

President's Report

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INTRODUCTION

It gives me great pleasure in presenting the president's report at this gathering which coincides with the 41st annual general meeting of the Fertilizer Society.

The report deals with local and international agriculture and fertilizer related events, and concludes with a short report on the affairs of the Society.

THE FERTILIZER MARKET

In recent years the domestic demand for fertilizers remained virtually unchanged around an average of 619,000 tonnes plant nutrients (N+P+K), with a standard deviation of only 25,000 tonnes (4% of total). **Table 1** gives fertilizer and plant nutrient consumption figures for the period 1994 to 1999. It includes estimated non-FSSA member imports for 1997 through 1999. Imports before 1997 were generally considered to be insignificant, and were not monitored.

potassium consumption figure for 1999 corresponds well with potassium numbers before 1998.

Plant nutrient (N+P+K) consumption per province did, however, show large fluctuations when compared with 1998. The largest decline was recorded in the Western Cape (30%), followed by KwaZulu-Natal (16%), North-West (11%) and Northern Cape (6%). The other provinces showed moderate increases. Western Cape wheat farmers, in particular, suffered from two years successive drought which forced many of them to cut back drastically on fertilizer application rates.

Three years ago the FSSA started estimating non-member imports destined for domestic consumption. In 1997 it was estimated at 24,000 tonnes plant nutrients. In 1998, it increased to 38,000 tonnes, and nearly doubled in '99 to 61,000 tonnes, or almost 10 percent of total domestic consumption. As regards non-member imports, my predecessor Danie Vorster stated in his report last year that "... importers continued to capitalise

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

	1994	1995	1996	1997	1998	1999	% Change 99/98
N	375	371	415	407	416	413	-0.6
P	108	106	112	102	95	99	4.1
K	108	112	119	114	132	113	-14.6
TOTAL	591	588	646	623	643	625	-2.8
Physical	2000.2	1998.8	2170.8	2088.4	2054.2	2051.5	-0.1
Average Plantfood Concentration	29.5	29.4	29.7	29.8	31.3	30.5	-2.5

Contrary to earlier indications, fertilizer deliveries improved substantially during the last quarter of 1999 and total NPK consumption ended almost on a par with that of 1998. Total plant nutrient consumption showed a 2.8 percent decline, which is largely due to a sharp drop in potassium, while phosphorous showed a 4 percent gain. However, when viewed over the period 94-99, the

on weak international prices in 1998, and will continue to do so to a greater or lesser degree depending upon world market price trends in a totally deregulated fertilizer environment." This statement still holds true. Time will tell what the effect of the weaker rand as well as the firmer international price of urea will be on the future growth of this market segment. The Fertilizer Society

recognises the importance of this segment of the industry and will continue its efforts to draw key players into the fold of the Society.

PRICE MOVEMENTS

The Fertilizer Society's weighted average net price index of fertilizer in 1999 was 130.5 compared with 127.4 in 1998. This represents an increase of 2.4 percent. Rand prices remained under pressure during the entire 1999, reflecting decade low world dollar prices of urea for the greater part of '99, softer DAP dollar prices on world markets and a relatively stable R/\$ exchange rate. Rand prices firmed in 2000, following price trends on world markets, as well as a weakening R/\$ exchange rate.

CHANGES IN THE INDUSTRY

The latter half of 1999 was dominated by the news of Norsk Hydro acquiring a 50 percent share in Kynoch (Ltd) from AECL. By the end of March 2000, the restructuring of Kynoch has resulted in the closure of AECL/Kynoch's manufacturing facilities at Modderfontein and Milnerton. The following capacities are affected:

Ammonia:	400,000 tonnes
LAN:	360,000 tonnes
Ammonium nitrate (solution):	160,000 tonnes
Nitric acid:	136,000 tonnes
Urea:	340,000 tonnes

The names "Modderfontein" and "Milnerton" are synonymous with South Africa's image of self-sufficiency in fertilizer manufacturing. Their disappearance from the South African fertilizer vocabulary will be felt with a touch of sadness, but also with the regretful realisation that these facilities have outlived their useful lives in an ever-increasing competitive environment.

