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# PRESIDENT'S REPORT

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It gives me great pleasure to present my report at this the 36th open session of the Fertilizer Society's annual general meeting.

My report deals with local and global trends in the fertilizer market, local trends in the agricultural lime market, recent developments in South African agriculture and last but not least, the affairs of the Society.

## TRENDS IN THE WORLD FERTILIZER MARKET

The International Fertilizer Industry Association (IFA) estimates that world fertilizer consumption fell by a further 4% in 1993/94 to around 119 million tons plant nutrients. This is 17% lower than the 1988 peak consumption level of 145 million tons. The decline in 1993/94 is in large part attributable to continued sharp falls in fertilizer consumption in countries of the Former Soviet Union (FSU), which reflects the region's inability to adapt to the restructuring of their agricultural industries in recent times. Just how far the pendulum has swung in these countries becomes evident if the following statistics are considered:

In 1993 only 43% of the cereal area in Russia was fertilized, with similar figures for most other crops. In 1994 the fertilized cereal area decreased further to only 25%, while application rates fell further from 40 to only 32 kg plant nutrients per hectare. The situation is expected to deteriorate further in 1995 with dire consequences to the region's economy and ability to feed its people.

World fertilizer consumption is expected to decrease further by 1,5% in 1994/95. This estimate includes the expected continued decline in the FSU countries with no major changes in other regions of the world.

Since my last report in September 1993, prices of fertilizers, most fertilizer intermediates and

raw materials on the world market continued their upward momentum. Although prices showed signs of levelling off during April, they remain at very high levels and are expected to maintain these levels for some time. It is doubtful that the international fertilizer industry will again experience the low product prices that prevailed about 18 months ago. I will not go into greater detail as this topic will be covered in other presentations.

## TRENDS IN THE SOUTH AFRICAN MARKET

Plantfood sales of FSSA members fell by 4,4% from 618 000 tons in 1993 to 591 000 tons in 1994. Nitrogen consumption fell by 8%, while phosphate and potash sales increased by 1,7% and 4,6% respectively. As could be expected, the biggest fall (6,7%) occurred in the central provinces where the late, and in places very poor, rainfall resulted in less area planted to summer crops with a concomitant drop in demand of fertilizer. A fall of 4,5% in the southern provinces was cancelled by an increase of the same amount in KwaZulu-Natal. Fertilizer consumption has shown relatively little variation around a mean of 575 thousand plantfood tons since 1986. Although figures for the first quarter of 1995 were not available at the time of writing, indications are that domestic consumption will decline by a further 2 to 8% in 1995 as a direct result of the ongoing drought in Transvaal provinces, Gauteng, Orange Free State and part of KwaZulu-Natal.

Fertilizer sales since 1986 are summarised in Table 1.

Profit margins in the domestic market remained under pressure in 1994, mainly as a result of highly competitive pricing and in spite of the fact that high world market prices virtually ruled out the threat of imports. The FSSA's monitoring of nett fertilizer prices realised by the three major manufacturers reveals some interesting facts:

**Table 1. Fertilizer use in South Africa: 1986–1994**

Plant nutrient '000 tonnes	Year								
	1986	1987	1988	1989	1990	1991	1992	1993	1994
Nitrogen (N)	340	325	364	372	344	365	348	408	375
Phosphorus (P)	130	113	129	115	106	104	96	106	108
Potassium (K)	97	97	111	107	103	105	99	103	108
Total	567	535	604	594	553	574	543	617	591

- Nominal nett fertilizer prices (after discounts) remained virtually unchanged for nearly three years, from the second quarter of 1991 through the first quarter of 1994.
- Nett prices firmed during the second quarter of '94 and continued its upward trend for the remainder of 1994. The weighted average nett price for 1994 was R644, reflecting a 10,3% increase on the corresponding price for 1993. Prices increased by a further 19,9% during the first quarter of 1995, compared with the figure for the last quarter of 1994. These increases reflect the inevitable cost increasing effect that current high world prices have on the local industry. The import parity price of some raw materials and intermediates has more than doubled since September 1993, which puts local price increases in the proper perspective.
- Fertilizer price increases during the latter part of 1994 and the first quarter of 1995 outstripped PPI for the first time since the exercise was started in 1985. However, at the end of 1994, the nett fertilizer price index stood as 121, compared with the PPI of 139 (1990 = 100).

