

# THE FUTURE OF THE SOUTH AFRICAN FERTILIZER INDUSTRY WITHIN THE EXISTING SOCIO-ECONOMIC POLITICAL FRAMEWORK

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In considering the title of my address, I ran immediately into difficulty.

'The future of the South African chemical industry'

Firstly, it requires me to look into a decidedly murky crystal ball in the full knowledge that the track record of the industry over the last 15 years shows quite clearly that it is anything but predictable.

Secondly, if we have learned one lesson in 15 years it is that South Africa is part of the rest of the world, buffeted by international pressures, politics and vested interests. Similarly the 'South African Chemical Industry' is *not* an entity that can be isolated and protected — it is part of the world industry and similarly buffeted by the world pressure groups, acting entirely in their own self interest.

and then

'within the existing socio-economic political framework'

implies the concept of a snapshot in time or a degree of permanence that simply is not there.

As for the words 'socio-economic political' — my mind conjures up an image of trying to put one's finger on a drop of mercury or grabbing a handful of smoke.

And the 'framework' is undoubtedly going to be made of elastic.

Nothing is certain any more — nothing is comfortable anymore.

We may very well have to explain the meaning of the words 'reasonable', 'fair' and 'just' to future generations of young South Africans just as we have to explain the concept of stable prices to today's young marketing managers.

Change is upon us whether we like it or not. It is not a local phenomenon, although we certainly experience the change process for a wider variety of reasons than our competitors overseas.

What I am going to talk about is change — how this branch of the world chemical industry has to cope with change in the world environment. How it can cope with change in the South African environment and how change has to be managed in the years ahead.

I use the word 'manage' deliberately — we must not emulate the rabbit and be so transfixed by the speed

and enormity of what is approaching nor so mesmerised by the complexities of the unknown future that we end up doing nothing except perhaps pass our declining years talking about what it used to be like.

Change can and must be managed, and the faster and more radical the changes the more flexible and professional we have to be. We can react to each blow as it falls — in which case we will surely end up on our knees — or we can act positively to make use of the strengths that we have to profit from the unstable environment and strike a few telling blows of our own.

Do we have enough clout? I say we do — the industry employs well over 100 000 people, it contributes more than a quarter of the country's manufacturing output and it is responsible for about 5% of the gross domestic product. Ours is a high technology industry, we are blessed with abundant resources, a robust economy, powerful modern infrastructure and as much labour as we could possibly want.

Certainly we have some problems — very difficult and intractable ones — political, racial and social ones — but with all we have going for us I can't accept that we will allow our problems to overwhelm us and grind impotently to a halt, feebly trying to stay alive locked into our tiny corner of the world.

Let us accept that, like it or not, we operate in the world trading environment. The realisation has taken some years to dawn.

Not only do we ignore our exposure to the world's chemical industry at our peril; we would be exceedingly foolish not to take advantage of what it has to offer. We can only do this by identifying how the chemical industry internationally has changed in recent years, and by matching our own efforts to these changes.

First and foremost, there has been taking place a gradual redressing of the structural demand/supply imbalances which have been the bane of the commodity chemicals industries for so many years. This has been achieved by the leading producers in these industries through internal rationalisation, the establishment of strategic alliances, through mergers and acquisitions and by taking the view, which has become more and more prevalent, that profits in the chemicals business are not *necessarily* dependent on size and economies of scale. The world chemical industry appears to be fundamentally changing its investment strategies away from large scale commodity chemicals to high added value, so-called 'high science' products.

This is not to say that there is no place for the commodity chemical businesses nor that they cannot be suc-

cessful. But a hardnosed approach to productivity and cost effectiveness is essential. To be successful you simply have to be the lowest cost most efficient producer. You must jealously guard your competitive raw material advantages and you must be totally committed to serving the market.

The focus of commodity chemical production is shifting to the lesser developed countries and concentrating around areas of abundant raw material resource. So while the producers in the developed countries are rationalising production and turning to the higher added value opportunities, the LDC's are taking over the role of the world commodity suppliers.

We, in South Africa, need to decide which role we are equipped to handle — perhaps both are essential to our future. In making this decision we need to take a hard look at where, in an international sense, our competitive advantages lie. These are almost certainly our abundant reserves of natural resources, relatively cheap energy, our technical skills, our infrastructure and our geographic location.

We also need to focus on our goals as companies, as an industry and as a country to ensure that we get what we really want on all three levels.

And then, I suggest, we have to settle down with government, and government has to settle down with industry, to put together a detailed strategy and specific plans which assure the country's competitive advantage in the long term and which support the kind of industrial development that has been conspicuously absent for the last 5 years.

