acid (1.17 to 2.2 million tons) and phosphoric acid (435 000 to 765 000 tons  $P_2O_5$ ) expansions in Richards Bay are May and June/July 2002 respectively. The capital expenditure on expansion amounted to R1.4 billion. Foskor's management deserves much credit for having met the commissioning dates mentioned in my report last year.

Mr Kaya Nkulu, Foskor's chairman, recently announced IDC's intention to privatise Foskor. This process will undoubtedly take some time, and one hopes that the privatisation can be structured in such a way so as to avoid the possibility of the monopolisation of the sole source of rock phosphate to the local industry.

Kynoch is now fully owned by Norsk Hydro after having acquired the remainder of AECI's interest during 2002.

### Fertilizer prices

The South African fertilizer industry functions in a totally deregulated market environment with no

protection in terms of import restrictions or import tariffs. Furthermore, some 30 to 35% of its domestic plant nutrient requirements (mostly in the form of urea and potassium salts) have to be imported. Other basic raw materials (e.g. sulphur, ammonia) are directly or indirectly linked to import parity which means that more than 70% of the total domestic requirement of fertilizer is directly influenced by price movements on world commodity markets, and of course the R/\$ exchange rate.

### World market

The most dominant feature in the world market was the sustained downward trend in ammonia prices from January 2001 (\$207 per ton FOB) to less than \$80 during the early months of 2002, before recovering to around \$106 per ton in May. The lower prices of ammonia in 2001 were instrumental in bringing the local industry back to acceptable operating margins.

Since March/April 2001 urea prices fluctuated between \$84 and \$100 per ton FOB, except for a brief recovery to \$105 per ton in December and January, coinciding with the time when the rand crashed to its lowest level against the dollar.

DAP prices continued a downward trend from February 2001 (\$165/ton FOB) to October (\$137/ton) before recovering to between \$150 and \$156 per ton from December to March 2002. Prices have since eased marginally to \$150 per ton.

Prices of MOP have remained virtually flat in the \$110 to \$115 per ton FOB range.

### South Africa

The import parity cost in rands of a selection of fertilizer commodities landed at Randfontein for the period February 2001 to March 2002 is given in Figure 1.

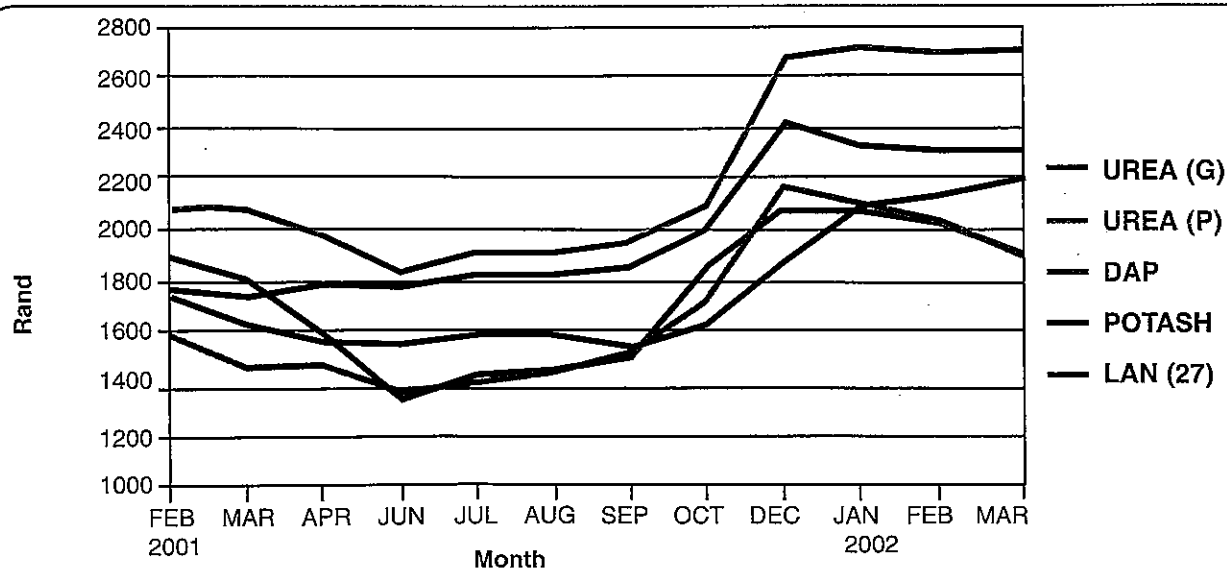


Figure 1. Trends in import parity cost of fertilizer commodities

This graph illustrates the cyclical trend exhibited during 2001, compounded by the decline in the value of the rand. Prices in the domestic market followed this trend. Although the rand strengthened considerably since February 2002, relative to the dramatic decline of the rand in the second half of December 2001, import parity costs of all commodities were still considerably higher at the end of Q1 2002, compared with March 2001 (Figure 1).