The nett value of fertilizer produced for the domestic market amounted to R1,1 billion in 1994. This figure does not reflect mark-ups along the distribution chain.

## EXPORTS

The African market was relatively inactive and export volumes to these countries actually declined during 1994/95. Larger than normal carry-over stocks, drought and lack of foreign exchange, notably in Zambia and Malawi, contributed to this state of affairs. Members of the Society who have become in-

involved in exports to deep sea markets are optimistic about the future. New markets have opened up and South African produced fertilizers now find their way to, *inter alia*, India, Indonesia, Iran, Pakistan, Western Europe and Australia. Margins have improved considerably and there appears to be greater stability in export markets.

In spite of difficult trading conditions in the world phosphate rock market, Foskor has succeeded in maintaining its export volumes over the past year. This is attributed to the high quality of their export grade phosphate rock. The upgrading of Indian Ocean Fertilizer's (IOF) plant in Richards Bay is continuing, and should be completed by the beginning of next year. Fedmis successfully recommissioned mothballed phosphoric acid capacity in 1994 which is all earmarked for export markets. Congestion at Richards Bay harbour, however, remains a problem.

## AGRICULTURAL LIME

During the past decade, agricultural lime sales in South Africa fluctuated around the 1 million ton mark. The highest consumption occurred in 1985 (1,3 million tons) and the lowest in 1992 (892 000 tons). In 1993 aglime sales improved to 1,2 million tons and indications are that the figure for 1994 could well approach the 1,4 million ton mark. According to expert opinion, this level of lime is inadequate to combat soil acidity and to bring soils to their optimum level of productivity. FSSA statistics show that the weighted nett average price of aglimes (dolomitic and calcitic), after discounts and before transport, amounted to R41 per ton in 1994 which brings the total nett value of aglimes sold to R50 million. Transport cost averaged at R25,46 per ton which implies that the transport component, on average, makes up nearly 40% of the delivered price of lime. Most aglime suppliers maintained their 1994 price levels during January through

April 1995. Fairly modest price increases of between 8 and 12,5% can be expected from May onwards. Aglime prices in real terms - if these price increases were to come into effect - will therefore have risen well below the inflation rate during 1995. However, lime suppliers/producers have no control over the transport cost component of their products and indications are that these may increase significantly in 1995.

## TRENDS IN AGRICULTURE

The fertilizer industry's existence, and indeed its very basis for economic survival, depends entirely upon the economic well-being and prosperity of the agricultural industry and hence of the farming community.

- Although agriculture contributes only 5% to the gross national product (GNP), it has a sectorial multiplier of 1,6 which means that for every R1 million's worth of agricultural production, R600 000 is generated in all other sectors through forward and backward integration. In 1993, for example, agriculture's contribution to the GNP amounted to R14,5 billion thus generating R8,7 billion in all other sectors of the economy.
- South African agriculture has been and presently still is able to provide almost all its essential food requirements. The physical volume of agricultural production in the commercial farming sector increased at a rate of 2,8% per annum from 1957/58 through 1992/93, which is higher than the growth rate of 2,4% per annum of the population over the same period. The ability of the agricultural sector to produce sufficient food and fibre is further illustrated by the fact that in normal years between 20 and 25% of the total value of agricultural production is exported, and in 1993 it amounted to R5,5 billion in foreign exchange earnings.
- In 1985 44% of the total population resided in rural areas. Nearly half of these people are directly or indirectly dependent upon agriculture and this in a broad sense confirms that the agricultural industry still remains of critical importance to the welfare of rural communities (SAAU, 1995).

Having taken cognisance of the importance of

agriculture in the national economy, it follows that the new direction of agricultural policy as it unfolds under the Government of National Unity will, to a greater or lesser degree, affect all of us. Some of the important issues at stake are:

- (a) RDP and rural development;
- (b) Land affairs, in particular restitution and resettlement;
- (c) Economic empowerment of farm workers;
- (d) Re-evaluation of all statutory marketing schemes;
- (e) Further deregulation of agriculture.

