PRESIDENT'S REPORT AND TRENDS IN THE SOUTH AFRICAN FERTILIZER INDUSTRY

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INTRODUCTION

It is my pleasure and privilege to submit the presidential report at the 35th Open Session of the Fertilizer Society's ordinary general meeting.

Today is an historic occasion in more than one sense. It happens to be the first open session of our annual general meeting in the new South Africa, and although incidental, it is nevertheless fitting that Cape Town is the host city. Since our last meeting, which was held in Durban eighteen months ago, the Agricultural Lime Society of South Africa has disbanded and after successful negotiations its members have joined forces with the Society. We welcome Grasland Ondernemings, C.M.L. Taljaard & Son, Bontebok Lime Works and Hiqualime as new members of our Society. We feel honoured to also serve the interests of the aglime industry, along with those of the fertilizer industry. The Society now comprises 17 members and is truly representative of a broad base of southern Africa fertilizer and agricultural lime interests. To our new members we wish to reaffirm their welcome in the Society. Their membership presents exiting new challenges to the Society, and we are looking forward to a long and lasting mutually beneficial relationship with them.

My report deals with fertilizer consumption and price trends in the domestic and international market, a brief look at exports and how these are influenced by events on the world fertilizer scene. As I speak to you today, South Africa has for all intents and purposes become a member of the Southern Africa Development Community (SADC) and I would like to reflect on some of the realities facing Sub-Saharan Africa, in the agricultural field. Finally, I shall also report on the affairs of the Society.

TRENDS IN THE WORLD FERTILIZER MARKET

For the first time this decade international fertilizer producers are beginning to express a degree of optimism about future prospects after an extremely difficult period. Global fertilizer consumption peaked in 1988 at 144,5 million tons and fell to 125 million tons last year. The collapse of centrally planned economies in Eastern Europe and the FSU and changes to the Central Agricultural Policy in Western Europe drastically curtailed demand. Although demand in the former socialist state is expected to revive, the prognosis in Western Europe is for further falls over the next two years. Domestic fertilizer deliveries in the FSU fell by 50% in 1992 as rampant inflation increased local fertilizer prices by up to 28 times. Credit could not be advanced to farmers either as reconstruction programmes, including land ownership, are in a state of flux. As a consequence of this, fertilizer manufacturers dumped massive volumes on the international market at prices that bore no relation whatsoever to cost. From being a major importer of fertilizer the FSU virtually overnight became a major exporter. At the same time, two of the largest fertilizer importing countries in the world, China and India, were involved in deregulation exercises and demand from them fell drastically. Massive surpluses overhanging the international market caused fertilizer prices to plummet to unsustainable levels. The prices of internationally traded urea, DAP and sulphur, for example, fell to historic lows in 1993. This was a severe blow to the leading fertilizer producers throughout the world and many were forced to close or idle capacity. In Western Europe alone some 7,7 million tons per annum capacity has recently been permanently closed and a further 20% of the remainder is expected to follow.

However, over the last nine months world market prices have recovered from their historic lows of last year. This recovery owes much to the slowing down of exports from the FSU which should prove to be permanent. High maintenance, low productivity, interrupted gas supplies and dollar related cost increases have brought many manufacturers in the FSU to the realities of cost based economics. Attempts are also being made to redirect sales into their domestic market to reduce foreign exchange spending on food imports. Producers in the USA of DAP have also recently refused to supply products at prices below re-investment economics and Western Europe continues to rationalize its industry. At the same time China, India, Mexico, Brazil and others appear to have overcome their restructuring and deregulation problems and demand for fertilizer has reached new highs.

Over the next five years the International Fertilizer Association (IFA) is forecasting a steady 1% growth in world fertilizer demand with nitrogen and phosphate supply balancing demand.

For these reasons the leading fertilizer producers express a greater degree of confidence and international prices for these products are likely to maintain their firm tone for some time to come. Potassium and sulphur supplies are expected to be in surplus over this period and competition between producers will keep prices in check.

The objectives of the fertilizer industry in South Africa are firstly to be competitive against imports and secondly to compete profitably on export markets. To this end the industry has not relied on unjustified duties to protect its investments. The only protection has been a dumping duty on urea to safeguard nitrogen investors against predator pricing. However, despite extremely low international prices in 1993, it was not necessary to invoke this duty. Over the last six years the South African fertilizer industry underwent major rationalization resulting in the closure of capacity and removal of surplus costs. At present there is no artificial protection, competition is free and fierce and prices are highly competitive. The industry is totally disciplined by the import alternative and operates within a free market environment.