The net effect of these closures is that urea will have to be imported through South African harbours to meet the demand for domestic use and re-export to our northern neighbours. Some of the latter may be imported through Mozambican and Tanzanian harbours. In the short term, however, the bulk of the re-export requirement still needs to be imported through South African harbours. It would also be fair to assume that the LAN deficit will be met in part by increased supply ex Omnia and Sasol, possibly some LAN substitution for urea and direct imports of LAN.

Kynoch/Hydro's phosphoric acid and granulation capacities at Potchefstroom are unaffected by the above-mentioned closures.

These structural changes in the industry, and in particular the increased demand of imported urea, will put tremendous strain on Portnet and Spoornet's existing infrastructure to cope with the increase in imports of this magnitude. Experience to date unfortunately casts

some doubt on the collective ability of these institutions to adequately deal with the problem. In view of the scope of logistics involved, it is perhaps opportune for the Fertilizer Society to revive its liaison with Spoornet and Transnet as a matter of priority.

The profitability of the South African industry has been under pressure for the greater part of the past decade and particularly so during 1999. On the international scene, some large multinational companies have also reported losses or substantially reduced profits during the past year. Some have announced major restructuring and rationalisation of their businesses.

IOF's major expansion of their sulphuric and phosphoric acid operations at a cost of R1.2 billion, which was mentioned in the President's Report last year, is going ahead. The facilities are expected to come on-stream in April 2002.

Omnia's new granulation plant (R93 million) was commissioned during 1999.

Foskor's R410 million expansion of mining and flotation capacities at Phalaborwa has been completed and is in the process of being commissioned.

The recent announcement of the natural gas find off the West Coast raised the question to what extent it could eventually revive a locally based ammonia/fertilizer facility in the Western Cape. Current indications are that the find is too small to sustain a viable ammonia/fertilizer-N plant. Little has been reported recently regarding the Pande-Temane gas ex Mozambique. The possibility of a world scale urea plant in Mozambique utilising this vast gas reserve is still a possibility.

EXPORTS OF FERTILIZERS AND RAW MATERIALS

Export of NPK compounds, single element fertilizers and intermediates (MAP and DAP) by Kynoch, Sasol, Omnia and IOF amounted to an estimated 700,000 tonnes in 1999, compared with 462,000 tonnes in 1998 and 508,000 tonnes in 1997. In 1999 close to half of the exports were destined for deep sea markets and the remainder for African markets. Phosphoric acid exports ex IOF and Fedmis amounted to 336,700 tonnes P_2O_5 , compared with 297,000 tonnes in 1998. The bulk of the exports was shipped to India, with lesser quantities to Indonesia, Brazil and Europe. Foskor exported 995,300 tonnes high-grade phosphate rock in 1999.

The above-mentioned exports contributed to estimated foreign exchange earnings of R1.8 billion.

INTERNATIONAL TRENDS

Urea

World prices of prilled urea remained at very low levels around \$65 (FOB FSU bulk) for the greater part of 1999,

but regained some lost ground during the last quarter of '99 and early 2000, mainly due to a surge in demand from Thailand, Vietnam, the USA and Europe. The average price for prilled urea in 1999 (FOB FSU in bulk) was US \$68, compared to \$81 for 1998, \$115 for 1997, \$180 for 1996 and \$185 for 1995. The mini-boom in urea prices (currently US \$83-85, same source) is not expected to last as new capacities of some 3.8 million tonnes are expected to come on line during 2000.

DAP

DAP prices have undergone gradual erosion since late 1998/early 1999 from US \$200 (FOB US Gulf) to current, relatively stable levels of around \$145-150. Prices are expected to maintain these levels as increases in demand are expected to be met by recommissioning idle production capacity. Conversely, further downward pressure on prices may induce capacity cutbacks by high cost producers.

Phosphoric Acid

The growth in world phosacid capacity has outstripped growth in demand for some time. This is expected to continue during 2000 with notable additions to capacity in India and Australia which are coming on line during 2000. As a result world capacity use dropped from nearly 77 percent in 1997 to a projected 72 percent in 2000.

Contracted phosacid prices into India fell back from \$432 (per ton P_2O_5 CFR) in '98 to \$412 in 1999. Recent contracts have seen a further substantial drop to around \$359 which is linked to DAP price reductions.

MOP

MOP prices have been relatively stable since late 1997. China has recently returned to the market and has reportedly contracted 6 million tonnes at 1999 prices. However, small increases in price during 2000 for later deliveries are possible.

