DINNER ADDRESS

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PROSPECTS FOR GROWTH IN AGRICULTURE IN SOUTH AFRICA

If you were to speak to a cross-section of business people these days, including farmers, about the prospects for agriculture in South Africa, I am convinced you would get a response from most, ranging from mildly to extremely negative. We are already seeing some farmers expressing their feelings with their feet - they are moving out of South Africa to "greener pastures".

The reasons are not hard to find: they shout at us from the media, from political platforms and from the ranks of academics, advisors and international agencies, not to mention the hordes of rumour mongers. And they all spring from the same source, the prospect of change to the existing system and the uncertainty it brings with it. No one likes uncertainty, least of all business people, and the general negative image is unlikely to disappear until the changes have been ushered in or have failed to materialise.

The implications of these changes can, of course, hold serious implications for some or all of those in the industry, or dependent upon it. But what are these "changes"? To mention some of the more obvious, although in no particular priority:

- First, the whole **protection system** which has been with us for so long is being systematically dismantled, following South Africa's full participation in the General Agreement on Trade and Tariffs and the international consensus to incorporate agriculture within it:

    - import quotas are going;
    - so is compulsory single channel marketing;
    - import tariffs which will automatically scale-down in future are all that will protect us from the cold winds of international protection;
    - and this while there is no guarantee that competitor countries will phase-out theirentrenched agricultural subsidies andpreferences nor that we will have an effective anti-dumping system in place to counter them;
    - there is also the re-negotiation of the S.A. Customs Union agreement, and the possibility of "unfair" competition from across our borders.

- Second, the direct power of the **political lobby** of the commercial agricultural sector has been dramatically diminished with the change in Government and threatening new concepts are now being debated:

    - land reform and the transfer of substantial areas, including highly productive farm land, to those previously denied access;
    - this against the generally unsuccessful experience in the rest of Africa;
    - the possible introduction of a land tax;
    - the redirection of agricultural support services, including the credit facilities of the Land Bank, towards the envisaged new small farming sector;
    - the scaling down of state financial support for commercial farmers following natural disasters such as drought and flood.

- Third, the inclusion of agriculture within the general **labour bargaining** laws with the prospect of labour disruption and escalation of labour costs unmatched by productivity improvements.

- Fourth, **environmentally** our natural agricultural competitive advantage in the world is not great:

    - our soils are generally poor;
    - our rainfall sparse and erratic;

- our climatic variations are harsh, often precluding double cropping;
- much of our summer grain lands are acidifying at an alarming rate;
- the loss of top soil through erosion continues unabated;
- our available farming land is virtually fully exploited and, in some cases, over-exploited;
- the increasing demand on our scarce water resources for primary use.

When you recite a list like that, things certainly do seem bleak, like the "farm for sale" notice I saw the other day:

"The real reason why farmers in South Africa are in such financial trouble today, started way back in 1961.
When our monetary system changed from pounds to rands, my overdraft doubled.
I was just getting used to that, when they changed from pounds to kilograms and my crop was reduced by half.
Then the rainfall changed from inches to millimetres and since then we have not had an inch of rain!
What did they do next? They brought something in called Celsius which reduced the temperature by twenty degrees. No wonder my mealies don't want to grow. And as if that was not enough, they then changed my property from morgan to hectares, which reduced my farm by half the original size.
That was when I decided to sell my farm.
I had no sooner put my farm on the market when miles became kilometres and now my farm is so far out of town that nobody wants to buy it.
And they call it prosperity!"

But is it really all doom and gloom, or are there still opportunities for growth in agriculture despite the uncertainties?

Firstly, a general comment. One must beware of generalities. The negative factors don't apply to all sectors of agriculture, nor to all farmers, nor to all areas within sectors that are affected. Many farms are well managed. Many crops are unaffected by the protective system. Many farmers are well prepared for collective bargaining. Indirectly commercial farmers do have a strong lobby as has been demonstrated in other parts of Africa. Not all farmers nor sectors are dependent on State assistance and many have set up and funded their own research and extension services. We have some micro-climates which make us internationally competitive. We also have a core of extremely effective farming entrepreneurs - good managers, good businessmen, innovative, experienced and with a strong capital base.

The famous Rothchild's Bank has an equally famous motto which states:

"Things are never as good as they look, nor as bad as they seem to be!"

I firmly believe that to be true and that the agricultural sector needs to look beyond all the negative hype and concentrate on tackling the challenges that face it positively and pragmatically. That said, though, I must say that I find it difficult to imagine major new areas being opened up for agriculture or quantum leaps in yields, excluding the normal cyclical peaks, which would produce exciting growth prospects for cereal or live-stock farming in the medium-term.

My other general comment is that there are, in fact, some exciting potential growth sectors, and I would like to outline some of those I have become aware of as a result of the increasing role being played by the Industrial Development Corporation, the organisation for which I work, in what we call agro-industry.