South African producers of phosphoric acid have recently capitalised on the improvement in prices and demand on world markets, as well as the opening of markets such as India, Australia, Pakistan and countries in the Middle and Far East where they enjoy a distinct competitive advantage. Fedmis' idle phosphoric acid capacity in Phalaborwa has been demothballed and IOF's Richards Bay plant has been and will shortly be further upgraded to new record levels. As regards phosphate rock concentrate, Foskor has succeeded in actually increasing its direct export volume. This is a remarkable achievement in a stagnant world phosphate rock market and a tribute to Foskor's continued efforts in increasing productivity and product quality. With respect to downstream NPK and straight nitrogen and phosphate products, South African exporters also benefited from an improved international trading environment. Exports to mainly African countries, which amounted to approximately 300 000 tons in 1993 or 15% of local demand, is likely to increase in 1994 at much improved margins. These exports will take up excess production capacity and should not affect availability of product on the local market.

TRENDS IN THE DOMESTIC MARKET

Fertilizer use in 1993 recovered remarkably well and increased by 13% on 1992 to reach a total of 617 600 plantfood tonnes – the highest level since 1985 (see Table 1). Nitrogen in particular

Table 1: Fertilizer use in South Africa: 1985 – 1993

Plant nutrient '000 tonnes	Year								
	1985	1986	1987	1988	1989	1990	1991	1992	1993
Nitrogen (N)	382	340	325	364	372	344	365	348	408
Phosphorus (P)	157	130	113	129	115	106	104	96	106
Potassium (K)	114	97	97	111	107	103	105	99	103
Total	653	567	535	604	594	553	574	543	617

Source: FSSA

performed well, with an 18% increase on the 1992 figure. Good summer rains and the prospect of a bumper maize crop contributed in no small manner to the increased fertilizer use. After a brief flurry of strong buying in the first quarter of 1994, first half-year sales show a decline of 2,1% when compared with the same period last year. This is in all likelihood a seasonal phenomenon as farmers, unsure about their future, understandably postpone deliveries for as long as possible. The uncertainty regarding the future of agricultural marketing structures and schemes is reflected in slack deliveries. In spite of this negative indicator, fertilizer use is expected to at least equal or even surpass last year's figure. There is little doubt that we are heading for a major logistical bottleneck in supply and delivery with the start of the new planting season. Farmers may find they have to settle for too little fertilizer too late and farmers and co-operatives are well advised to expedite credit and delivery arrangements. An upward pressure on retail selling prices during the fourth quarter could result from an imbalance in supply and demand.

Agricultural lime sales

Agricultural lime sales totalled approximately 1,2 million tons in 1993, which is an improvement of 33% on 1992 sales. Most experts agree that agricultural lime use in South Africa is insufficient to combat soil acidity. The Society is actively addressing this problem through various channels.

As mentioned earlier, competition in the fertilizer industry remains extremely strong. This is reflected by the Society's quarterly monitoring of manufacturers' nett prices. These show a steady decline in real terms (i.e. deflated with the PPI) from R321 in 1987 to R275 per ton in 1994 (see Fig. 1). Since the second half of 1991, the nominal nett fertilizer price remained virtually constant. The first half of 1994 saw a moderate price increase of 4,9% over the corresponding period of 1993. However, this increase has to be discounted in some degree against a shift towards a narrower, and thus a more "expensive", N:P market mix ratio.

At this point it is perhaps opportune to reflect on the strategic importance of cereal production in this country. Maize and wheat farmers have, often under trying climatic conditions, succeeded in supplying the nation with its staple food requirements. While the Society strongly endorses an economic philosophy based on free market principles, the consequences of a total free market in these commodities would prove to be disastrous for both the consumer and producer, and certainly damaging to the country as a whole. A mechanism which contains sufficient checks and balances in a stable trading environment to ensure continued production of strategic food supplies has to be found and implemented. Failure to do so could lead to serious disruptions and consequences of unforeseeable magnitude in a very important sector of the economy. Mechanisms need to be found to reduce the gap between the end consumer and producer prices. In South Africa the consumer pays four times the producer price for maize while in the USA the gap is only 1,5 times (see Fig. 2) (J. Kirsten, University of Pretoria, 1994).

SOUTH AFRICA, SOUTHERN AFRICAN DEVELOPMENT COMMUNITY AND SUB-SAHARAN AFRICA

South Africa will soon become a member of the Southern African Development Community (SADC), thus affirming that South Africa has, politically speaking, finally become a member of the southern African family of nations. In the geographical sense, South Africa will now also become part of Sub-Saharan Africa (SSA), and our destiny will be interwoven with those of SADC and SSA. But what about SSA and who are we now being aligned to?