THE AGLIME MARKET

In 1999 aglime sales in the RSA amounted to 1.237 million tonnes, which is 0.6% below the 1998 figure of 1.244 million tonnes. Lime use in the Western Cape was adversely affected by the drought and declined 11 percent from 205,000 tonnes in '98 to 183 000 tonnes in '99. Large seasonal variations, for which there are no clear-cut explanations, occurred in Mpumalanga (+32%), Northern Province (+25%) and North-West (-24%).

The average net price of aglimes sold by members of the Society was R55.2 in 1999, compared with R53.1 in 1998; an increase of 4.1 percent which is well below the PPI of 5.8 percent.

Although prospects for the 2000 calendar year are positive, farm deliveries of lime are way behind schedule mainly as a result of soggy on-farm conditions. Indications are that the lime delivery season is heading for a major bottleneck.

AGRICULTURE

As fertilizer demand is a derived demand for food and is primarily driven by population growth and income growth per capita, it is appropriate to reflect on recent developments in global and local agriculture. The world's major cereal producers have, by and large, always been able to produce sufficient food to feed the world's growing population. Of course, this did not happen by itself. In essence, it was made possible by the huge collective contributions of agricultural scientists and innovative applications of agri-industries.

It is worth noting that while the world population increased three-fold from 2 billion in 1930 to 6 billion in 1999, cereal production increased four-fold from 500 million tonnes to 2 billion tonnes in the same period, while fertilizer consumption increased more than 20 fold from 5.5 million tonnes plant nutrients to 135 million tonnes. The fact that 600 million people still suffer from chronic malnutrition bears no relation to the world's capacity to produce sufficient food. Rather, it reflects the inability of the world's poorest nations to either produce or purchase sufficient food to ensure national food security.

In recent years the major cereal producers again demonstrated their collective ability to quickly raise cereal output when cereal stocks fell to dangerous low levels in the 95/96 and 96/97 seasons. Not surprisingly, this response was driven by sharply increased world commodity prices which lasted only as long as it took to restore the stock:utilisation ratio to safe levels, viz two years. Big cereal harvests in the period 96-98 have not only boosted stock levels to well above the minimum 17 percent benchmark level, but have driven down world market prices of many agricultural commodities to 25 year lows. This reflected in a 2 percent decline in world plant nutrient consumption, in 1998/99 compared with the previous year (134.5 million tonnes, down from 137 million tonnes). According to the FAO, the early outlook for cereals in 2000 is mixed while the near-term outlook for export prices (of major exporting countries) is neutral. However, prices may find short-term support. Barring regional natural disasters on a very large scale which could compromise world cereal reserves, there is little reason to believe that world prices of most commodities will improve significantly from their present levels.

With the aforesaid in mind, the message for the fertilizer and aglime industries is clear: With most world commodity prices drifting sideways and world cereal stocks hovering at "safe" levels, South African farmers will be focusing on crop strategies which would maximise incomes between import and export parities.

According to a 1999 Agri SA report, the Marrakesh Agreement in 1994 "has brought agricultural trade policies and associated domestic policies within the scope of a comprehensive framework of multilateral disciplines and constituted an important element in the process of agricultural policy reform". Since its implementation in

1995, some progress has been made in reforming agricultural policies and markets. However, the same report goes on to say that "... notwithstanding improved transparency and discipline in areas of market access, domestic support and export competition that contributed to gains in economic efficiency, certain inequities remain and trading conditions continue to be highly distorted." During his term as president of the Society, John Skeen also alluded to this on more than one occasion and warned against "the protagonists of free agricultural trade, generally from developed and highly advanced agricultural economies, who are selfishly protecting their own interest." In a recent TV interview, Minister Trevor Manuel expressed the same concerns regarding the bilateral trade agreement between South Africa and the EU.

In the same vein, the International Policy Council on Agriculture, Food and Trade (IPC), in an October 1999 News Release, stated *inter alia*, "The IPC is concerned that the common practice in the EU and USA of subsidizing agricultural production and then subsidizing exports of the resulting production - both directly and as a food aid - is particularly harmful to farmers and the food industry in the low income countries which receive those products."

It is hoped that in the next round of negotiations (following the collapse of the Seattle talks), negotiators from smaller and developing countries, and possibly also the Cairns Group, will be able to take an effective stance against the trade distortions imposed by powerful trade blocs.