It is quite clear that commercial agriculture will not have the same economic and political bargaining power that it had in the past. It is too early to say how this will affect the agricultural industry's ability to conduct its own affairs in an equitable manner in a new socio-political environment. There are, however, some disconcerting signs that agriculture, and more specifically commercial agriculture, is being put under undue political and economic pressure. For lack of time I would like to discuss only two, viz the higher incidents of imports of agricultural products and drought and disaster assistance.

### Food Imports

Most informed people would agree that importation of agricultural produce and foodstuffs is necessary to ensure national food security when food shortages occur from time to time. However, if virtually uncontrolled imports, for whatever reason, take place as we have recently seen in the case of certain meat and dairy products, something seems to have gone woefully wrong. If allowed to continue unchecked, it would be to the detriment of the economic well-being of the agricultural industry and the country as a whole. It simply does not make economic sense that a country such as South Africa, with a large developing component of its economy should devote scarce resources on large scale food imports especially given the fact that we have all the necessary resources to produce our own. Recent reports in the financial press confirm that the unnecessary imports have already begun to undermine our balance of payments.

At this point it is perhaps fitting to draw the attention of government to an analysis of the world grain situation. An analysis by Cargill Inc. shows that rice and coarse grain stocks are at their low-

est level since the early seventies. In India, despite record grain production, stock levels have fallen to 33 days of consumption and 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 world-wide 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 which allowed wheat and rice yields to climb 4 to 5% per year for several decades has run out of steam. It is now also widely accepted that genetically engineered crops, which it was hoped would provide the solution to the problem of feeding the world's population, will not herald a new revolution in time. A report issued by the World Bank sponsored *Consultative Group on International Agricultural Research* (CGIAR) makes sobering reading. This report notes that 700 million people are still under-nourished and food production in 75 developing countries is now failing to keep pace with population growth. During the last 10 years 15 developing countries showed a decline of more than 20% in per capita food production with the main area being sub-Saharan Africa. Government economists and policy makers clamouring for publicity believe that the problem can simply be solved through so-called cheap imports of surpluses from developed regions. Since the increase in world population will be concentrated almost exclusively in developing countries, the CGIAR believes that the effects of distributing such surpluses to the developing regions would be catastrophic. They contend that non-crisis food imports would promote dependence (which is already the case) by undermining rural economies and hindering the development of indigenous agriculture. The CGIAR further advocates the promotion of local agriculture in all cases, as it remains the cheapest and most efficient and effective alternative to solving the food security problem. Agricultural policy should therefore allow a sustainable agricultural system to develop which will provide a living for all its population, both farmers and non-farmers alike. It must be able to create employment as well as produce food, it should be flexible and diversified and able to yield not only subsistence but marketable surpluses to sustain an internal rural exchange of goods and services.

I caution government authority therefore to give this development breathing space and a chance

to take root and to be careful of totally free market policies. Food self-sufficiency and not imports should be the driver in achieving and maintaining food security in South Africa. Every ton of agricultural product unnecessarily imported is a blow against the Reconstruction and Development Programme (RDP) of rural areas, contributes to the loss of at least 10 jobs and places South Africa more firmly into the fragile net of international food dependence.

### **Drought and Disaster Assistance**

The RDP *inter alia* calls for a national strategy on drought and disaster relief. We fully support this. No country can afford to have its agricultural production capacity eroded by insufficient mechanism(s) to support farmers in the event of national or regional disasters. It was disconcerting therefore to hear misplaced reports emanating from government that farmers have only themselves to blame for crop failures suffered as a result of the recent drought. Statements such as this, which hopefully do not reflect official policy, only serve to undermine farmers' confidence in their future and should be avoided.

### **THE AFFAIRS OF THE SOCIETY**

In the eight months since my last report in September last year, there have been a number of staff and committee member changes.

Pierre van Schalkwyk resigned as member of the Executive Council and Management Committee at the end of February. Pierre served with distinction on both committees and has made valuable contributions to the Society. He has decided to start his own business and we wish him well in his new endeavours. We welcome Rod Humphris, new managing director of Omnia, as Pierre's successor on the committees.