Import parity cost of commodities has eased further during April/May 2002, following the continued strength of the rand. This resulted in downward adjustment of prices in the domestic market.

The overall effect of international prices of commodities and the R/\$ exchange rate are further illustrated by recent FSSA statistics which show an increase of 25% in the FSSA's nett fertilizer price index for Q1 2002, compared with Q1 2001. This value compares favourably with price increases in FOB rand values of between 34 and 36% of a parcel of internationally traded commodities over a one year period (April '01 to April '02; see Table 2).

fertilization are essential ingredients in restoring and maintaining soil fertility. Most experts would also agree that 1 million tons of lime are wholly inadequate to even maintain the present *status quo*. I appeal to everyone involved in a plant nutrition related advisory capacity, to use every opportunity in bringing this message across.

## ZIMBABWE

Fertilizer production in Zimbabwe is running below capacity mainly due to a lack of foreign currency to purchase critical raw materials, price controls and a decreasing demand. Reliable sources in Zimbabwe estimate the fertilizer consumption in that country to have dropped to below 350 000 tons in 2001 (compared with consumption of 500 000 tons in previous/normal years). A further shrinkage in the market during 2002 is envisaged. Both the drought and the so-called land distribution exercise have hurt the industry. I am sure most people would join me in expressing the hope that the human tragedy which is unfolding in Zimbabwe can be stopped, and that

**Table 2. Price comparisons: internationally traded commodities**

| COMMODITY<br>FOB*                             | APRIL 2001     |      | APRIL 2002     |      | PER CENT<br>CHANGE<br>(In Rand terms) |
|---|----------------|------|----------------|------|---------------------------------------|
|   | \$(1)          | R    | \$(1)          | R    |                                       |
| Urea  | 96             | 776  | 93             | 1036 | 34                                    |
| DAP   | 148            | 1196 | 146            | 1626 | 36                                    |
| KCI   | 119            | 962  | 115            | 1281 | 33                                    |
| R/\$ <sup>(2)</sup>                           | 8.08           |      | 11.14          |      | 38                                    |
| Nett fertilizer<br>price index <sup>(2)</sup> | Q1 2001<br>169 |      | Q1 2002<br>211 |      | 25                                    |

Source: (1) Average of various FOB quoted prices (FMB/Fertilizer Focus)

(2) FSSA

## AGLIME TRENDS

After aglime consumption fell to a two decade low of 825 000 tons in 2000, it regained considerable ground and increased by 29% to 1068 million tons in 2001. This trend continued during Q1 2002, with lime sales gaining 5.5% over the same period in 2001. Average lime prices increased moderately by 6.9% from R56.81 per ton in 2000 to R60.70 in 2001.

The recovery is a welcome sign. However, most experts agree that soil acidity in South Africa is a major limiting factor in achieving sustainable food production. Indeed, soil productivity and sustainable development are mutually inclusive concepts. Adequate liming and nutrient replenishment through

good sense will prevail in establishing a sound agricultural policy which could lead Zimbabwe back to prosperity.

## FARMING CONDITIONS/AGRICULTURAL SITUATION

The fertilizer and aglime industries, as suppliers of essential inputs to agriculture, in many ways reflect the swings and moods in agriculture. Farmers are generally more optimistic regarding their immediate economic prospects now than they were a year ago. This is confirmed by a survey of business confidence in agriculture, conducted by the Agricultural Business Chamber (ABC), which showed an impressive

increase of 20% in the first quarter in 2002 compared with the same period a year ago, and 7% more than the fourth quarter in 2001. This improvement in business confidence, according to the ABC, is driven largely by expectations of better agricultural conditions, higher capital investment, larger turnover and operating income and higher volume of exports. Good news is the expected increase in employment and job creation that can be facilitated by such growing confidence.

While the broad picture in agriculture is upbeat, we should not forget the plight of farmers in drought stricken areas. In particular, the southern Cape comes into mind where farmers have suffered one of the longest droughts in human memory. In this regard it is encouraging to note that the sector plan for agriculture identifies the development of an effective risk management system, in mitigating the effects of natural disasters, as a priority. This is a very significant initiative and will hopefully go a long way in bringing South Africa in line with other countries which have developed effective disaster management strategies.

#### **OTHER ISSUES AFFECTING AGRICULTURE AND OUR INDUSTRIES**

##### **Crime**

The overall crime situation is still unacceptably high, and continues to be a deterrent for growth and foreign investment. During the first nine months of 2001 (according to media reports the most recent available police statistics) 691 farm attacks and 97 murders were recorded.