Gerd Behrens (Time, August 15, 1994) remarks that: **"Africa appears to be a lost continent; a modern day Atlantis"**. In Sub-Saharan Africa productivity levels are among the lowest in the world with cereal productivity achieving only 40% of world average. Despite more than 80% of the sectors' population employed in agriculture, there is insufficient food produced to satisfy domestic requirements. Food production is increasing at an average estimated rate of 2% per annum, while population is growing at 3% - the highest in the world. The per capita production of foodstuff in Africa of 201 kg per annum (FAO, 1992) is already the lowest in the world and getting worse. External debt as a percentage of GNP for the region is the highest in the world and the ability of the region to fund food imports to meet the deficit is deteriorating. The alleviation of poverty and the development of food security through rehabilitation of primary agriculture is the fore-

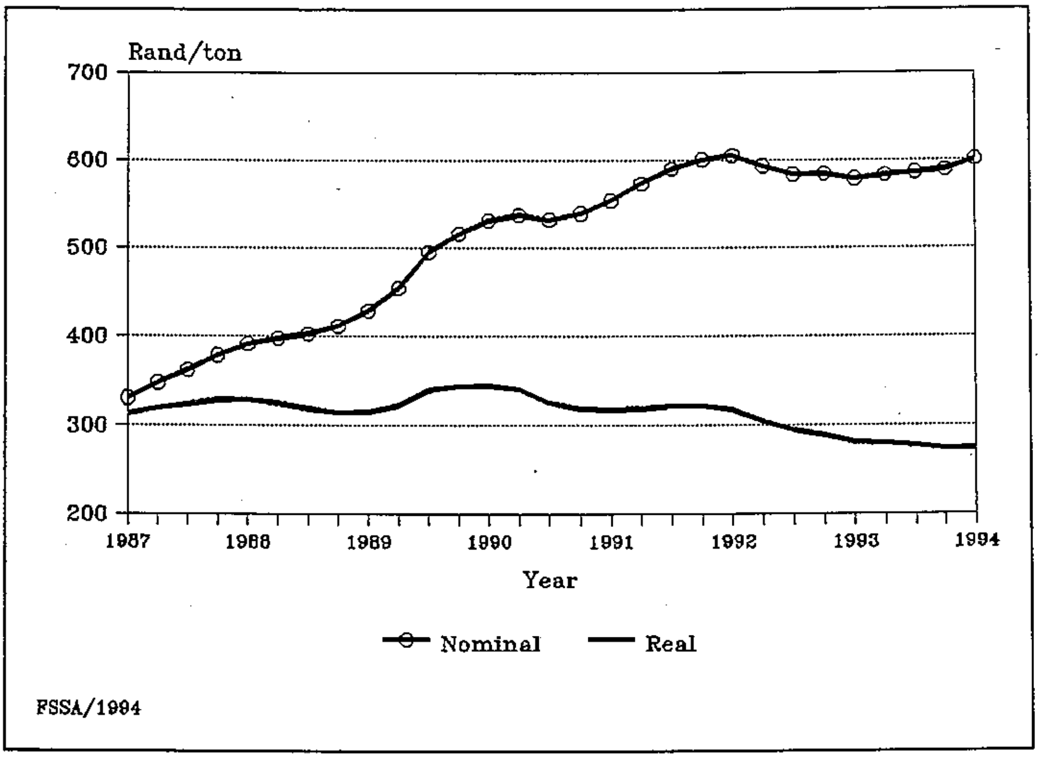

Fig. 1: **Nett fertilizer price**
Four-quarterly moving averages

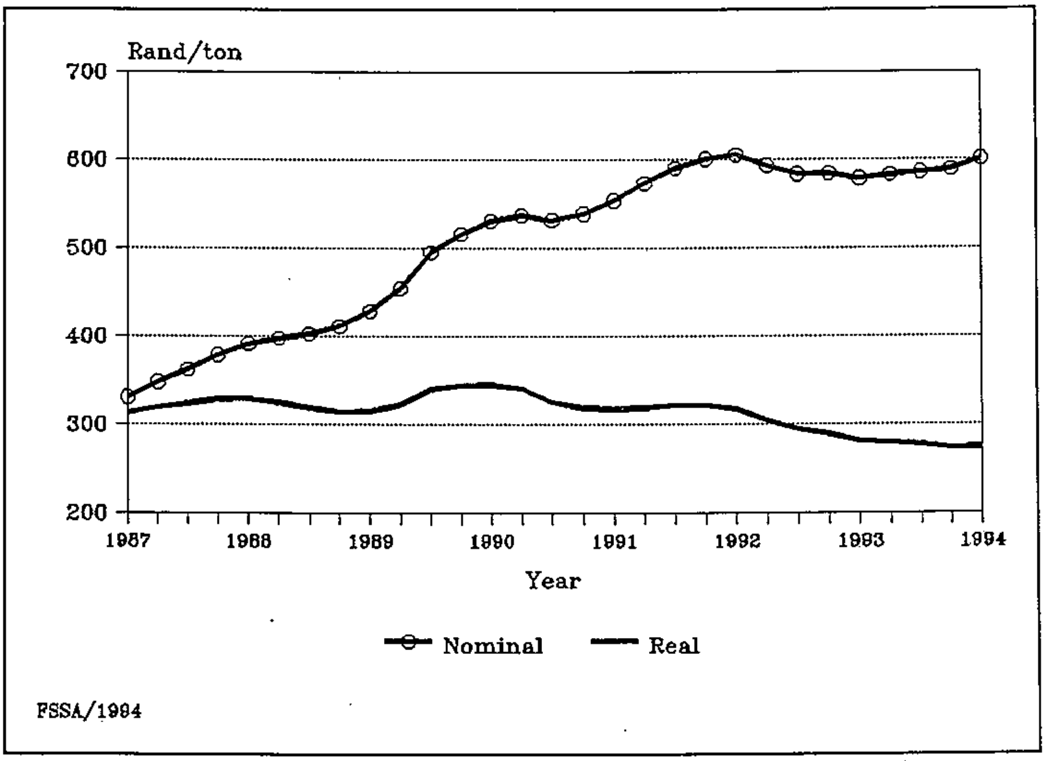

Fig. 2: **Maize price gap comparisons 1993**
Price gap between producer and retailer

most concern of the international community and policy makers.

These developing trends, taken at face value, lend strong support to the theory that natural agricultural resources in this sector of the Sub-Continent are insufficient to sustain present and future populations and that food security would have to rely on imports. Much of Africa's economic well-being is in a declining phase and there is considerable doubt as to their ability to reverse and sustain economic development.

Technically, there is no reason for Africa to be short of food. Despite limitations, natural resources including land, water and labour are in abundance. The application of these resources in a manner that sustains life and the environment has been woefully inadequate, inefficient and ineffective. This has rapidly deteriorated over the last 15 years to the point where total populations and the natural resources that support them *viz* the soil have become impoverished and the fragile balance of nature has and continues to accelerate in a downward spiral of self-destruction. The equilibrium between man and his environment has been severely disturbed and a grand plan to reverse this process is now urgently overdue. There is no doubt that the situation is reversible but this requires vision and a commitment to seek and assiduously apply a solution. In this regard South Africa and the fertilizer industry in particular can play a major role.