Jan Mulder and Patrice Lasserre, respectively Omnia's and IOF's representatives on the Management Committee, have also decided to look for greener pastures. Jan, in particular, has been involved with the Society for many years and we will miss his participation. Our best wishes also accompany these gentlemen in the pursuit of their new careers.

John Ranwell resigned from the Society on medical pension at the end of last year. John had a difficult year, medically speaking, and we trust

his health will benefit from a less strenuous pensioner's lifestyle. We are grateful that we can still make use of John's expertise on a consultancy basis.

The Society again had a successful year and I would like to highlight some important events. Once again, I want to thank the chairmen of the following committees for their commitment and service:

Technical Subcommittee:

Dr. Gert van der Linde, Foskor

Economic Affairs Subcommittee:

Fritz Rischmüller, Foskor, and

Agricultural Lime Committee:

Hilmar Venter, FSSA

### **Fertilizer Regulations**

The Registrar of Fertilizers circulated new draft regulations and guidelines for comment in November last year. The Society has co-operated closely with the Registrar over a number of years and the Technical Subcommittee, in particular, has made major contributions in the process. The Technical and Agricultural Lime Committees have subsequently prepared final comments on the draft regulations which were submitted to the Registrar early in February. Hopefully this matter will now be finalised soon. In this regard we would like to thank Mr. Max Orban the outgoing Registrar for his co-operation and understanding at all times and who has now retired on pension.

### **Fertilizer Statistics**

The FSSA compiles comprehensive sales and price statistics. This falls under the auspices of the Economic Affairs Subcommittee. The improvement of the quality of the statistics is an on-going process and during the past six months in particular, special efforts have been made in this regard. In addition to relevant statistics which are published regularly in FSSA publications for the benefit of the agricultural audience, we also exchange data with the Directorate of Agricultural Economic Trends of the Department of Agriculture and various overseas organisations.

### **Agricultural Lime Matters**

The "marriage" between the Society and former members of the now defunct Agricultural Lime Society who joined the Society at the beginning

of last year has proved to be a success. Several exciting initiatives have begun, of which I would like to mention only two.

- A process has begun through which the Society will compile comprehensive aglime statistics, much along the lines of the fertilizer statistics mentioned above. Initially this service will entail the collection and compilation of annual sales statistics on a provincial basis as well as a nett lime price index and cost of transport. This service will eventually be expanded to include more regular reporting intervals and more geographical detail e.g. sales statistics on a magisterial district basis.
- The Agricultural Lime Committee is concerned about conflicting interpretations and lime recommendations which emanates from different methods of lime requirement determinations. This matter has been addressed in a series of meetings with Nampo, the Agricultural Research Council (ARC), Department of Agriculture, universities and co-operative societies. Proposals for future research and other measures to resolve the issue have followed from these meetings, which augers well for the future.

### **Agricultural Input Suppliers Forum**

The Society, being a founder member of the Agricultural Input Suppliers Forum, continued to actively play a part in the affairs of the forum. The first initiative of the forum was a workshop during March on "*Servicing the emerging small scale farmer*". The workshop was jointly organised by the Input Forum, the Development Bank of Southern Africa and the Land and Agricultural Policy Centre. It was attended by 53 delegates representing a wide range of interests viz the Department of Agriculture, provincial Departments of Agriculture, input industries, organised agriculture (e.g. NAFU), NGO's and farmers. A number of issues which impede development in this sector were identified at the workshop.

A follow-up meeting with senior representatives of the Department of Agriculture's Broadening Access to Agriculture Thrust (BATAT) team was held at the end of March. It focused on social and economic responsibilities of the private sector and the role government should play in cre-

ating an enabling environment which would make private sector involvement possible and indeed sustainable.

A process of continuing dialogue from which appropriate actions could and should follow was agreed upon. Hopefully this was a first step for successful involvement of the input industries in developing a very important sector of our national economy.

#### **Publications**

Two new publications viz *Plantfood & Fertilizers* and *Soil Fertility* were added to the existing

range of popular FSSA publications during the end of 1994. The publications are aimed at the small scale farmer market and have already, in a short period of time, become quite popular in demand.

#### **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 commitment and hard work at all times. Their professional input is highly valued and sincerely appreciated.