
PRESIDENT'S REPORT

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INTRODUCTION

It is my pleasure and honour to present my report at the 38th Open Session of the Fertilizer Society's annual general meeting. My report deals with world trends in fertilizer markets, the World Food Summit, the domestic market and Society affairs.

TRENDS IN INTERNATIONAL FERTILIZER AND GRAIN MARKETS

According to the International Fertilizer Industry Association (IFA), the short-term outlook for world fertilizer demand is good, in spite of the recent drop in grain prices. Prices of non-grain agricultural commodities have also experienced a downward shift from their peaks in 1994/95. In broader world context, the present price levels are still considered by many in the agricultural industry to be favourable.

The most important reason for optimism for continuing agricultural growth is that the global economy continues to expand. Expansion is most rapid among developing countries, notably China, India and the ASEAN countries who have placed strong emphasis on improving the diet of their people. According to a recent report of the United Nations' Food and Agriculture Organization (FAO), the outlook for wheat cereal production for 96/97 is favourable with total cereal production exceeding 2 billion tonnes for the first time. Coarse grain production is expected to reach 888 million tonnes, and is about equal to the record of 890 million tonnes set in 1994/95.

Despite this anticipated increase in production of almost 7%, world cereal stocks show only a marginal increase of less than 1%. This would be the first time in more than 20 years that cereal stock levels remain below the safe level of 17% for two consecutive years. This again emphasizes the increasing sensitivity of the world food balance which I referred to in my report last year. This, in spite of the remarkable resilience shown by the international grain economy in its capacity to respond to clear market signals calling for expanding global supply this year. The degree to which

the world food balance has become more sensitive to larger strains being put on limited resources will only become clear after market forces in a liberalised world trade environment have worked their way through for another season or two. Only then will the shape of the new international grain economy become clearer.

IFA/FAO also predict that the feed grain sector of developing countries will continue to expand at a fast rate. This, together with the era of greater agricultural trade liberalisation, should reflect in increased global fertilizer demand. This would almost certainly result in a shift of agricultural production between countries, but also implies better availability and lower prices to the public. Of course, some countries may benefit but others will suffer as a result.

There are also negative factors which influence global fertilizer demand. Elements of uncertainty still remain in West Europe and the FSU. In West Europe, provision for a new Common Agricultural policy beyond 1997 is unknown at this stage, but indications are that it would dampen fertilizer demand if agricultural production subsidies are further limited. Transition to a full market economy in the Former Soviet Union (FSU) is a long and painful process and proving to be much more difficult to achieve than envisaged. By and large, however, fundamentals for a buoyant fertilizer industry world wide in the short term remains good, and IFA predicts a growth of about 3% in overall consumption for 1997/98 with an average of at least 2% over the next five years.

The international fertilizer industry has responded to this continuing increase in demand by announcing significant increases in new nitrogen capacity. These quantum changes in supply will perpetuate the cyclical nature of the industry and the developing surplus has already been reflected in sharply reduced urea prices this year. These lower price levels are likely to persist for a number of years. The profitability of the phosphate industry, on the other hand, reached its nadir in 1993 and is now enjoying an upswing that could last well beyond 2000. The logistics of phosphate production is a much more complex operation with economical expansion opportunities limited to only a few inter-

national players. With regard to potassium, substantial reserves and mining capacity exist around the world but rationalisation of the industry is diminishing the overhang thereby aligning supply and demand in a more controlled way. Prices are expected to steadily firm as a result.

In the longer term, analysts are equally optimistic about increased demand for fertilizer. In this respect it is worth quoting Prof Tim Dyson, an eminent economist at the London School of Economics and Political Science. In an address to the UK Fertilizer Society in 1995 he had the following to say about the link between fertilizers and food demand: ***"If world cereal production in 2020 is indeed equal to 2,96 billion tonnes of demand, then a corresponding level of nitrogen fertilizer-use ranging between 155 and 170 million tonnes is implied, ie an increase over the period 1990 to 2020 of approximately 94 to 112 per cent."*** These projected increases in nitrogen - and other nutrient - consumption, corresponds to a world population increase of 49% and a cereal production increase of about 54% over the next 25 years.

THE WORLD FOOD SUMMIT

In recognition of the fact that approximately 840 million people in the world suffer from undernourishment, the FAO arranged a World Food Summit in Rome in September last year. The purpose of the Summit was to focus on issues relating to sustainable agriculture and the measures required to achieve overall world food security.

South Africans cannot escape the realities of the problems associated with famine and poverty. We not only see its effects around us every day, but we are also part of a continent where the food situation is deteriorating. The "Green Revolution" has bypassed Africa and today there are more African people undernourished than 10 years ago.