World Bank and other aid donors have, over a long period, seen no or very little return on their investments and support. Indeed, despite vast sums of money that have been poured into large parts of Africa there has been nothing to show for it. The question **"what happened to the money?"** has no doubt been asked by many concerned officials of both donor and recipient communities. Furthermore, even more alarming is the lengthy period over which this situation has been allowed to persist. One can only assume that a lack of accountability, the bureaucratic licence, which often characterises the actions of an irresponsible public sector probably represents the single most important reason for this dismal state of affairs. In short, the efforts of aid donors, including the World Bank in SSA, have in many cases been an unqualified failure. One can only hope that their involvement in the new South Africa will call for discipline, full accountability and total transparency in the application of their funds.

With regard to SSA, hopelessly inadequate capital resources are available to solve the problem and any solution, whatever the level of capital resources, will be a long process. Donor communities are now demanding a playing field that will at least provide a reasonable measure of success. Good governance and sound economic policy based on a free market system are prerequisites for investment and aid. Countries receiving aid are expected to show meaningful and acceptable change in attitude and style of government.

Over the years there have been an abundance of unsuccessful small scale and resettlement schemes in Africa. Hopefully, these mistakes will not be repeated in South Africa. Least of all can we afford the notion that small scale food producers can be lifted out of poverty without the use of modern agricultural inputs such as improved seed, fertilizer, lime and agricultural chemicals. In the next five years or so we shall see the government's policy on land redistribution and development of small scale farming unfolding. As regards the latter, the Society wishes to state its intention of co-operating fully with the authorities in the implementation of these reconstruction and development programmes. Indeed, the Society and its members make themselves available to play a leading role in furthering market orientated small scale agricultural development.

THE AFFAIRS OF THE SOCIETY

The Society relocated to the CSIR campus in March, where we now share the same roof with the South African National Seed Organisation (SANSOR). The cost benefits resulting from the relocation are substantial and the close interaction with SANSOR has already proved to be very useful.

