THE PRESIDENT'S REPORT AND TRENDS IN THE FERTILIZER INDUSTRY

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INTRODUCTION

Members of the Fertilizer Society of South Africa, past and present, are a breed of people who have experienced vast changes in business environment over the last decade or so. They have had to manage their organisations through a transformation from an environment of total protection to one of virtually no protection. The removal of price control and import protection as well as the easing of trade sanctions has moved the industry from a state of happy isolation with very limited outside influence to one of fierce competition subject to global economic forces. For this reason the South African industry cannot be viewed in isolation and I would therefore spend some time on a cursory examination of global issues affecting the industry.

During the sixties when strategic planning and future scenarios became popular, predictions emanating from such as the "Club of Rome" spelled out possibilities of huge population growth, food shortages and mass starvation.

In keeping with fashion world governments continued with a process of control and concentrated on ensuring food self-sufficiency almost at all costs. In my opinion the pendulum had swung completely to the side of agricultural protectionism. More than a generation later economic realities are rapidly removing protection with the wealthiest nations holding out the longest. Africa, India, China and the former USSR were amongst the first to relent with Western Europe and the USA still arguing the merits at GATT negotiations. The pendulum has now swung to the side of non-protectionism. When will it have swung too far and when will it move closer to a state of equilibrium?

WORLD CONSUMPTION AND PRODUCTION

World consumption and production data are given in Figure 1.

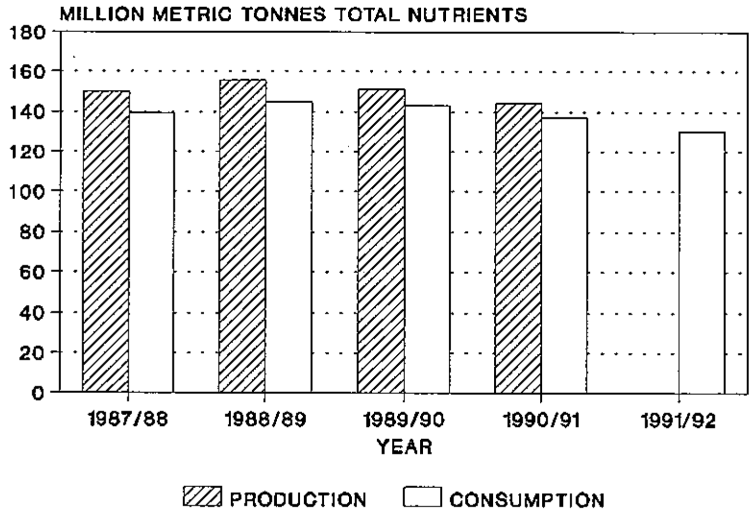
The latest International Fertilizer Association (IFA) estimates for world fertilizer consumption indicates a 5 per cent decline in 1991/92, following a decline of 4 per cent in the previous year. A further decline of 4 per cent is forecast in 1992/1993. If this forecast materialises, the world fertilizer market will have shrunk by approximately 13 per cent to 126 million tons N, P_2O_5 and K_2O over a mere three-year period. This sustained decline has severely disrupted the international supply/demand situation and has resulted in strong downward pressure on world prices of raw materials and commodities such as DAP, MAP and urea.

Western Europe, former Soviet Union (FSU) and East Europe, North America, South and Socialist Asia are the dominant players in the world fertilizer trade.