Heads of State, ministers and leading international agencies and NGO's were invited to attend. In the end, 45 Presidents, 41 Prime Ministers, 15 Deputy Presidents and the Pope were present. In spite of the high profile delegation, press articles at the time described the Summit as a low key event with little apparent controversy. Baroness Chalker described the Summit as a *"recitation of platitudes"*. Based on these perceptions, if correct, one wonders how the massive amounts of money spent on the Summit (reportedly R100 million) could be justified. The answer possibly lies in the

fact that the adopted *Summit Declaration and Plan of Action* had already been agreed upon through an elaborate series of pre-summit meetings.

As the Summit process unfolded, the focus of attention gradually shifted away from the technical factors related to increasing food production, and steadily moved towards the realisation that poverty is the major cause of food insecurity, and that sustainable progress in poverty eradication is critical to improve access to food. This realisation places the problem in its proper wider context, ie the necessity of a broad based economic growth and wealth creation in most affected countries. In this respect it is interesting to note two very divergent points of view which were expressed at the conference. They highlight the polarisation in economic thinking which still exists in the world today. Fidel Castro of Cuba began his speech, which attracted great attention, with ***"Hunger, the inseparable companion of the poor, is the off-spring of the unequal distribution of the wealth and the injustices in this world. The rich do not know hunger."*** Dan Glickman, US Agriculture Secretary painted a very different picture saying: ***"In today's world, the lion's share of wealth and expertise is not in the hands of government. In fact governments of the world are under serious fiscal constraints. Large corporations, co-operatives and foundations have a moral obligation to become intimately involved in hunger and development efforts. They have the resources. They have the expertise. I challenge every one of them to join our alliance and answer the call of their conscience. It is the right thing to do, and it's smart business. Strong economies in the developing world make strong markets."***

These diverging views of redistribution of wealth on the one hand and wealth creation on the other, lie at the centre of Castro's and Glickman's statements. From past experience in other parts of the world wealth redistribution has been clearly demonstrated to be a self-defeating exercise. Wealth creation and economic expansion remains the only viable option for developing countries, including South Africa.

FOOD SECURITY

The tragedy of international malnutrition continues despite considerable advances in the understanding of human nutrition and progress in agricultural production. As mentioned earlier, the prime cause of hunger is poverty and afflicts not only poor coun-

tries, although its incidence and degree in these situations is more acute. The removal of hunger and malnutrition and the achievement of lasting food security depends on actions and decisions of governments in the playing field on which the agricultural industry is expected to develop. In many countries of the world the parlous state of food security is to be found in the low priority given to the agricultural industry and factors that ensure its development.

The interdependence of nations is growing daily but regrettably it extends too freely into trade in basic food requirements as well. The protagonists of free agricultural trade, generally from developed and highly advanced agricultural economies, are selfishly protecting their own interest. In the process the success of small and emergent farmers in under-developed countries, in particular, is severely restricted and limited as they struggle to compete against the economies of scale, technological advantages and subsidies of these developed agricultural industries. In short, they do not stand a fair chance as their success has to be measured by their ability to farm profitably. As I pointed out last year, farming is Africa's major industry as 85% of its people are farmers. It's pathway to economic independence is through agriculture. It has all the natural resources to become a major contributor for its own requirements and to supply into the rest of the world. However, the importation of non-crisis foodstuffs has not only contributed to undermining local African agriculture, but has also promoted dependence on food exporting countries. Given the sensitive international food balance and the development of dependence on food-rich exporting countries, Africa has already positioned itself into an unenviable situation. An agricultural failure in one of these food exporting countries will create chaos and suffering in those poor countries who depend on it for food. Under these circumstances not only does food become expensive, it is also now in short supply and the local agricultural industry which has remained under-developed in the interest of free trade, is now incapable of responding to make good the shortfall for its own people.

AGRICULTURAL MARKETING

The fertilizer and agricultural lime industries are inseparable bound to events which shape the future of South African agriculture. South African agriculture is a mainstay of the South African economy. In 1996 agriculture's gross income amounted to R36 billion (1995 = R30 billion) and has in the

process contributed at least one third of the national economic growth rate of about 3%. It remains one of the largest earners of foreign revenue and employs more people than any other industry.

One should take note of recent events which have led to the dismantling of historical marketing structures and the rate at which agricultural marketing is being deregulated and agricultural trade liberalised in South Africa. The newly promulgated Agricultural Marketing Act is, in a broad sense, based on non-intervention by government. In this respect it has the support of the SAAU. However, it makes provision for statutory interference, from which one could conclude that it is not government's intention to create a totally free market. In this regard ad hoc statutory measures could therefore be introduced in the furtherance of the broad aims of the Act and in the interests of preserving and promoting local agriculture.

