
PRESIDENT'S REPORT

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INTRODUCTION

It gives me great pleasure to present my report at this the 37th open session of the Fertilizer Society's annual general meeting.

As in the past, my report deals with trends in the world and domestic fertilizer markets, and the affairs of the Society. In the course of my report I will also touch on the world food crisis and how this possibly impacts on South Africa and its agricultural policy.

TRENDS IN WORLD FERTILIZER MARKET

Current developments in the international fertilizer industry are worth noting. Over the last 20 years or so the industry has generally suffered poor returns and, apart from a few profitable periods, has not been considered a reinvestment business. Injudicious capacity expansions throughout the world severely distorted supply demand balances and disrupted market quality. Many of these investments were supported by World Bank development programmes, centrally funded government projects and oil and petroleum industrialists seeking to off-load cash surpluses into other non-core business ventures. Subsidised and soft-loan financing was extensively employed but in reality the investments were often not driven by real business economics or market forces. Imbalances in the industry were compounded by the collapse of domestic demand in the FSU and Central Europe (up to 65% reduction). As a result massive volumes of surplus production were unloaded onto international markets by the FSU and its erstwhile satellites at prices which had no regard for established economic principles. Western European fertilizer production has also undergone a major shake-up following changes to the Common Agricultural Policy of the European Union and it is estimated that at least 8 million tons of capacity has been permanently closed. In the former Eastern Bloc, fertilizer plant closures have been widespread and the change to market based economics has been difficult.

Today Russian and CIS members are forced to pay market prices for their gas feed stock and in hard currency. The same applies to transportation where each state exercises its independence to recover real costs for services rendered to its neighbours. For example,

there are 16 export oriented urea plants in the FSU with a total capacity of about 9 million tpa situated from 500 - 4000 km from the nearest port. In the previous economic system internal transport costs were irrelevant but real world economics will have a fundamental effect on global trade in nitrogen fertilizers in future as a result of these logistic disadvantages.

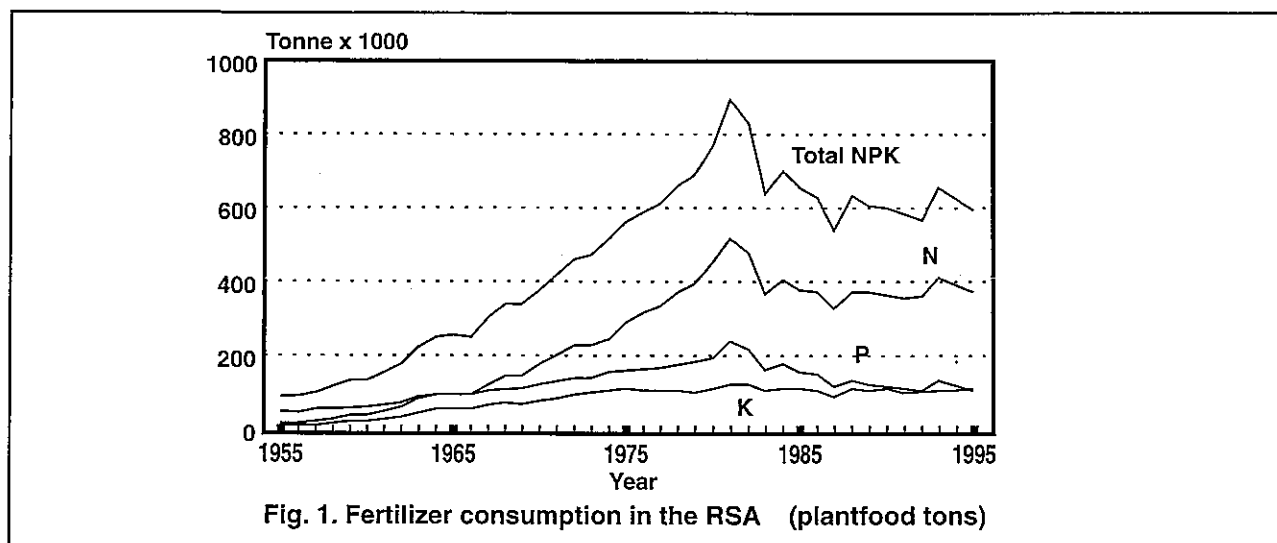
Gradually demand has caught up with supply and international prices have recovered dramatically. Much of this recovery is due to a slowing down of exports from the FSU. For the first time in many years fertilizer producers world-wide are beginning to express a degree of optimism about their prospects for sales and earnings and there is growing evidence that a measure of stability is at last returning to the global fertilizer market. The industry is now generally controlled by shareholders whose core business is fertilizer and investment decisions are driven by fertilizer market drivers. The cost of capital, raw materials and support services are accounted for at true market related levels in any new investments.