Western Europe

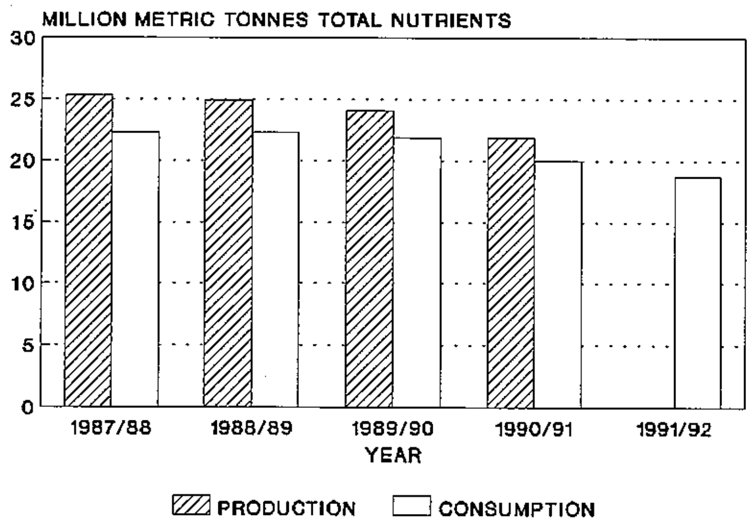
In Western Europe fertilizer use, which constitutes 14 per cent of world total, decreased by 16 per cent since 1987/88 (Figure 2).

The main factors contributing to this decline were reduced prices for agricultural products, introduction of production quotas and environmental pressures eg increased taxes on fertilizers. The decline is likely to continue pending the outcome of the continuing GATT negotiations and further liberalisation of world agricultural trade. The decline in production was of the same order. This resulted in closure of plants and a drastic restructuring of the West



Source: IFA

Figure 1. World fertilizer production/consumption



Source: IFA

Figure 2. Fertilizer production/consumption in West Europe

European fertilizer industry.

Former Soviet Union (FSU) and East Europe

The greatest regional disruption in fertilizer production and consumption in recent times occurred in the countries of the former Soviet Union and Eastern Europe (Figure 3).

After having arguably developed the strongest fertilizer industry in the world over the past quarter century, the FSU also recorded the sharpest decline in production and consumption over the past four years. In the period 1987-1991 total nutrient consumption declined by 39 per cent in the region, although some countries in the region recorded falls in consumption which exceeded 50 per cent. The virtual collapse of local demand in the FSU and East European countries were caused by socio-economic upheaval, rampant inflation and extreme economic hardship of all sectors of the economies. Even before the demise of the USSR, the Soviet Union's desire for hard currency had often led it to follow a very aggressive pricing policy; not necessarily based on recovery of full cost and satisfactory return on capital. This policy has apparently not changed much under the new Confederation/-Commonwealth. In fact, the need for hard currency is greater than ever and with the collapse of local demand, "**Export or Die**" has become the watchword for many producers in the region. Despite cutbacks in production (Figure 3), the FSU still commands a large share of the world export trade: it is the largest single exporter of ammonia (38 per cent of world total), and is the second ranking exporter of potash.

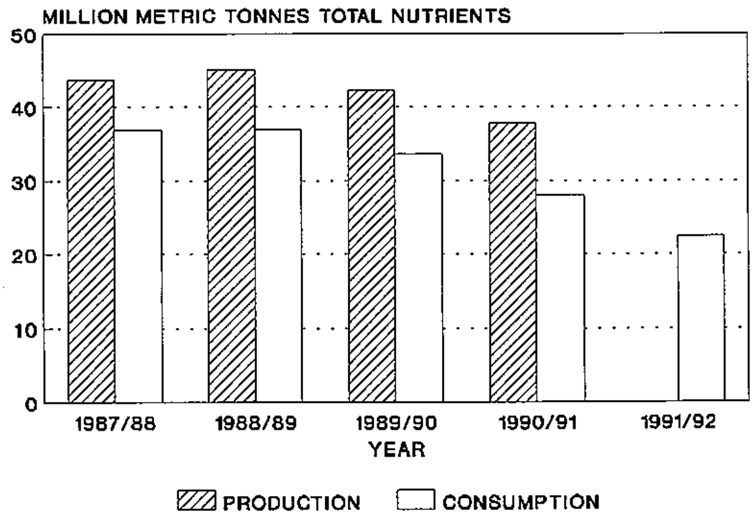
North America

This region accounts for 16 per cent of world consumption and has been the most stable in terms of production and consumption (Figure 4).

It has a strong export capability, particularly in ammonia and DAP ex USA and potash ex Canada.

