

FERTILIZER SOCIETY OF SOUTH AFRICA

CHAIRMAN'S REPORT 1981/1982

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I am privileged to report on the Society's affairs and the industry's activities during the past year.

In my 1981 chairman's report I spent some time setting out the objectives of our society and indicating what we had done over the years to achieve these objectives.

I indicated that the Society's major contributions to agriculture were made in the fields of scientific fertility research and the promotion and/or dissemination of these research results to crop producers.

During the year now under review the Society has had a long and hard look at the functions it performs for, and at its future role in the fertilizer industry.

We have recently taken an important decision which in effect will *concentrate our efforts on research* and which will leave the dissemination of results and the promotion thereof in the hands of the member companies. In other words the scientific findings of the society will become available to all members who will be free to choose their own promotion methods.

Our decision to concentrate on research came after a study which highlighted the fact that current research activities undertaken by the industry and allied organisations would fall hopelessly short of the requirements necessary to keep abreast of the ever-increasing need to produce more food, more efficiently in the future.

Current agricultural research expenditure is in the region of R30 million per annum in support of an industry with a gross turnover of nearly R7 000 million. The fertilizer industry with a turnover of about R650 million last year invested some R300 000 in fertility research programmes. I think you will all agree with me that these expenditures are pathetically small.

Recognising that manpower and financing requirements could create a problem the Society has initiated moves to get the co-operation of other interested organisations such as the Dept. of Agriculture, co-operative movements, universities and producer organisations. It is our intention to actively promote co-operation because we believe that unselfish participation in fertility research will be in the best interests of the country.

The Past Year

I would like now to report briefly on the activities of the Society during 1981.

Eighteen NPK maize trials were planted in 1981. The drought naturally took its toll and two trials have been abandoned while three others will produce less than 3 tons per hectare. Of significance however is that despite the drought, at least 50% of the trials are expected to have normal yields. Without doubt where optimum growth conditions are provided the effects of drought are minimised.

Five trials to determine the effect of plant population and row widths on maize yields were continued. A comprehensive report appears in our 1981 research report and should provide food for thought among producers, especially in the Koppies, Bothaville and Ottosdal districts where the trials were conducted.

Results from four years' of trials on maize yield potential on certain soils in varying rainfall areas indicate that current yield norms may have to be considerably modified — some up and some down.

During the year the Society extended its wheat research programme to include the Western Cape where ten trials were started in the Swartland and Rûens areas with the Dept. of Agriculture and the university of Stellenbosch co-operating. Whilst it is too early to comment scientifically on the results, a marked reaction to phosphate fertilization was noticed in practically all cases.

In the O.F.S. wheat production is almost entirely dependent upon moisture retained in the soil after the summer rains.

Yields therefore fluctuate considerably and fertilizer trials to determine optimum fertilization are affected by moisture limitations. Further work in this direction is now receiving careful consideration.

As mentioned earlier the society will no longer undertake direct promotional work. For some years we had been active with promotional programmes designed to improve pastures by fertilization. The society has now ceased this function which has been taken over by member companies.

During 1981 the Society conducted fourteen courses for agricultural officers in the national and independent states. Numerous visits were also made to these states in connection with fertilizer recommendations, soil testing, etc.

We continued with the publication of the society journal (scientific) and Plantfood (of interest to the farmer). Plantfood has a wide readership and we are looking forward to a bi-monthly printing of 15 000 copies in the near future.

In addition to the above, personnel of the society published 49 articles of scientific and/or popular nature, a number of symposia were held, short courses for personnel of co-operative societies and other agricultural companies were conducted, lectures given at farmer's days, and numerous other methods of knowledge dissemination employed.

A number of these functions will fall away in 1982 and be taken over by member companies.

Finally, on the research and technical functions, the Society co-ordinated the soil analysis work done by some 20 laboratories.

Our division of economics and statistics, apart from deep involvement in price control matters, was kept extremely busy during the year in finalising NPK consumption statistics by magisterial districts and agronomic regions and followed this up by a countrywide survey of potential fertilizer usage. A very necessary exercise if we are to carry out meaningful planning for the future.

In addition much detailed information had to be prepared for Government in connection with the application for tariff protection and other matters such as the imposition of import duty.

Let me now touch on some matters more related to the fertilizer industry and to agriculture in general.

Fertilizer consumption in 1981, as could be expected after the previous very good agricultural years, was the highest ever at 889 000 tons plantfood compared with 788 000 tons in 1980, an increase of 12,8%. This growth must be compared with the average for the past decade of 7,6% P.A.