##### **Subsidies**

High levels of agricultural subsidies in the US and EU (\$300 billion per annum) continue to distort international agricultural trade to the detriment of poor and developing countries. We fully endorse the valiant efforts of President Mbeki and senior cabinet ministers who raise this issue at every international meeting of political and business leaders. It is also encouraging that this issue is addressed in the *Strategic Plan for SA Agriculture*, which *inter alia* requires "effective participation in the WTO to address excessive and distortionary support and protection of world agriculture."

##### **HIV/AIDS**

The devastating impact of the HIV/Aids pandemic on the economy, population demography, social and family infrastructure is well known. Unfortunately, much confusion arose around the Neverapine issue. Most South Africans, it would appear, are in the dark as regards the effectiveness of the government's strategy to combat HIV/Aids. Much has been said about success achieved in Uganda and the question arises why the same degree of success cannot be achieved in South Africa. The government has a responsibility to clarify the direction of its HIV/Aids

strategy.

##### **Agricultural research**

Recent media reports on the state of agricultural research, and in particular the loss of scientists from and declining state funding of the ARC are of great concern.

The importance of agricultural research in supporting a country's sustainable development and enhancing the agricultural sector's international competitiveness, is universally recognised. The announcement of the Agriculture Sector Plan earlier this year strongly endorses this principle and also states *inter alia* that "specific action will be implemented to raise investment in agricultural research, education and extension from the current low level of 1.04% of agriculture's contribution to GNP to meet the international benchmark of 3% of GNP".

The recent launch of the National Agricultural Research Forum and other recent developments, give hope that the brain drain can be stopped in time. Scientific expertise is a national treasure that needs to be fostered. The development of new expertise is equally important. Both are imperative in the successful pursuit of sustainable development and poverty alleviation.

##### **New Partnership for Africa's Economic Development (NEPAD)**

Sustainable agricultural development is one of the cornerstones of the NEPAD strategy. President Mbeki deserves full credit for his initiative and statesmanship in effectively promoting the goals of NEPAD at the highest fora of world leaders. He deserves the full support of all South Africans and South African institutions in the implementation of the strategy.

##### **World Summit on Sustainable Development**

South Africa will host the World Summit on Sustainable Development in Johannesburg in September. Fertilizer is an essential link in achieving sustainable development. In the world we live in today, very few farming systems are closed systems where nutrient cycling between plants, animals and humans are contained in one locality. Every time agricultural produce leaves the farm gate, the farm and its soil lose productive capacity unless the nutrients are replenished. Even in closed systems, there are unavoidable natural losses through run-off, leaching and losses to the atmosphere. The international fertilizer industry position will be presented at the Summit by Luc Maene, the secretary general of IFA, on behalf of the international fertilizer industry. The full text of the position paper can be viewed on IFA's website ([www.ifa.org](http://www.ifa.org)).

##### **Transport**

In my report last year I referred to logistical problems associated with large-scale imports and transport of fertilizers and raw materials to inland destinations.

Spoornet management subsequently initiated a process of dialogue with the FSSA, for which they deserve much credit. A multiparty forum, representative of Spoornet, Portnet, salt importers and the fertilizer industry, was subsequently established to address the problems and find best possible solutions. The dialogue is useful and should continue. A lot of ground still has to be covered, however, for results to be regarded as significant. The FSSA is committed to continued dialogue with both Spoornet and Portnet in achieving this goal.

## FSSA MATTERS

### Society Affairs

The FSSA co-hosted an international workshop with the International Fertilizer Development Center (IFDC) during February 2002 in Pretoria. The theme of the workshop was "Developing competitive agricultural input markets for small holder farmers", and was attended by 30 delegates mostly from developing countries.

During the past year 106 candidates have registered for the FSSA's Fertilizer Advisors Training Course of which 52 were successful. This course, better known

by the acronym BASOS, is jointly administered by the Technikon Pretoria and the FSSA. To date a total of 164 candidates have successfully completed the course.

The FSSA maintained liaison with the Registrar's (Act 36) office. Mr. Etienne Wolmarans retired from service in April 2002, and Dr. Johan Vermeulen was appointed new Registrar in May. I would like to congratulate Dr. Vermeulen on his appointment and give him the assurance that he can expect the Society's full support in the administration of the Fertilizer Act.

Shortly after Dr. Vermeulen's appointment, the FSSA was informed that the publication of the new *Fertilizer, Animal Feed, Pet Foods and Pesticide Bill* has been put back on track. The same applies to Fertilizer Regulations which have been put on hold for a long time. We look forward to a successful conclusion of this "chapter of uncertainty" in the foreseeable future.

The complete revision of the FSSA's popular "*Bemestingshandleiding*" / *Fertilizer Handbook* has progressed very well and the entire handbook should be press ready by middle July.