The broad aims of the Act with which most affected groups are in general agreement is that it offers greater market access for all participants, that it facilitates more effective marketing of agricultural produce and, hopefully, optimises export earnings and finally, that it will increase the sustainability of the agricultural sector.

However, in the application of the Act, there are certain critical issues which cannot be neglected. Deregulation of marketing must be applied in a manner that ensures continuation of vital information systems and services. Structures and processes that ensure the development and transfer of technology to existing and new farmers must be preserved while the implementation of land reform and resettlement policies must be conducted with circumspection and sensitivity to preserve agricultural production output and promote confidence in its future.

The reality is that a free agricultural market does not exist elsewhere in the world. The Marakesh Agreement (GATT/WTO) only attempts to level the playing field but this will take many years. The fact remains that the most important countries with which the South African farmer has to compete, still enjoy considerable government support. The basic principles of free-trade are defensible and almost unanimously accepted. However, the consequences and implications of a totally free trade food policy must be well understood as the short-term benefits of cheap imports will destroy confidence in and the development of a sound agricultural industry in the long-term. The promotion and protection of local agriculture leading to a state of

self-sufficiency, remains the cheapest and most efficient and effective alternative to solving the goal of food security. It is worthwhile noting that self-sufficiency in food production has always been a strategic goal of the Association of South East Asian Nations (ASEAN).

It is sincerely hoped that the Marketing Act with its provision for statutory interference will permit timeous and ruthless reaction to unreasonable and destructive competition, especially given the now highly sensitive nature of international food balances.

THE DOMESTIC FERTILIZER MARKET

Favourable climatic conditions in most parts of the country during the 1995/96 production year (with the exception of the southern and eastern Cape areas) and higher than normal farm income, contributed to a significant increase in domestic fertilizer consumption (Table 1).

In 1996, plant food consumption increased by 9,7% to 646 000 tonnes. This is the highest level recorded since 1985. Nitrogen consumption increased by 11,7% followed by potassium (7,1%) and phosphates (5,2%). This growth took place mainly in the summer grain producing provinces of Northern Cape, North West, Northern Province and Gauteng; all recording increases more than 25%. Sales in Mpumalanga, KwaZulu-Natal and the Western Cape Province remained largely unchanged.

Average plantfood concentration for the country was marginally higher in '96 at 29,7% (29,4%). Plantfood concentrations have shown a steady

increase over time but, as can be seen from the Table, is now showing signs of levelling.

The net turnover of fertilizers sold by the three major manufacturers reached a record high of more than R2 billion in 1996 (R1,3 billion in 1995).

Prospects for fertilizer consumption in 1997 remain positive. Hot, dry weather in January and February resulted in downward adjustments to most summer grain crop estimates. Favourable climatic conditions since March have, however, stabilised the agricultural situation to a large degree. The maize crop is estimated at 7,6 million tonnes which is sufficient for domestic consumption. At estimated producer prices of between R550 and R600 per ton, the maize industry can still look forward to a above average season providing the Zimbabweans will not be permitted to freely dump their surpluses into the South African market. If this happens, the effect on the South African maize industry could be devastating with producer prices probably dropping to R350/t. Given normal weather patterns, the prospects for wheat and sugarcane are encouraging. All in all, fertilizer consumption in 1997 is not expected to be significantly different from what it was in 1996.

FERTILIZER PRICES

The FSSA's net fertilizer price index showed an increase of 17,8% for the period January to December '96. It reflected continued high world market prices for most commodities and the depreciation of the rand against other currencies. A year ago world market prices were still sustained at high to very high levels, with little sign of serious price erosion setting in. Today, a year later, the picture

Table 1: Domestic fertilizer use in South Africa and related statistics 1991 - 1996

Plant nutrient '000 tonnes	1992	1993	1994	1995	1996	% Change 1996/1995
N	348	408	375	371	415	+ 11,7
P	96	106	108	106	112	+ 5,2
K	99	103	108	112	119	+ 7,1
Total	543	617	591	588	646	+ 9,7
Plantfood concentration	28,8	29,1	29,5	29,4	29,7	+ 1,0

Source: FSSA

is still very much the same with regard to phosphates and potassium. Prices of phosphoric acid, potassium salts, DAP and TSP have maintained their high '96 levels. Nitrogen is an exception. Urea has shed approximately 10% off its April '96 price level and nearly 30% off its highest peak of November '95.