In the course of our search for unexploited areas of competitive advantage in our country, we have come to the conclusion that the fastest and most rewarding way to economic growth is to add value to our natural resources and existing infrastructure. There is much potential for development, and this can be divided into two broad categories : those opportunities which are essentially mining based and capital intensive, and those that are agriculturally based and labour intensive. I could speak with great enthusiasm all night about both sectors, but I will not try your patience and will limit myself to the second category - our so-called agro-industry. There are five crop sectors I want to talk about specifically : timber, sugar, export fruit, edible nuts, and cut flowers.

Timber

Our natural advantage here lies in the existence of suitable, although limited micro-climates even though not naturally afforested, and an excellent basic infrastructure facilitating exploitation - roads, railways, harbours, research and training institutions, cheap power, and general industrial services support.

Our success lies in the initiative taken by the State, private farmers and large corporates in committing long-term capital to an aggressive policy of planting, research, and construction of world-scale processing plants. Today, South Africa is a world leader in plantation husbandry and pulp production.

Despite the much spoken of "paperless society", world demand for paper continues to grow strongly while the traditional timber producing countries - Canada, USA, Scandinavia, Central Europe - face increasing cost and environmental pressures. South American, Russian and South-East Asian countries face infrastructural handicaps.

Available land for further development, while limited, does exist and there would appear to be potential in KwaZulu-Natal and the Eastern Cape for sufficient additional plantations to justify major expansions to existing pulp mills and the possible construction of a new mill in the Eastern Cape.

Although plantations require long-term investment and pulp mills are capital intensive, the plantation development and harvesting is labour intensive and offers interesting opportunities for small farmer development under the mentorship of and with offtake guarantees being provided by large plantation developers and mill owners. It is certainly an ideal sector for putting into practice the transfer of skills to enable subsistence farmers to move into the developed commercial farming sector.

The first development in this direction is a 60 000 ha project in the Maclear/Ugie area to produce a million tons of pine annually and which will create at least 3 500 direct jobs in a very depressed area.

Sugar

We have a large, efficient and well developed sugar farming and milling industry, but its growth is inhibited by the disruptive effect of the widespread practise of international subsidies and trade restrictions.

Research over recent years in South Africa, however, has indicated the suitability of cane sugar as a raw material for the production of a new range of industrial chemicals. The first of these is synthetic lysine, a substitute for fish meal, used in animal feeds. The first 10 000 tpa commercial plant is currently under construction as a joint venture between AECI and the IDC, and if successful, will be followed by significant further expansion, making South Africa a major world producer of synthetic lysine. This offers an interesting alternative outlet for cane producers, and could lead to further plantings and significant job creation. The plant now under construction will consume 200 000 tons of cane per annum, equivalent to 2 500 ha of planting under irrigation and supporting 3 000 jobs. In this regard the sugar industry has a good track record of encouraging and assisting small farmers to enter the industry, and being pro-active in implementing RDP objective of promoting small farmer development.

The IDC is currently well advanced in promoting the production of glycols, used largely as a raw material in the plastics industry, from sugar as opposed to the traditional petrochemical route. If successful, this new industry would also offer significant expansion prospects with a stimulating effect on cane production and job creation. The first production facility will utilise 880 000 tons of cane p.a., from 10 000 ha under irrigation and supporting about 10 000 jobs.

Work by AECI on the sugar fermentation route for the production of penicillin and other chemicals offers prospects for further developments in this area.

Export Fruit

We are already a very successful producer of deciduous, citrus and sub-tropical fruit, largely for the export market. According to Unifruco, plantings already in the ground will result in the present crop increasing by some 35% within the next five years. Our advantage lies in our seasonal geographic situation with relatively few competitors. Our industry is also very innovative in research and production techniques and has set-up extremely successful quality control systems and international marketing organisations.

A preliminary survey by the IDC two years ago indicated a potential for further plantings of at least 5% for deciduous fruit and citrus in the Western and Southern Cape, table grapes along the lower Orange River and citrus and sub-tropical fruit in the Northern and Eastern Transvaal. In order to encourage the rapid exploitation of this opportunity, the IDC introduced a special low-interest incentive scheme for new plantings and processing facilities. The response has proved extremely encouraging and an extended survey is now being conducted to determine more accurately the extent of the remaining suitable areas. This industry is extremely labour intensive and it is anticipated that a 5% expansion, involving some 6 000 ha, will generate 12 000 direct jobs with a further 12 000 in downstream packing, sorting, transport and storage.

Edible Nuts

An almost incidental involvement by the IDC in the macadamia industry led us to see significant potential for further development. High quality edible nuts are produced world-wide, for the most part, in more agriculturally developed areas with high management inputs and strict control on quality and marketing, similar in many respects to our export fruit industry.