It is of interest to note that the growth in consumption during the past three years exceeded the growth of the previous seven years, that is from 1971 to 1978, and that fertilizer consumption has doubled since 1971. This can be partly attributed to the growing awareness of the benefits of adequate fertilization. This awareness has been brought about largely by the research work we have carried out over many years and by the economic evaluation of this work that the Society's economists prepare from time to time for distribution to farmers. Of course, three good agricultural years with good general rainfall have also helped boost fertilizer usage.

The most exceptional growth last year was in phosphates where an increase of 16,6% over the 1980 figure was achieved due mainly to the fertility enrichment schemes supported by medium term credit facilities introduced by certain co-operative societies. This growth of 16,6% must be seen against the average for the decade of 5,7% p.a.

Growth in nitrogen slowed down to 12,3% compared with 13,6% in 1980 but was still above the decade average of 9,7% p.a.

Potash, too, experienced an exceptional growth of 10,9% compared with the ten year average of 4,4% p.a. This growth can partly be attributed to user acceptance of the necessity for balanced fertilization especially when aiming for high yields in maize.

As far as provincial statistics are concerned the Transvaal accounted for 47,9% of total fertilizer consumption in South Africa, the O.F.S. 25,0%, Natal 14,3% and the Cape Province 12,8%. Good growth over the previous year was registered in all provinces and this was particularly welcome in the case of the Cape Province which moved out of a negative 1980 growth to a positive 9,4% in 1981.

Production costs, which had been contained in 1980 largely due to the strength of the rand were adversely affected in 1981 when it became government policy to allow the rand to depreciate. Whilst this was good for gold it was bad for fertilizers and the eventual decline of the rand to \$1,05 by the year end added tens of millions of rands to our imported materials, mainly sulphur, potash, ammonia and nitrogen products. The position will be aggravated in 1982 with the rand already 10% weaker than in December 1981.

Once again the industry had to accept a completely inadequate increase in the prices fixed by government at the year-end. Based on the approved government price formula which had been studied and revised a few months earlier by the committee of enquiry into the fertilizer industry under the chairmanship of Prof. C. Pistorius, the average increase should have been 18,2%. The major component, some 8% of that increase, was imported raw materials. Instead of 18,2% the cabinet saw fit to award 10%, putting the fertilizer industry into the absurd position of subsidising the consumer to the tune of R54 million.

Subsequent to the Cabinet decision to fix unrealistic prices the industry has been hard hit by an avalanche of increased costs viz.

- (a) The further weakening of the rand to \$0,95 which will add R6,5 million to our import bill.

- (b) The increase in railage rates which will mean increased costs of R2,8 million.

- (c) The imposition of an import duty which will add another R6 million to the cost of raw materials.

Unlike most other industries we are not permitted, under price control, to recover any portion of the above increases from consumers.

In total the fertilizer industry will in 1982 indirectly subsidise the consumer to the extent of R69 million equivalent to R21 per ton of fertilizer. The industry obviously cannot carry this burden for long.

I think a few words on the Government's fertilizer pricing policy would not be out of place. From what I have said about non-recovery of costs to the tune of R69 million it is clear that the Government is adopting a policy of robbing Peter (the industry) to pay Paul (the farmer).

It must be obvious to everyone that to run-down, to bleed an industry to this extent could not have stemmed from a purely economic decision. The underlying tones of political interference are perceived and the fertilizer industry resents the attack launched against it in order to improve the lot of others. *If subsidies are necessary, the taxpayer and not an individual industry must be called upon to meet the bill. It is of paramount importance to the survival of any industry that social or political motives be prevented from overshadowing economic motives.*

In attempting to understand the reasoning behind this policy I did some delving into the plight of the farmer — after all he is our customer and we are interested in his welfare — and I came across some interesting facts. Based on mid 1981 Govt. statistics I found that the average annual net income of the South African farmer was R45 000. Most alarmingly, however, we are told that about 21 000 farmers had no income worth talking about — less than R1 000 per year each.

Even more alarming, the KWV announced in September 1981 that 76% of their members made a loss i.e. only 1 400 of their 6 000 members enjoyed an income.

I have not sufficient supporting facts to analyse these statistics but the immediate impression I get is that whilst on average the farmer appears to be better off than his city cousins there is a very large body of farmers barely making a living.

Can this state of affairs be due to government pricing or subsidisation policies that appear to protect the inefficient farmer? Will the fact that the fertilizer industry is subsidising the farming community to the tune of R69 million in 1982 make the inefficient farmer more efficient? I doubt it. I can't give you the answer but I do recognise an unhealthy situation.