The International Fertilizer Industry Association (IFA) is forecasting growth in fertilizer consumption of 2% for both nitrogen and phosphorus over the next five years. The most rapid growth in demand has and will be recorded in Asia. At the core of this optimism is China whose demand for fertilizer remains unsatisfied. In addition, recovery in demand in FSU and Eastern Europe needs to proceed at an accelerated rate in order to reverse severe food shortages that have developed following at least six years of poor yields through low fertilizer application rates.

Given the present balance in demand and supply and the forecast growth in consumption, a sustained level of new investment is required in especially nitrogen and phosphates. Considering the paradigm shift in investment philosophy with investments now driven by conventional economics, it is highly unlikely that the low prices of the recent past will ever be repeated. Cyclical variability cannot be eliminated in a commodity such as fertilizer and peaks and troughs will occur but higher reinvestment cash cost levels will ensure higher and more stable international fertilizer prices in future.

THE DOMESTIC MARKET

As could be expected in a totally deregulated industry



such as ours, dramatic increases in world market prices have a direct and significant impact on domestic fertilizer prices. The Fertilizer Society's net fertilizer price index continued its upward trend in 1995; in the process demonstrating a 6-12 month lag period relative to world market price movements. The average net price for 1995 was 21% up on the 1994 price which in turn was 10% higher than the average for 1993. The upward trend continued in the first quarter of '96, being 5,2% higher than last quarter '95. Despite these increases the average price for '95 in real terms was 8% lower than the average prices in 1989. Nevertheless there still remains considerable upward pressure on domestic prices, and prices at the end of March this year still do not reflect the effect of the depreciating rand. However, the industry will continue in its efforts to limit price increases to a minimum given the constraints of sustained high world market prices and a weakening rand. Current selling prices of most fertilizers are below import parity on a fully rolled-up cost basis.

In 1995, plantfood sales of FSSA members remained virtually unchanged at 588 000 tonnes plantfood, following a decline of 4,4% the previous year.

The South African fertilizer market has grown from 94 000 plantfood tons in 1955 to 588 000 plantfood tons forty years later, which is an average growth of 4,6% per year. But in 1981 it peaked at 872 000 plantfood tons (average growth of 8,9% per year, 1955 to 1981). (See Table 1 and Figure 1). This peak followed an era in the 1970s when regulated maize price increases outpaced the inflation rate and encouraged fence-to-fence planting of maize even in sub-economic farming areas.

The plantfood concentrations were so low in the mid 1950s (11% then, 29% now) that the growth in physical tons is much less impressive - from 801 000 in 1955 to 1 989 000 in 1995. (The 1981 peak was at 3,29 million physical tons, 26% pf).

In 1955, P sales far exceeded N or K. The national NPK consumption ratio then was 1,3 : 3,4 : 1. It has shifted to 3,4 : 0,9 : 1 today. Over the forty year period, P sales have less than doubled, while K sales have increased seven times and N sales, 17 times.

Compared with '95, first quarter sales in '96 showed a positive improvement of slightly less than 10%, with nitrogen up by 13%, and phosphate and potassium up

Table 1. Fertilizer use in South Africa: 1987-1995

Plant nutrient '000 tonnes									
	1987	1988	1989	1990	1991	1992	1993	1994	1995
Nitrogen (N)	325	364	372	344	365	348	408	375	371
Phosphorus (P)	113	129	115	106	104	96	106	108	106
Potassium (K)	97	111	107	103	105	99	103	108	112
TOTAL	535	604	594	553	574	543	617	591	588

Table 2: RSA fertilizer consumption

NPK concentration (% NPK)	
1955	11%
1995	29%
NPK ratio	
1955	1,3 : 3,4 : 1
1995	3,4 : 0,9 : 1
NPK growth 1955 - 1995	
N	17x
P	2x
K	7x

by 9% respectively.

For the first time in many years, the mood in the local industry is buoyant. Following good rains over virtually the entire country and the restoration of water reserves, agricultural prospects are greatly improved. Unfortunately, however, uncertainties regarding issues such as land ownership, land redistribution, new labour legislation and farm security remain a major concern. Nevertheless, early indications are that a growth of around 6% in plant food consumption in 1996 is possible. Indeed with the freeing up of marketing policies and a higher level of international competition now facing farmers, greater attention will have to be given to ensuring that fertilizer and lime application levels are optimal. The level of techno-economic input in agricultural production will require a sustained leap in quality if the farming industry is to maintain a competitive edge against import threats of farm products. For this to happen, the utilisation of natural resources will have to take place at a much higher level of efficiency than has been the case at any time in the past.