The paradigm shift in investment policy of the major players in the international fertilizer industry, with investments driven by conventional economics which I alluded to in my '96 report, has been borne out by events during the past year. The market has also demonstrated cyclical variability (eg urea and ammonia) but at price levels well above the historic lows of 1993. The softening of the international urea price and the recent strengthening of the rand against the dollar has created downward pressure on domestic nitrogen fertilizer prices. This is reflected by the FSSA's net fertilizer price index which has risen by only 1,4% in the first quarter of 1997, as against the last quarter of 1996.

FERTILIZER EXPORTS

The export market remained buoyant during 1996 and sustained high prices for commodities on the world market and strong demand ensured a continuation of the 1995 export performance. Phosphoric acid sales from IOF and Fedmis was 287 000 tonnes P_2O_5 (1995 = 320 000 tonnes). Export of granular NPK, single element fertilizers and intermediates such as MAP and DAP by Kynoch, Omnia, Sasol and IOF amounted to close on 720 000 tonnes (+ 600 000 tonnes in 1995) while Foskor exported 1,0 million tonnes of high quality phosphate rock.

Market indications for 1997 are still positive, although the stronger rand and softer urea prices will reduce margins. Phosphoric acid prices, on the other hand, remained virtually constant above the \$300/t P_2O_5 mark throughout 1996 and into 1997. The demand for phosphates and in particular phosphoric acid internationally, is high and is expected to remain so for some time.

THE AGLIME MARKET

FSSA aglime statistics show that the total volume of aglime sold in 1996 increased by 28,1% to slightly less than 1,3 million tonnes, when compared with the 1,03 million tonnes sold in 1995. The '96 level of consumption is on par with the '94

consumption, which was regarded as a "good" lime season. We would like to believe that the awareness campaign conducted by the Society via workshops and timeous media releases has contributed to a livelier aglime market. However, aglime consumption is still well below what is generally accepted as essential for the maintenance of optimum soil productivity.

As regards aglime price movements over the past two years, it is important to note that the aglime industry has contained price increases to a minimum, and in line with the inflation rate. In 1994 the average net price of a ton of lime (before transport) amounted to R40,91 per ton. This increased by only 6,5% to R43,60 in 1995 and a further 12,2% to R48,96 in 1996. Aglime producers deserve a lot of credit having contained price increases in the way they did.

THE AFFAIRS OF THE SOCIETY

There were no changes during 1996 in the composition of the Executive Council and I would like to thank Executive Council members for their continued support during the past year. Membership remained unchanged, as did the staff complement. A budget of R1 022 000 was approved for 1997. This represents a 9% increase on the 1996 budget.

The Management Committee lost a highly respected member, Mr Naas du Plessis of Hiquallime, who died tragically in a motor car accident on Boxing Day. We would like to extend our condolences to his wife Leatitia, and his family.

International Liaison

Our Society maintained a close contact with IFA. We co-hosted IFA's Technical Conference which focused on new developments in production, storage, handling and application of fertilizer. The conference was held in Sandton last October and was attended by 250 delegates from 38 countries. The South African delegates made its presence felt and not fewer than 5 papers out of a total of 39 were presented by South African experts in the industry. In July, the Society will be co-hosting an international Fertilizer Training Programme with IFDC in Pretoria and arrangements are well underway. The Society also prepared a "South African fertilizer position paper" for a Regional Workshop on Dealer Development arranged by ACFD in Zimbabwe. The paper was presented by Mr Tom Thimla of Sasol Fertilizers.

On the local front, the Society continued to co-operate with government departments and organised agriculture through its subcommittees. In co-operation with the Registrar of Fertilizers, the Technical Subcommittee has virtually finalised the details of the revised regulations under the Fertilizer and Farm Feeds Act. Only a few loose ends need to be tied during the first half of 1997. Consensus has also been reached with the Registrar on virtually all outstanding issues pertaining to quality control (eg tolerances) and compilation of fertilizer and lime sales statistics. It was agreed that the Society will make available to the Registrar relevant FSSA statistics on fertilizer use in South Africa and thereby largely eliminating the need for the Department of Agriculture to duplicate essentially the same function.

The **Technical Subcommittee** is also involved in structuring a *Fertilizer Advisory and Training Certification Scheme* in conjunction with the Technikon Pretoria. This is aimed at bringing the standard of fertilizer advice to the farmer to a higher and uniform standard throughout the industry.

Accreditation with South African Qualification Audit (SAQA) will be sought.

The **Aglime and Economic Affairs Subcommittees** have also contributed significantly to the affairs of the Society, amongst others in maintaining high standards of compiling and disseminating fertilizer and aglime sales and price statistics.

I would also like to express my sincere appreciation to chairpersons and members of committees who have tirelessly given of their valuable time and energy to the furtherance of the common good of our industry.

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.