

# CHAIRMAN'S REPORT/VOORSITTERSVERSLAG

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The past year was one in which the fertilizer industry has had to adapt to a major change in its operation. As is well known price control on fertilizers was abolished on the 1st January 1984 and member companies have had to adjust to the new circumstances. I will refer to the aspect of fertilizer pricing in more detail later.

## Fertilizer demand tendencies

Since 1981 fertilizer demand decreased considerably although sales during 1984 improved by 10,5% on those of 1983, fertilizer demand remains at depressed levels and was still some 23% below the 1981 levels.

Successive droughts in the summer rainfall region of South Africa, where the bulk of fertilizers is utilized, had a disastrous effect on the financial position of farmers in this region. Crop failures have resulted in a huge accrued farmers' debt. Although part of this debt has been consolidated over the long term, the greater part thereof is due for remittance over the medium term. Of concern in this regard is the fact that the relative short term of redemption constitutes a preferential claim against agriculture's annual income, and in consequence, farmers' will retain limited disposable income. Thus, from a farmers' income point of view, I do not envisage that fertilizer demand will be stimulated to any significant extent over the short term. In contrast hereto, the record fertilizer sales in 1981, can appropriately be ascribed to demand derived from income, following the record 1980/81 maize crop.

Over the medium term fertilizer demand will, in my opinion, continue to depend on available production credit. However, the sharp decline in fertilizer sales in the central region, during the past two years, provides adequate evidence that fertilizer demand does not thrive on production credit alone. The dramatic increase in fertilizer consumption in the southern region, in recent years, is a case in point. Here, favourable climatic conditions enabled farmers to gain sufficient income, thus assuring greater stability of the fertilizer market in this region.

It is not yet known to what extent future production credit will be affected by the implementation of policy measures which are aimed at facilitating the application of a more effective monetary policy in South Africa. However, the announcement of market related interest rates applicable on present production credit provides one with some indication. The terms at which future production credit is to be provided to the farming sector, will certainly have an effect upon the total amount of funds made available as production loans in any particular season.

All these factors point to a retarded rather than accelerated growth rate in fertilizer demand. There is, however, also some cause for qualified optimism to which I shall return later in my report.

## Fertilizer supply tendencies

The Fertilizer Industry has an estimated 4,8 million ton production capacity. Under price control, fertilizer prices were determined at a rated capacity utilization of 80%. However, during 1983 this industry operated at capacity utilization levels well below 50% and during 1984 hardly managed to reach 50%. With fertilizer prices under continuous pressure, during the period under review, considerable losses were incurred at these levels of production.

The industry cannot continue to incur losses of this nature. In principle the free market system provides a base for healthy competition at reasonable prices, but under present conditions this very system may destroy future competition through a process of elimination, and pave the way to monopolising the industry. In fact, the capital intensive nature of our industry lends itself ideally to such an occurrence.

## Economic review

Economic factors affecting the South Africa fertilizer industry may be summarized as follows:

1. The **capital intensive nature of this industry** renders profitability increasingly dependant on volume production. Since its establishment the industry has produced predominantly for the domestic market. The recent drought and subsequent lower levels of crop production emphasized the vulnerability of the industry to extreme fluctuations in level of crop production. Consequently, in order to cushion extreme fluctuations in domestic fertilizer demand, the industry has devoted much effort to promote fertilizer exports in highly competitive international markets. Notwithstanding the fertilizer export promotion drive, the industry did not escape the devastating consequences of the South African drought. Although crop yield estimates in summer rainfall areas for 1985 are better than those of the previous year, they will probably not cover cost in macro-context. This points to yet another difficult fertilizer year.
2. Since the mid-seventies it has been clear that the **farming sector's financial health is fading**. The past few years of drought have seriously jeopardized the financial structure of agriculture, pulling many

farmers into negative gearing. To prevent an abnormally large number of farmers being forced off the land, will depend entirely on stepped-up financial aid to farmers, and not merely prolonged existing government aid measures. There certainly is a limit to available funds, though due consideration must be given to the fact that agriculture in South Africa is a pillar of the economy. In times like these agriculture must be assisted in every way to facilitate optimum utilization of our agricultural resources. Farmers should be placed in 'n position where they can benefit from a normal or above normal season, should such a season be experienced in the present cycle of below normal rainfall.

3. Die vraag na goedere in Suid-Afrika het onder andere daartoe gelei dat **binnelandse inflasie** tans driemaal hoër is as dié van ons belangrikste handelsvennote en die verwagting is dat dit nog verder gedurende 1985 sal toeneem. Plaaslike rentekoerse het eendersyds 'n rekord-hoogte bereik, terwyl die rand wisselkoers andersyds onrusbarend teen die Amerikaanse dollar verswak het.
4. Daar bestaan by my weinig twyfel dat die Regering nie gedurende 1985 die ekonomie enigszins met behulp van **fiskale- of monetêre maatreëls** sal stimuleer nie. Die Regering is klaarblyklik vasbeslote om die hoeveelheid geld in omloop, en die besteding in die ekonomie in bedwang te hou.
5. Die afwesigheid van **ekonomies ontginbare hoeveelhede kalium** in Suid-Afrika, asook plaaslike tekorte aan bepaalde halfverwerkte grondstowwe, verbind hierdie bedryf tot 'n invoerafhanklikheid ten einde ons landbou te kan voorsien met 'n reeks van gehalte misstowwe soos vereis deur die verskeidenheid gewasse wat hier verbou word. Onder toedrag van invoerafhanklikheid, het die huidige swak randkoers 'n uiters nadelige uitwerking op die koste van ingevoerde grondstowwe.