A disturbing factor that has recently begun to emerge in the fertilizer industry is the sharp increase in demand for direct financing. The industry should guard against becoming co-financiers or financiers of last resort and failure to do so will certainly prove to be disastrous. Financing is the domain of co-operatives, commercial banks and other financial institutions and should remain so.

EXPORTS

After a mediocre performance in 1994, export volumes improved significantly in 1995. Export sales of granular NPK compounds and intermediates by Kynoch, Omnia, Sasol and IOF exceeded 600 000 physical

tonnes for the first time. Phosphoric acid sales from Fedmis and IOF amounted to 320 000 tonnes P_2O_5 or approximately 600 000 physical tonnes, while Foskor's direct export of high quality phosphate rock approached 1,5 million tonnes. A continuation of relatively high prices on world markets and the depreciation of the rand will ensure that export prospects for 1996 will remain reasonably good.

AGRICULTURAL LIME

Although figures were not available at the time of writing, '95 aglime sales are estimated to be down by as much as 30% compared with 1994. The continuing drought during the greater part of 1995 and consequently tight farmer budgets no doubt were the major contributing factors for this seasonal decline. The soil acidity situation in South Africa, especially in the higher rainfall areas, is one of the main factors limiting the optimum utilisation of our natural resources. Authoritative estimates of the national lime requirement in this country vary tremendously, but it would probably be safe to say that current lime consumption is less than half of what it should be. The situation is particularly bad in some of the previous homelands where soil acidity has become a major limiting factor in crop production. I would urge the authorities to again recognise and consider the possibility of some form of assistance in this regard. Creeping acidification and degradation of soils are problems endemic to Africa. Many of our soils have become degraded to such an extent that restoration of soil fertility becomes prohibitively expensive and is certainly not within the scope of the average farmer. The amelioration of acid soil conditions for the improvement and maintenance of the productive capability of our soils is a prerequisite if we want to continue to feed the nation in future.

WORLD FOOD CRISIS

South Africa is an attractive new market for exporters relative to many other Third World countries. It has a stable economy, a good infrastructure and available foreign exchange. However, it must not be allowed to become a dumping ground for inferior, marginal or subsidised products or be dominated by world economic superpowers which would restrict its development and possibly destroy its manufacturing and agricultural base.

The competitiveness of South African agriculture and the importation of agricultural products produced under subsidy has been particularly high profile in recent times. As South Africa formulates a new agricultural policy these issues will continue to be hotly debated. Agriculture's contribution to employment, GNP and

general labour and economic stability has been well documented and does not require restatement. A strong commercial agricultural industry is paramount to the successful development of South and Southern Africa and any policy that undermines agricultural development in these regions should be resisted.

The success of agriculture's contribution to reconstruction and development will depend on the establishment of an economically viable emerging agricultural sector driven by the profit motive. Any policy which permits so-called cheap food to be imported, will decrease the ability of emerging farmers to earn reasonable profits and will lead to failure of this initiative. The role of agriculture in the sustainability of rural economies is unquestionable as most rural businesses depend on agriculture for their survival. In fact, whole communities depend on agriculture. These rural economies are not only important providers of employment and services, but reduce urbanisation, which has become a serious problem in South Africa and indeed in many other parts of the world.

While South Africa has inherently infertile soils and less than optimum climatic conditions for agricultural production, it is one of the few countries in the world that has been a net exporter of agricultural products and self-sufficient in almost all important food commodities, thanks to a strong commercial agricultural sector. Agricultural production between 1980 and 1990 grew at an average annual rate of 3,35%, higher than the average annual population growth rate over the same period of 2,4%. However, South Africa's population is currently estimated at 42 million. This is expected to increase to 48 million by the year 2000 and in 23 years from now it will double to 84 million. With it, the demand for food will increase to levels well beyond those that are currently being produced locally and substantially more food will be required in the future. This in itself presents a challenge for agricultural producers in the region as it is unlikely that South Africa will be able to afford large scale food imports to meet this demand. While South Africa is largely self-sufficient in terms of food production, food security at household level or the ability to purchase food, is still a major problem. It is important to recognise, however, that the real problem is the low purchasing power in various sectors of the population rather than high food prices.