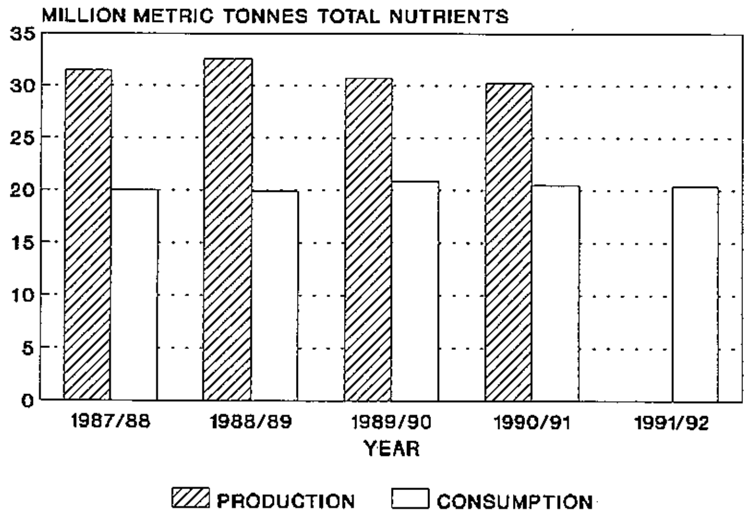
South- and Socialist Asia

Figure 5 indicates that countries in this region - notably India and China - are major importers of fertilizers, especially DAP.



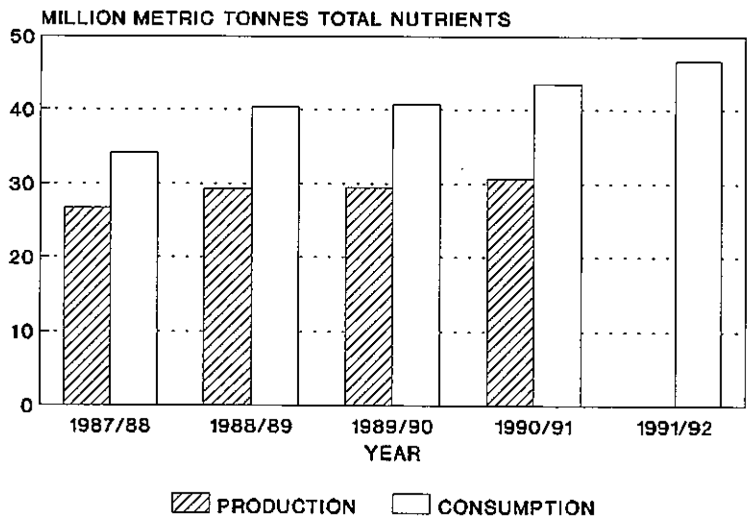
Source: IFA

Figure 3. Fertilizer production/consumption in FSU and East Europe



Source: IFA

Figure 4. Fertilizer production/consumption in North America



Source: IFA

Figure 5. Fertilizer production/consumption in South- and Socialist Asia

China enjoys the largest single share (23 per cent) of domestic world fertilizer consumption. In the five-year period 1984/85 to 1989/90, China's domestic consumption of fertilizer rose dramatically from 19 to 27 million tons nutrients. The Chinese government actively promoted fertilizer use through subsidies and other support policies. These policies have recently come under review and the reduction of subsidies at farm level has already affected China's import demand.

India, with a 10 per cent share in world fertilizer consumption, has undergone similar structural changes. Fertilizer use was also actively supported by government subsidies at farm level. As of last August, however, subsidies were also reduced, and this is having a negative effect on demand. Reliable industry sources predict that India will take up to 1 million tons less DAP this year.

Although China and India are major manufacturers of fertilizer in their own right, collectively they are also the world's largest importers of fertilizers. China alone, as an example, accounted for nearly one quarter of world trade in nitrogenous fertilizer (mainly urea) and one-fifth of world trade in phosphate fertilizers (mainly TSP and DAP). It stands to reason that major shifts in domestic demand in these countries will have profound effects upon world trade and prices.