DOMESTIC AGRICULTURE

The past decade was a particularly volatile and trying period for South African agriculture. It saw the transition from a regulated to a deregulated marketing environment. The sector has demonstrated a remarkable resilience in the face of much uncertainty. A recent economic review of the SA Agriculture by the NDA (1999) reveals some highlights:

- Agriculture has long been the sector with the largest formal wage employment in the economy. In 1994, 13.2 percent of the economically active population was employed in agriculture; in rural areas this amounts to almost 40 percent of formal employment. However, employment in agriculture has decreased considerably since 1970 and, according to Agri SA, this trend is continuing. To what extent this is fuelled by "employer unfriendly legislation", or at least a perception thereof, is unclear. In view of the importance of agriculture in the national economy, we urge government to reassess its farm labour policy.
- Total value of agricultural production in 1998/99 amounted to R45 billion; a 45 percent increase since 1994/95.
- South Africa is one of a handful of countries which are net exporters of food.

- The value of agricultural exports amounted to R15 billion in 1999. This represents 10 percent of total foreign exchange earned by all sectors.
- The gap between imports and exports is widening. Consequently, agriculture's net contribution to foreign exchange earning is growing.
- Citrus fruit is the top performer with an export value of R2.6 billion in 1998/99, followed by sugar cane, grapes, wine and deciduous fruit.

Successful farming, like any successful business, requires a high degree of business acumen in a complex mix of management disciplines. The achievements of the agricultural sector stands to the credit of the ingenuity, perseverance and adaptability of the South African farmer. His/her ability to adapt to new challenges is demonstrated by the history of transactions on SAFEX. In 1995 virtually no transactions were recorded. In 1998 more than 85,000 contracts were concluded which increased to 253,000 in 1999 - an increase of 197 percent! During the same period options contracts increased by more than 700 percent.

Information systems on crops, markets and weather - to name but a few - are much improved. The new generation farmer is much better equipped to make important decisions and implement them timeously. This can be seen, amongst others, by the increased diversification into alternative crops.

The recent floods have resulted in loss of life and damage to housing and infrastructure on an unprecedented scale. According to an FAO report, the estimated cost of infrastructure damage in the Northern Province alone amounts to \$33 million. Many farmers have lost virtually everything - crops, equipment and shelter. Others have suffered huge losses on rainfed crops due to water-logging. The existence of a La Nina during the entire rainy season and its associated results in terms of excessive rain and floods have no doubt led many people to believe that we are experiencing the manifestation of climatic change. In a personal communication, the ARC-ISCW has offered a sobering comment:

The tropical systems that caused excessive cloudiness and precipitation over the northern parts of the country was, although not totally uncommon, rather extraordinary. Such systems have since the 1950s only occurred during wet decadal epochs viz 1950s, 70s and 90s. There is, according to the same source, no reason to claim climatic change as the culprit. They point out that climate has other longer term variability. "This can easily be wrongfully interpreted as humanly induced climatic change because of the shortness of human memory as well as the short history of climatic records."

On balance, however, the mood in agriculture is positive. Crop prospects for most summer crops, which are about to be harvested, are favourable. Soil moisture levels have been fully replenished which augers well for the planting season of both wheat and maize in the summer

rainfall areas. Dams are full and irrigation farmers can look forward to ample water supplies. Grazing conditions have improved dramatically.

The fertilizer outlook for 2000, in tandem with agricultural conditions, is also positive and domestic consumption is expected to at least maintain the 620,000 - 640,000 tonnes plant nutrient level attained during the past three years.

CRIME

The South African society is still plagued by unacceptable high levels of crime. This continues to affect our members, their businesses and our clients. More than 800 farm related murders were committed over the past five to six years. Like my predecessors, I again appeal to government to use all the powers at its disposal to effectively stem the tide of crime.

ZIMBABWE

Recent events in Zimbabwe have once again focused world attention on this part of the world. The land invasions, the threat to the rule of law and indeed to Zimbabwean democracy itself, have been reported on comprehensively in the world media. The inevitable spill-over effect on the South African economy has already been felt in a sliding rand and loss in investor confidence. It has also had a direct influence on members of the Society who have operating businesses in Zimbabwe. We understand that this issue is a matter of utmost delicacy and applaud Mr Mbeki's recent statements to restore investor confidence.