During the past year the fertilizer industry has been accused of being responsible for major cost increases in crops. Whilst this may be partly true the industry is nevertheless proud that, excluding the cost of raw materials over which we have no control, we have kept our own costs to a level well below the inflation rate.

The maize problem for instance has been highlighted recently. We are told that maize export losses exceeded R300 million last year. Of course increased fertilizer costs were partly responsible but to put the whole matter into perspective — if the maize farmers had been given their fertilizer as a gift delivered free on their farms they could still not have competed at a profit on the world market. We obviously have to look elsewhere for the solution to our maize problem.

A worrying factor to the industry during the past few years has been the increasing cost of raw materials which this year makes up 84% of the production costs of fertilizers. Nitrogen is by far the main element consumed in South Africa and although it is common knowledge that it can currently be imported cheaper than the local product it is probably not widely known that there are very good reasons for local manufacture just as there are very good reasons for the local manufacture of fuel, diesel engines, motor cars, etc. Criticism that local nitrogen manufacturers must be making a fortune overlooks the fact that our industry is of necessity coal or oil based whilst much of the overseas production stems from relatively cheap natural gas. It also overlooks the fact that the price controller ensures that no fortunes are made.

During the past two or three years the Government has, quite laudably, been fostering the concepts of free enterprise. As far as the fertilizer industry is concerned the policy is to move away from import control to one of tariff protection. This transitional stage is currently proving to be a difficult one for the industry. For many years we were encouraged to erect factories worth hundreds of millions of rands in order to reduce imports. In recent years during the import substitution campaign we were exhorted to do so even if the plants were not quite as economical as they should have been. "Save foreign exchange" was the cry!

Under this policy there was an understanding with Government that the industry would be protected against the incursions of overseas suppliers who were very keen to get rid of surpluses. *The price we paid for protection was strict price control which limited our profits on sales in South Africa to levels laughed at by other industries.*

Now we hear the call for free enterprise, we see the encouragement of imports, the virtual removal of protection because certain fertilizers can be imported, at this time, more cheaply than the South African product.

We now find ourselves saddled with enormous fixed assets, still subject to price and other controls, and being called upon to compete against certain imported products which are not subject to adequate duty or are being imported duty free through Customs Union countries. *That local production will be curtailed is a certainty unless remedial action is taken soon.*

Piecemeal introduction of a partial free enterprise system just cannot work. Why enforce it on the controlled fertilizer industry? What an outcry there would be should I suggest the removal of the substantial duties on motor vehicles, diesel engines, tea, and a host of other products where imports are cheaper than local production. Why not shut down these industries and import instead? There are obviously many good reasons for not doing so but I can't go into them now.

As far as the fertilizer industry is concerned selective import control appears to be necessary if we are to maintain productivity and if we are to regain confidence in our future.

Despite vague promises from Government that it is not their intention to create disruption in the fertilizer industry we find it disappointing that so little is done to reassure the industry that it has a reasonably healthy and long life ahead of it and that shareholders will again be found to invest and to enjoy acceptable dividends.

Earlier in this report I mentioned that the Society had decided to concentrate its efforts on research. We did this despite the fact that some years ago the work we were doing was frowned upon and that the cabinet refused to allow the Society's costs in controlled prices because it was left that the work should be done by the Department of Agriculture.

In recent years both Dr. Immelman and Dr. Agenbach of the Department have highlighted the shortcomings in research and their department's inability to cope with demands. Needless to say our research work is being welcomed by all including the Department but we have once again been humiliated by having the cost (one cent a bag) excluded from price control.

We must be the only industry in South Africa not entitled to recover research costs in selling prices.

Summary

I have touched on a number of the uncertainties and problems facing the industry and agriculture. Let me attempt a simple summing up.

My comments on the government's actions:

- (i) The decision to arbitrarily reduce the 1982 prices,
- (ii) The rapid switch from protection to a free enterprise system,
- (iii) The negative policy on research and
- (iv) The fact that the industry and not the taxpayer is subsidising the farmer/consumer, point to one thing — *an apparent lack of long term agricultural policies*, policies that may be used as a guide by both farmers and industrialists to plan five or ten years ahead.

Until we get this lead, this guidance, we will continue to grope in the dark in our search for medium and long term solutions to problems which are creating considerable uncertainty and unhappiness.

In conclusion, on behalf of the executive and management committees of the Society, my very sincere thanks to Dr. Luitingh and his personnel for their dedication and loyal support this past year. Thanks also to my colleagues who have voluntarily served on our sub-committees in order to ensure the smooth and successful running of the society.