The local macadamia industry is presently undergoing an internal restructuring to introduce quality standard, upgrade processing facilities and improve its international image. With Hawaii, the USA and Australia as the leading producers and competitors operating off high cost structures, there is a real possibility for us to become a major world producer, and plantings are likely to increase considerably. Being an intensive high-value crop, the land demands are not so great as to inhibit development of the industry, often in conjunction with sub-tropical fruit.

Study of the pistachio and cashew industries has resulted in a 1 000 ha pistachio development project on the Orange River near Prieska, and an 850 ha cashew development near Kosi Bay. If these projects prove as successful as anticipated, there will be scope for considerable development by private farmers in those areas, pistachios as a profitable substitute for wheat and maize, and cashews as a lucrative addition to subsistence farming in an area with very little alternative potential. South Africa could become a significant producer of both nuts, particularly pistachios. The cashew development could also assist the re-establishment of the once flourishing industry in Mozambique.

Further studies are currently underway to assess the potential for walnuts and pecans.

Cut Flowers

European production is centred on Holland which has a long tradition and great expertise in commercial flower cultivation. However, cost and ecological pressures are placing limits on Dutch production, which, incidentally currently earns more than our total annual gold output! Opportunities are opening up for imports into Europe and intensive production has already been established in Kenya and Zimbabwe with Dutch technical assistance and investment.

Despite our duty disadvantage in exporting to Europe, not being a member of the Lomé Convention, production for export has also been increasing in South Africa, especially after the abolition of sanctions. We have a better infrastructure for this sort of intensive agriculture requiring high quality management and support services, particularly ready access to reliable international air cargo space. There are interesting opportunities for the development of this sector, including products produced under similar conditions such as ornamental plants, tissue cultured plant material, and the commercial development and promotion of indigenous South African flowers for export. It is ironic that both Australia and the USA cultivate "our" protea commercially, while we still have a small disorganised industry picking largely from the wild and not able to offer consistent quality or volume.

Our present industry is still in its infant stage, and concentrated only on the domestic and European markets. The long-term route to development will require the development and penetration of the large North American and Far Eastern markets also. The industry has huge attractions for development - it is extremely intensive, using scarce land and water resources sparingly, it is very labour intensive, it is high added-value, and expansion is almost entirely export orientated. The IDC offers the industry incentive financing in order to encourage rapid development.

Well, so much for some of the up-beat opportunities in agriculture, but what is the effect on our hosts tonight, the Fertilizer Industry? Unfortunately, not a great deal. The prospects for the large fertilizer consumers, the grain farmers, are clouded and certainly not good for large-scale increased demand in the medium-term. The niche growth sectors I've referred to are not large-scale fertilizer consumers.

For our fertilizer industry to avoid stagnation, it will have to look at exports. In the past, this was forced upon it during the crisis years of drought, but on an ad hoc basis to dispose of surplus production. More recently, however, this has started to become more focused and hopefully will lead to bold initiatives to use the established local base and the competitive advantages it can muster to aggressively build up a permanent and growing export market share. The recent opening up to us of markets such as India and some of the Pacific-Rim countries should facilitate this.

The further processing of phosphate fertilizer raw materials exports, phosphate rock and phosphoric acid, is another challenge to be faced. If the proposed project to produce alumina, magnesia and potash from the waste stream at Foskor materialises, another dimension will be added : the beneficiation of the potash prior to export.

Let me end off by reading you an inspirational quote to encourage those of you in the agricultural sector to take heart despite all the difficulties and uncertainties.

"There was once a man who lived by the side of the road and sold hot dogs.
He was hard of hearing so he had no radio. He had trouble with his eyes, so he read no newspapers and, of course, he didn't look at television.
But he sold good hot dogs. He put up signs on the highway telling how good they were.
He stood on the side of the road, and cried out, 'Buy a hot dog, mister?'
And people bought. He increased his meat and bun orders. He bought a bigger stove to take care of the trade. He finally got his son home from college to help him out.
But them something happened. His son said, 'Father, haven't you been listening to the radio or reading the newspapers or watching television? There's a big depression. The world situation is terrible. In this country we have problems with inflation, strikes, riots, pollution, minorities, majorities, the rich, the poor, drugs, capitalists and communists'.
Whereupon his father thought, 'Well, my son's been to college, he reads the papers and listens to the radio and watches television, and he ought to know.'
So his father cut down on his meat and bun orders, and took down his advertising signs, and no longer bothered to stand out on the highway to sell his hot dogs.
And his hot dog sales fell almost overnight.
'You're right, son', the father said to his son, 'we certainly are in the middle of bad times.'"

The moral is clear! SO LET'S GET BUSINESS GOING AGAIN WITH CONFIDENCE.