Decreased import requirements of these two countries, taken in conjunction with an increased export drive of mainly the FSU and East European countries, is an ideal recipe for disruptive pricing on world markets. This has already manifested itself in record low world market prices of DAP and urea; in many cases below cash cost of production of major manufacturers.

This is by no means a complete picture of the world fertilizer market, but it hopefully illustrates the effect that major structural changes in agriculture in China, India, FSU and Western Europe has had on the world fertilizer industry. Recovery is expected to take some time and is very much dependant upon socio-economic changes in the FSU and East Europe, and upon the level and rate of reduction of subsidies elsewhere. In the meantime, the South African fertilizer industry has to survive and coexist in an increasingly volatile world fertilizer environment, in order to participate in future improving markets.

It is against this background that I would like to express some views on trends in the local fertilizer market.

RSA DOMESTIC CONSUMPTION

Domestic consumption trends are given in Table 1.

Since 1986 consumption of fertilizer in South Africa fluctuated in a narrow band between 1,95 and 2,18 million physical tons. N and K also fluctuated in narrow ranges, with neither element showing a definite pattern of medium term growth or decline. P consumption, however, exhibits a seemingly sustained declining trend. This can be attributed to a continuing exploitation of soil P reserves under circumstances where available credit has been, and still is, severely limiting. South African farmers are still drawing against their P bank balance. This may make short-term economic sense, but it is no doubt counter productive in terms of sustainable agricultural production over the long-term.

At our annual general meeting last year it was reported that industry sources had forecast a decline in domestic fertilizer use of between 10 and 25 per cent as a result of the crippling drought. This did not materialise; the actual decline for 1992, in comparison with 1991, being less than 5 per cent. The government aid package of R3,8 billion, which came into effect around August last year, certainly contributed to a less than expected decline although its real effect is difficult to quantify. Be that as it may, the data in Table 1 seems to suggest that the South African fertilizer market has reached a lower resistance level of 1,9 million tons physical product, or 550 000 tons NPK.

Price trends

Fertilizer price trends and related statistics are given in Figure 6.

The FSSA index of net fertilizer prices (1985-1992) realised by the major manufacturers

TABLE 1. Domestic fertilizer use in South Africa: 1985-1992

Year	Physical	N	P	K	NPK
	1 000 ton				
1985	2401	382,0	156,5	114,5	653,0
1986	2050	339,9	130,5	96,8	567,2
1987	2014	325,2	112,8	97,0	535,0
1988	2176	364,3	128,9	110,9	604,1
1989	2127	371,9	115,1	106,6	593,6
1990	1948	343,7	106,4	103,4	553,5
1991	2021	365,0	104,4	105,3	574,7
1992	1946	347,5	100,5	98,9	546,9

Source: FSSA

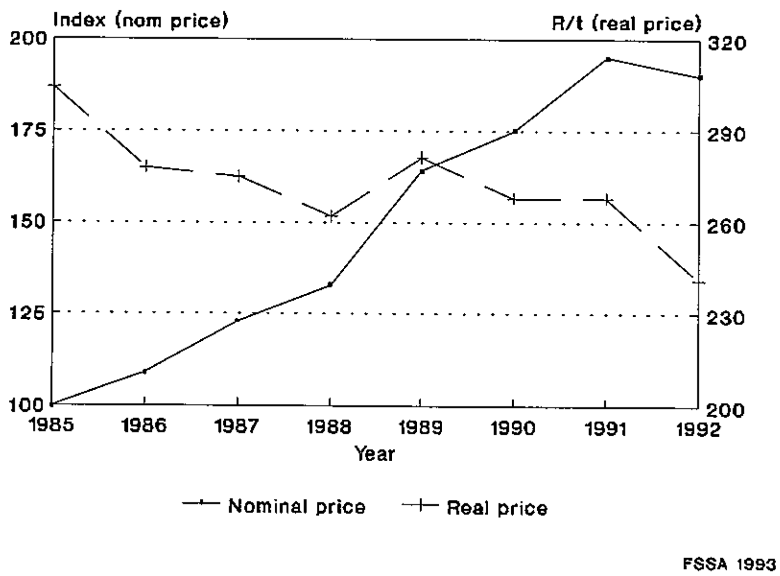


Figure 6. The index of nominal net price and the real price (R/t) of fertilizers: 1985-1992

shows a rate of increase considerably below the inflation rate. In real terms (nominal prices deflated with production price index [PPI]) fertilizer prices actually decreased by 20 per cent over the period. This is a reflection of a leaner and more cost effective industry.