Opportunities present themselves ranging from those that assure strategic independence (like synthetic fuels manufacture) to chemicals essential to other industries of vital local importance (such as chlorine and caustic soda for the paper and metallurgical industries and a little closer to home, ammonia and fertilizer for the agricultural industry).

The key, I must stress, is the need for a good strategy and planning developed co-operatively between the government and *all* the affected industries to ensure that the needs of the country and its people are integrated with the needs of the industries involved. The chemical industry or alternatively the agricultural sector or the fuel needs of the motorist must not each be considered in isolation. These industries are interdependent, they will need and rely on each other particularly if sanctions get tougher. Their future must be planned as a whole and not piecemeal.

So one element of the future of the chemical industry is the opportunity for extensive expansion in essential commodities. But success — in the sense of the value to the nation — will require co-operation between sectors of industry and government on a scale not yet achieved in South Africa.

A national management strategy is required. Something along the lines of the concept of the economic advisory council is called for, with subcommittees formed to focus on the relationships between specific industries, what the country wants out of its industries, their shortcomings and the kind of support necessary to achieve success.

Ours is a small market in a small country but we are blessed with abundant resources. To take on the rest of the world, in a commercial competition we will require a long term management strategy on a national level at least as clever as those of our international competitors. We simply cannot afford to dissipate our strengths in futile internal competition over a limited local market.

If commodities are basic and essential building blocks in South African industry, high technology chemicals offer the major prospect for the kind of innovative development that will provide new solutions to the future problems of the industries that depend on and are serviced by chemical producers.

In contrast with commodity opportunities high tech chemical opportunities have to be created. We must follow the trends in the rest of the developed world. We have the skills, we are threatened with isolation, we must make sure that our industries do not fall behind the rest of the world nor follow the rest of Africa down the slippery slope to irrelevance.

High technology developments may be more difficult to identify in the Republic but if we confine our thinking within our borders real opportunities will be even fewer. We must look wider. No one understands the problems of Africa the way we do — no one is as well equipped to develop solutions to Africa's problems as we are. No one understands, the way South Africans understand, the needs of a mining industry in a declining world market, what the concept of decent low cost housing really means nor what farming in an african environment demands.

We are too accustomed to buying our technical solutions, licensing new processes and adapting overseas techniques to suit local needs. Access to technology is fast becoming difficult. Even without international political barriers the developers of high tech, high added value products are reluctant to sign away their technological lead. The local chemical industry must either establish its own technological edge or bow out of the competition.

This is not a plea for self sufficiency in technology development to protect against isolation from the world technical community, rather it is an attempt to emphasise that the future of the local chemical industry depends on its ability to establish its position in the world as a producer of advanced products and technology. Clearly these will have a distinctly South African flavour, developed as they will be in pursuit of solutions of the problems of South African industries, but for the thrust to be successful they must be commercialised in world markets.

This implies a need to modify the traditional approach of the industry in two ways. Firstly it must become much more market need oriented. Research and development activity must move much closer to the customer and be targeted at producing advanced solutions to the real needs and long term development of the customer industries. Once again the chemical industry cannot do this in isolation. Close co-operation, even alliances, will be required to focus the scarce technical resources of the chemical industry appropriately and efficiently.

Secondly with international marketing as a prime target South African industry needs to put strenuous effort into building its relationships internationally and improving its knowledge of and involvement in deepsea markets. Difficult though it may seem in present circumstances an international presence, or to put it another way, international clout must be established.

An export management strategy is what is required here, and once again a national management approach is required involving not only the members of the chemical industry but its suppliers and customers as well. The aim must be to export the highest added value products, whether a chemical or a derived product is immaterial. The strategy is to use the full strength of South African industry — mining, manufacturing and agriculture — as a springboard to establish our national export strength.

To summarise:

The chemical industry is not an isolated entity and it must avoid behaving like one. It needs to form alliances with government, its suppliers and its customer in-

dustries to ensure that its strengths are combined with the others, in the pursuit of common aims.

A national management strategy is required to ensure that the resource advantages available in the country are utilised and supported to achieve a powerful international commodity chemical export position.

The chemical industry in co-operation with its customer industries must mount a managed technological drive to develop modern solutions to industrial development problems. This to ensure that we maintain our technological competitiveness in the international environment.

Finally the industry, again in co-operation with its partners — government, supplier and customer industries must manage an export thrust which exploits the strengths of all and shares the benefit between them.

In a changing environment strategic planning and management are the name of the game. Clear goals are required and co-operation between industries is essential.

Working together we can succeed in maintaining and improving our position in the world industry. There is a future for us, a hard fought future to be sure, but with our resources, one which holds out diverse opportunities in conventional and advancing fields. We need the commercial and technical challenge to stimulate achievement. Working together, I have no doubt we can succeed. In isolation we, as with the other industries and even our country, will surely fail.