THE AFFAIRS OF THE SOCIETY

The 1999 annual congress was held in Durban in April. Dr Amit Roy, CEO of the International Fertilizer Development Center, was the guest speaker on the topic "IFDC's experience in developing programmes in developing economies with special reference to Africa." His address complemented the presentations by Malcolm Sumner and Norman Borlaug at two previous AGMs.

The second **Fertigation symposium** was held over two days in August at the CSIR Conference Centre and was attended by 172 delegates. A fertigation expert from Israel, Dubi Raber, participated in the event by kind sponsorship of Mineag SQM. Good feedback on the proceedings was received. Evaluation of the feedback obtained through a questionnaire indicated that there is need for crop specific information. Based on this information, Management Committee approved a third fertigation symposium to be held in August 2000.

A **Soil Acidity symposium** was held on 23 July 1999, also at the CSIR Conference Centre. It was attended by 147 delegates. As in the case of the fertigation symposium, delegates' views were evaluated by means of a questionnaire. Speakers' presentations were perceived

to be relevant and of good quality. I would like to single out the outstanding quality of presentation by Dr Koos Bornman of Kynoch on the economics of aglime use. Based on information gained from the questionnaires, two regional symposia were held in Reitz and Potchefstroom during March. Special mention should be made of the outstanding presentations by Dr Mart Farina and Mr At Kruger of VKB.

Resource Poor Farming

In 1998 the FSSA commissioned an investigation into the possible role of the FSSA in developing the resource poor sector. The final report was submitted during the latter half of 1999. At the outset, one of the objectives of the investigation was to quantify, as best as possible, this market segment in terms of farmer numbers, their geographic distribution, infrastructure development, resources and needs. A postal survey, in co-operation with NAFU, was consequently undertaken as part of the investigation. Unfortunately, however, the findings of the survey were inadequate and disappointing; it again highlighted the need for a reliable database. In my opinion, this is a prerequisite for a meaningful private sector involvement in developing this sector. Considering its scope and nature, such a survey is clearly the responsibility of government which has adequate resources and manpower at its disposal.

Fertilizer Advisors Training Course (BASOS; in conjunction with Pretoria Technikon)

This course is now in its third year. Sixty-one candidates have successfully completed the course to date. One of the modules has been completely revised, while modules 3 to 8 were restructured. The English version was finalised by the end of March. The Afrikaans version should be completed in time for implementation by the middle of June. Attendance and successful completion of the course is now compulsory for fertilizer advisors employed by member companies. Attendance is open to all and I would like to invite the provincial departments of agriculture to enrol all their extension officers on the course.

Publications

In the year under review 607 copies of the *Fertilizer Handbook* and *Bemestingshandleiding* were sold; total proceeds of which amounted to more than R40,000.

A reprint of *Bemestingshandleiding* (300 copies) was delivered in November 1999.

The editing of the revised *Fertilizer Handbook* was completed early in March and 500 copies were delivered in the same month. Both versions are now sold for R150 per edition, excluding VAT.

As part of the Strategic Plan (Key Objective 2) a complete revision of *Bemestingshandleiding/Fertilizer Handbook* has been identified as a priority at the February 2000 meeting of the Technical Subcommittee for the next two years. The process has already been

set in motion.

Liaison

Active liaison was maintained with the media on various occasions. The director has joined the Agricultural Writers' Association.

Active liaison, by way of correspondence and contributions for media and other reports, was maintained with:

- The International Fertilizer Industry Association (IFA)
- International Fertilizer Development Center (IFDC)
- International Fertilizer Society
- British Sulphur/FMB
- Water Research Commission
- The Registrar
- Agri SA
- Grain SA
- ARC Institutes



Grondsuur wys in jou winste ...



Hier is 'n voorkeur teenmiddel!

Grasland se geregistreerde landboukalk is 'n bewese grondsurneutraliseerder wat oortuigende resultate in u winste sal lewer. Gesonde grond verseker verbeterde oesopbrengstes van voortreflike gehalte.

kwaliteit wat 'n deurslaggewende rol tot 'n spogoes kan speel.

Bewys dit self. Grasland produkte en raadgewende dienste is so naby soos u plaaslike koöperasie. U is ook welkom om direk met ons in aanraking te tree.

Grasland plaas u op die winskoers.

Navorsing en ontwikkeling is 'n integrale deel van ons bekalkingsprodukte en verseker die nodige



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