At this point it is perhaps fitting to draw one's attention to an analysis of the grain situation and the food crisis presently facing the world. An analysis has shown that rice and coarse grain stocks are at their lowest level since the early seventies and world grain consumption has exceeded production every season since 1986/87. In India, despite the record grain production, a single monsoon failure would spell disaster. In China, crop

yields have to stay on a steeply upward path if demand is to continue to be met. The slightest hiccup in world production will precipitate a major food shortage worldwide with rapidly escalating prices. Indeed, with the world population growing at 2% and food production increasing at only 1% per year, how will we cope? The Green Revolution of the seventies which allowed wheat and rice yields to climb 4 to 5% per year for several decades, has run its course and the so-called **gene revolution** is unlikely to provide the next quantum leap in food production.

As a result of population growth, the international food balance has become more sensitive than ever before and shortages, which will increase in severity each time, can be expected to recur at more frequent intervals. This must serve as a warning to policy makers that priority has to be given to developing and protecting own agricultural production at all times especially from unfair competition of subsidised imports and to prevent the development of any degree of dependence on food imports as part of a food security policy. Small and emergent farmers, in particular, are and will be rapidly destroyed by food imports produced under subsidised economic circumstances. Farming is Africa's major industry and its pathway to economic independence. It has all the natural resources to become a major contributor to satisfying future world food needs and given the warnings of more frequent international food shortages, its farming industry cannot be allowed to be undermined or deteriorate. It has now become an imperative that farmers, large and small, must be supported at almost any cost.

South Africa's ability to feed itself must not be undermined by policies based on ideologies that have failed elsewhere in the world and in particular in many countries in Africa. Currently as many as 50% of the people in Sub-Saharan Africa are living below the poverty line and as many as 85% of the population are farmers, yet they are incapable of satisfying their own needs. The importation of food, particularly so-called **cheap food**, either subsidised or donated in the form of food aid, has not only undermined local African agriculture, but has also promoted dependence on food rich nations. This dependence has become entrenched, in cases to the extent of exploitation, and difficult to break. Africa is littered with examples of this dependence and South Africa must avoid getting into this unenviable position.

The World Bank sponsored *Consultative Group on International Agricultural Research (CGIAR)* confirms that non-crisis food imports promotes dependence on food-rich countries thereby undermining rural economies and hindering the development of indigenous agriculture. They further advocate the promotion

of local agriculture in all cases, as it remains the cheapest and most efficient and effective alternative to solving food security problems.

THE AFFAIRS OF THE SOCIETY

The past year saw no changes in composition of the Executive Council and only minor changes in the Management Committee. I would like to thank our vice-president, Danie Vorster of Foskor, and members of the Executive Council and Management Committee for their continued support during the year.

During January, the staff complement was expanded with the appointment of Mrs Hermien Wouda as half-day administration assistant.

No changes occurred in membership, which still stands at 17.

A budget of R915 000 was approved for 1996, which represents an increase of 11,7% on the 1995 budget.

International Ties

Our Society co-hosted the IFA Enlarged Council Meeting which was held in Cape Town last November. This meeting was attended by delegates from around the world and was the first of its kind held in South Africa.

Arrangements are well underway for IFA's annual Technical Conference which will be held in Sandton later this year.

Our director was invited to participate in IMC's Global Food Production Conference in Beijing during September last year.

Subcommittees

The Society, through its standing committees, working committees and ad hoc working parties again had a

very active year and I would like to thank the chairmen of committees for their selfless efforts in promoting the aims and objectives of the Society.

The Technical Subcommittee (chaired by Dr Gert van der Linde) co-operated with the Registrar of Fertilizers in finalising fertilizer regulations. A few thorny issues remain to be resolved and these are receiving urgent attention. The committee has established a good working relationship with the new Registrar, Mr Etienne Wolmarans. It also maintained effective liaison with the Agricultural Research Council's (ARC) Grain Crop Research Institute on guidelines for fertilizer recommendations.

The Aglime committee, has initiated a series of talks with co-ops and the banking sector in order to resolve bottlenecks in supply, delivery and financing of aglime. The process of compilation of aglime statistics, which started in 1995 is continuing, and has been upgraded. The problem of soil acidity, which I referred to earlier in my report, is receiving ongoing attention.

The Economic Affairs Sub-committee (chaired by Mr Hannes Prinsloo) continued to monitor the Society's sales and price statistics. The Society prides itself on the high quality statistics it produces and maintains extensive exchange of information with the Department of Agriculture and various international organisations.

Our Society also maintained close liaison with organised agriculture, Nampo, the ARC, the Department of Agriculture and continued to play an active role in the affairs of the Agricultural Input Suppliers Forum.

CONCLUSION

Finally, on behalf of the members of the Society, I would like to express my grateful thanks once again to the director, Mr Hilmar Venter, and his staff for their untiring efforts and for their commitment and hard work at all times. Their professional input is highly valued and sincerely appreciated.