Industry protection

Recent reports in the press conveyed the impression that the fertilizer industry enjoys a level of protection which impairs the competitiveness of South African agriculture. One report even suggested that protection of input industries, including fertilizers, has increased over the past number of years as a result of tariffication. Nothing can be further from the truth, and I would like to set the record straight in this regard.

Since 1980 price control and tariff protection afforded to the industry have been reduced progressively. Changes in the business environment can be summarised as follows:

- 1980: An across the board 15 per cent *ad valorem* duty on a wide range of products, including NPK mixtures, comes into effect.
- 1983: Removal of duty on ammonium sulphate.
- 1984: Lifting of price control.
- 1985: Removal of quantitative import control.
- 1986: Removal of duty on LAN, DAP, MAP and NPK mixtures.
- 1991: Removal of duty on superphosphate.

At present only urea carries a formula duty (since 1989), which can be regarded as an anti-dumping duty. All other downstream products, including alternative nitrogen sources, intermediates and raw materials can be brought into the country duty free and without permits. For all practical purposes, the industry is fully exposed to international competition, and conducts its affairs accordingly. There is consensus in the industry that effective anti-dumping mechanisms should be in place. Whether such mechanisms presently exist, is, however, open to question.

Before moving on to the affairs of the Society, I would like to make a few comments on present trouble areas in the industry, and opportunities for the future.

Delivery patterns of fertilizer over the past decade have tended to move closer to planting times of major crops, notably summer crops. Last year 41 per cent of total fertilizer sold in South Africa was delivered in the last quarter. Apart from the logistical problems associated with ever increasing peaking of delivery times, the associated late payments put enormous strain on the industry's working capital resources. This, together with disruptive pricing on world markets, is at present the industry's biggest headache. A solution to this problem is complex and multi-faceted.

On the positive side, opportunities for export to our neighbours in southern Africa and the Sub-Saharan Region have increased considerably, and increased tonnages were exported to these countries in 1992. Our industry enjoys a comparative advantage in this region, and export opportunities in this region will continue to be exploited.

The decline in the domestic use of fertilizer, which essentially took place between 1982 and 1985, was the result of recurring droughts and structural changes which inevitably led to a shift in the South African crop profile. Our agriculture is now placed in a better position - and is potentially stronger - to meet the demands of the future. I am optimistic that this will reflect positively on domestic fertilizer use in 1993 and the years to come.

AKTIWITEITE VAN DIE MISSTOFVERENIGING

In die beperkte tyd wat oorbly, wil ek graag kortliks verslag doen oor die aktiwiteite van die Vereniging gedurende 1992.

'n Begroting van R750 000 was vir die finansiële jaar goedgekeur. Dit verteenwoordig 'n vermindering van R200 000 op die vorige jaar se begroting. Die drastiese terugsnyding op begroting is moontlik gemaak deur verdere rasionalisering en personeelinkorting, wat ongelukkig, dog onvermydelik, die verswakkende bedryfsresultate van lidmaatskappye weerspieël.

Gedurende die jaar het AECI Beperk as lid bedank. Hierdie stap is genoodsaak deur rasionalisering van kunsmisbelange binne die AECI-groep. AECI is 'n stigterslid van die Vereniging en het oor die jare 'n aktiewe rol in die sake van die Vereniging gespeel. Ons neem met 'n tikkie weemoed van AECI afskeid, en wens ons hulle graag voorspoed en sukses in die toekoms toe. Voortaan sal Kynoch Kunsmis AECI se kunsmisbelange in die Vereniging behartig.