Die misstofbedryf funksioneer te midde van al hierdie probleme en oorwegend ongunstige faktore. Hierdie faktore het in die jaar onder oorsig ongetwyfeld die prysvormingsmeganisme in die markplek in 'n belangrike mate beïnvloed. 'n Wesentlike deel van die onvermydelike kostestygings in die produksie van kunsmis is deur die bedryf self geabsorbeer; deels deur implementering van groter produktiwiteit maar ook deels deur erosie van winsmarges. Dit is vanselfsprekend tot nadeel van die bedryf self en uiteindelik ook tot nadeel van die boer en die ekonomie as geheel. Of die bedryf in sy huidige vorm die ekonomiese resessie gaan oorleef bly steeds 'n bron van kommer.

Die wye reaksie op styging in die pryse van misstowwe sedert Januarie 1984, en die wyse waarop dit deur lede van die bedryf aangekondig is, of in werking gestel is, het weer eens die hoogs sensitiewe aard van kunsmis-

pryse onder die soeklig gebring. Vir die bedryf is hieruit sekerlik lesse te leer. Een feit staan egter soos 'n paal bo water: sedert die opheffing van prysbeheer het die kunsmisdryf in Suid-Afrika 'n tydvak van hoë mededingendheid betree. Ongelukkig was hierdie mededinging merendeels gemanifesteer in die vorm van steriele prysmededinging wat op die lange duur nóg vir die boer, nóg vir die bedryf, self voordele inhou.

## Vooruitskouing

Ek het reeds aangetoon dat ekonomiese faktore dui op 'n gestremde groei in die misstofmark in die korttermyn. Die geskiedenis het egter geleer dat die afset van kunsmis in die RSA vinnig reageer op sekere impulse in die landbou, en veral op veranderinge in klimaat. Ek kan hier 'n enkele voorbeeld aanhaal om die punt te illustreer: Ná die droogtes van 1981 en 1982 het die afset van kunsmis in die oostelike hoëveldgebiede gedaal van 'n maksimum van 169 000 ton in 1981 tot 99 600 ton plantvoedsel in 1983 — 'n afname van 41%. Gunstiger klimaatstoestande in die 1983/84 seisoen, en gepaardgaande verbetering in oeste, hoofsaaklik as gevolg van die sikloon Demoina, het die verbruik in die daaropvolgende jaar weer laat opskiet na 127 600 ton plantvoedsel. Daarenteen het die verbruik in die westelike hoëveldgebiede steeds gedaal waar daar nie verligting in droogtetoestande was nie.

Die verbetering in klimaatstoestande in dele van die Transvaal en Oranje-Vrystaat sedert Januarie, was deels verantwoordelik vir 'n groei van 18% in plantvoedselverkope in Januarie en Februarie 1985, in vergeleke met verkope gedurende dieselfde periode verlede jaar. Landswyd is die groei 32% tot die einde van Februarie. Ofskoon daar sekerlik ander redes vir die verbetering gevind kan word, soos byvoorbeeld 'n verskuiwing van aankooppatrone eerder as 'n toename in totale vraag — wil dit tog voorkom asof die oeste wat tans op die land staan 'n aanduiding is van beter dinge aan die kom vir die misstofbedryf.

## Activities of the Fertilizer Society

As has become traditional I will also report on the activities of the Fertilizer Society. However, since you have the annual report of the Society to hand, I shall not do so in great detail. I shall endeavour to stress matters of principle.

Research on soil fertility and its influence on crop production remain a very important function of the Society. Since soil fertility and food production go hand in hand, we have a responsibility not only to the industry, but also to the farming community and Society as a whole. Our prime objective in research is unchanged viz the promotion of economic use of fertilizers and the improvement of soil fertility to facilitate optimum

economic production of food. This research has proven of immeasurable benefit in bringing about economic increases in crop production.

Over the years the industry, through the Society and by virtue of its own endeavours in this regard, has invested a considerable amount of money and manpower resources in soil fertility research and the promotion of the research findings. In times when the farmer and the industry prosper, this investment is more or less taken for granted and nobody seriously questions the necessity for such activities. However, when times are bad and profits are down research in the private sector in general and also in the Society comes under close scrutiny. There is nothing wrong with a critical look at research — or other activities for that matter — as long as the long term objectives are not overlooked. Goal oriented research, when properly managed, enables a country, an industry or company with a sound base from which to exploit the upswing phase of business cycles. The research carried out by the Society should be seen in

this broader perspective and it is my conviction that continuation of such research, both in good times and bad, is essential.

Since the abolishment of price control in January 1984, the Society's traditional role of collation data, calculating and negotiating prices with government have come to an end. The Economic and Statistical Division of the Society now concentrates its attention, apart from regular sales statistics surveys, into in-depth fertilizer market potential studies. This is done on the basis of information which has become available on the classification of our natural resources. When completed it will give us an indication of the medium to long term fertilizer growth potential. It will also yield information on the necessity of agronomic research in areas hitherto neglected.

In conclusion I wish to thank the Director and staff of the Society for their loyal support and effective execution of their duties during the past year.