Mr. John Stanbury resigned as vice-president of the Society when he took up the position of Chief Executive of Outspan International. John was a true stalwart of the Society and he played a major role in reshaping the Society during his term of office as president. Our best wishes accompany him in his new endeavours. At the same time we welcome Mr. Danie Vorster, Managing Director of Foskor, as the newly elected vice-president. Our constitution makes provision for an additional member on the Executive Council to be elected by ordinary members of the Society. At our annual general meeting in June, the cloak fell upon Dr. At Kruger of Sentraalwes Cooperative. Dr. Pieter Viljoen (Sasol Fertilizers) and Mr. Pierre van Schalkwyk (Omnia Fertilizer) make up the remainder of the Executive Council.

Earlier in my report I mentioned that five agricultural lime companies joined the Society last December. To accommodate our aglime members' interests, an agricultural lime committee was formed, in addition to the existing committees of the FSSA.

I want to use this opportunity to express my sincere appreciation to the chairpersons of the various subcommittees who completed their term of office on 1 June 1994:

Technical – Pieter van Niekerk
Economic Affairs – Nic van Rensburg, and
Agricultural Lime – Carl Taljaard (Sr).

The newly elected chairpersons for the three committees are Dr. Gert van der Linde (Technical), Fritz Rischmüller (Economic Affairs) and our director, Hilmar Venter (Aglime). I would like to congratulate these gentlemen on their appointments and wish them success in the demanding task that lies ahead.

The Society had a very eventful year and I would like to highlight a few important events and developments.

Fertilizer guidelines for maize

This project, jointly undertaken by the Agricultural Research Council (ARC), the University of the Orange Free State and the Fertilizer Society has been completed. The revised guidelines were handed over to Nampo at a ceremony in Potchefstroom held on 19 August. It is obviously in the best interest of everyone concerned that the largest possible degree of consensus on fertilizer guidelines be found. The Society will continue its efforts in this regard.

Fertilizer Regulations, Act 36/1947

The Society has made major inputs on the revision of regulations over the years and we are anxiously awaiting the new draft regulations from the Registrar's office. The Registrar indicated that it will be ready for distribution in a matter of weeks.

Development of fertilizer markets in southern Africa

Concurrent with the gradual lifting of sanctions and opening up of borders since February 1992, the Fertilizer Society has established contact with the African Centre for Fertilizer Development (ACFD) and therefore indirectly with SADC, the World Bank and the International Fertilizer Development Centre (IFDC). The ACFD, based in Harare, sees South Africa as a partner in developing fertilizer markets in southern Africa. ACFD and the World Bank view the Society as a vehicle to harness and coordinate South African fertilizer expertise e.g. through workshop participation. This activity will gain importance and momentum after the removal of all political constraints since the establishment of the new government.

Agricultural Input Suppliers Forum

The Fertilizer Society recently took the initiative in bringing agricultural input industry representatives together to discuss the need for a negotiating forum. It was felt that such a forum could play a róle in shaping/influencing agricultural policy on major common issues. Some of the common issues identified are:

- a market orientated economic philosophy;
- government policy on central/provincial levels regarding conflicting legislation, the RDP, redistribution of land and small scale agriculture;
- liaison with international organisations e.g. SADC, World Bank, IFDC and others on agricultural development projects;
- environmental issues;
- public sector funding of agricultural research, etc.

At a recent meeting representatives of the seed, agricultural chemicals, agricultural implements and tractors, animal feed and commercial bank industries approved the idea of a forum. The founding meeting took place on 30 August.

The forum, which represents combined inputs in excess of R5 billion p.a., will function without a permanent secretariat or a budget. Membership, through the respective industry associations, is voluntary and not binding for a specified period.

Publications

- The publication of *Plantfood/"Plantvoedsel"* was resumed in January 1994 after an absence of one year.
- The revised edition of *"Bemestingshandleiding"* came off the press at the end of June. It is prescribed as study material at three Technikons and two universities. More than 100 copies have already been sold.
- *Plantfood & Fertilizer* and *Soil Fertility*, two publications aimed at the small scale farming market will shortly be available.

The Society continued to pursue good working relations with organised agriculture, the Department of Agriculture, universities, the ARC and assorted international organisations.

CONCLUDING REMARKS

Finally allow me, on behalf of the members of the Society, to express a word of thanks to the director, Mr. Hilmar Venter, and his dedicated staff for their untiring endeavours to ensure a high level of professional management of the affairs of the Society. Your efforts are highly valued and appreciated.