Ons het drie nuwe medelede in die loop van die jaar in ons geledere verwelkom, te wete Sentraalwes- en Noordwes Koöperasies en Chemplex van Zimbabwe. In die betreklike kort tyd sedert hulle aansluiting, het die Vereniging reeds 'n goeie werkverbintenis met ons koöperatiewe lede daargestel, en het hulle reeds beduidende bydraes gelewer tot die aktiwiteite van die Vereniging.

We are particularly pleased that through Chemplex's membership, our Society has started to become a truly southern African institution. I would like to extend a special welcome to them as a new member and as being the first of a hopefully extended list of foreign members.

Dit is ook met genoeë dat ons Delmas Kunsmis, wat gister as lid van die Vereniging aanvaar is, in ons geledere verwelkom.

Die onderkomitees van die Vereniging het weer eens 'n baie aktiewe jaar beleef.

Die **Tegniese Onderkomitee** en sy werkkomitees kan terugkyk op 'n baie suksesvolle jaar:

* Die Wet 36 Skakelkomitee het in voortgesette noue samewerking met die Registrateur Wet 36 van 1947, mnr Max Orban en sy senior personeel, goeie vordering gemaak in die hersiening van die Regulasies van Misstowwe. Die Registrateur het aangedui dat die hersiene regulasies binnekort vir kommentaar gesirkuleer sal word. Die onderhandelings met die Registrateur was altyd konstruktief en opbouend.

* Gedurende die jaar is 'n besluit geneem dat die Interlaboratorium Gehalteversekeringskemas heeltemal gedereguleer word en deur Kontroleskemas Bk, onder die bekwame leiding van prof Robin Barnard, bedryf sal word. Die oorgang het glad verloop en is feitlik afgehandel.

* Noue kontak is met prof J J Human en mnr J van Biljon van die Vrystaatse Universiteit, wat bemestingsproefresultate op mielies evalueer ten einde 'n uniforme basis te skep vir die daarstel van aanvaarbare mieliebemestingsriglyne, behou. Die Vereniging en sy lede het uiteraard groot belang by dié oefening.

* 'n Omgewingswerkgroep is in die verslagjaar in die lewe geroep en het onder andere aandag geskenk aan die publisering van omgewingsverwantekunsmisartikels in *Plantvoedsel* en die formulering van 'n kode van bemestingspraktyk in volhoubare landbousisteme.

* Die staking van *Plantvoedsel* in Januarie vanjaar was die ongelukkige gevolg van rasionalisering. Daar word tans ondersoek gedoen na implementering van moontlike alternatiewes om die leemte wat gelaat is deur *Plantvoedsel* se verdwyning, te oorbrug. Die publikasie van die *MVSA Joernaal* gaan egter voort.

Benewens die **Ekonomiese Sake Onderkomitee** se betrokkenheid by die verkoopstatistieke diens van die Vereniging, het dié komitee hom bemoei met probleme wat opgeduik het met die instelling van BTW, en skakeling met die Departement van Landbou oor die indeksering van kunsmispryse, gebaseer op 'n nuwe basisjaar en nuwe gewigte. Maatreëls is getref om die implementering van laasgenoemde so glad moontlik te laat verloop.

Die Vereniging het effektiewe skakeling en kontak met die Departemente van Landbou en Landbou-ontwikkeling, die Landbounavorsingsraad, georganiseerde landbou en internasionale organisasies soos IFA, *International*

Fertilizer Development Corporation (IFDC) en Wêreldbank behou, en waar moontlik, versterk. Die Vereniging sal binne die volgende twee weke ook vir die eerste keer amptelik met die *Southern African Development Co-ordination Conference (SADCC)* skakel oor landbousake met kunsmisverband in lande suid van die Sahara.

AFSLUITING

Ten slotte my persoonlike dank, en die lede se dank en waardering, teenoor mnr Hilmar Venter en sy personeel vir 'n baie goeie taak wat onder uiters moeilike omstandighede met ywer en volharding deurgevoer is.