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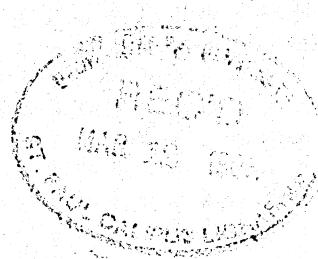
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AGRICULTURAL OUTLOOK CONFERENCE 1984



PRESENTED BY -

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Agricultural Marketing Boards
- Department of Agriculture
- South African Agricultural Union

PALMS HOTEL
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OUTLOOK IN RESPECT OF THE KARAKUL INDUSTRY

1. INTRODUCTION:

- 1.1. Karakul pelts originating in South Africa, South West Africa and Botswana are marketed on overseas markets under the brand name SWAKARA. The pelts are intersorted and sold in London by public auction. Normally five auctions are held annually which ensures a regular flow of skins to the international market. The main offering of skins is in the latter half of the year as a result of the normal pattern of lambing.
- 1.2. Virtually all karakul pelts produced in the abovementioned areas are exported. Even those pelts that are eventually consumed in the domestic market had been exported and reimported after processing overseas for manufacture into fur garments. The karakul industry is more dependant on export markets than any other agricultural industry, and as a consequence also more exposed to the factors that influence international commodity prices.
- 1.3. Since 1976 when the highest average price of R17-82 was paid per pelt, prices have shown a declining trend and have since 1981 reached levels which are below average production cost.
- 1.4. The decline in prices of SWAKARA followed a decade of rising prices during which prices increased from R5-00 per pelt to R17-82 per pelt. The decline can be attributed mainly to a decreasing demand as a result of fashion. Fur fashions had swung in favour of longhaired furs such as fox resulting in drastic declines in the prices of all shorthaired lamb furs such as Indian lamb, Baghdad lamb, Lincoln lamb or socalled American broadtail, Scandinavian lamb as well as Russian and Afghan karakul. Since 1981 however the further declines are attributed to the worldwide economic recession.

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- 1.5. As projected during the 1983 conference, production of pelts declined drastically as a result of the low prices and the continuing drought. South African pelt production which was 725 209 in 1981, declined to 564 541 in 1982, a decrease of 22%. South West African pelt production which was 1 956 946 in 1981 declined to 1 346 255 in 1982, a decrease of 31%. Altogether a decrease of 28.75% in production. Compared to 1976 when the highest average prices were paid, the level of production in 1982 represented a decrease of 60%. Compared to 1980 when total production still reached 4 671 627 the decrease was 59%.
- 1.6. Simultaneously with the decline in pelt production an increase in the production of meat for the meat market was experienced. This trend accelerated since 1981 as a result of the disastrous drought in karakul producing areas, resulting in increased slaughterings in order to reduce herds to the low levels encouraged by the State in terms of its drought-assistance scheme. In most cases the required low levels of stocking have now been reached and the further reduction of herds should therefore be stabilized.

2. PRODUCTION DURING 1983:

- 2.1. Since production is directly correlated with the prices for SWAKARA in international markets, the factors that have influenced price should be analyzed first of all.
- 2.2. Since 1981 the international fur trade is being adversely affected by the general economic recession. This is the first time in the postwar period that this has happened. During all previous recessions fur sales were stimulated by a trend amongst consumers to buy what they regarded as "investment goods" such as furs and jewellery. Consumer behaviour during the present recession is different however. Increasing unemployment, political uncertainty in especially Germany - the most important consuming country of furs in the world -, high interest rates which encouraged savings and pessimistic expectations by consumers in general, have led to a decline in the volume of retail

sales in all markets. Not only SWAKARA is affected but all kinds of fur. As is to be expected, furs which are in fashion have suffered less than furs such as SWAKARA which are not at present at the height of fashion and which therefore had to contend with a further decline in price.

- 2.3. The decrease in retail sales has created serious problems for the international fur industry. Manufacturers of garments have had to curtail their production and as a result processing factories where raw furs are dressed and dyed have also had to curtail their production in response. These steps have not necessarily led to a lowering of costs since in many cases factory workers cannot be dismissed. The result was that many large companies have had to face serious financial difficulties because of lower turnovers and insolvencies have become common.
- 2.4. In the light of these circumstances it was to be expected that the fur trade would liquidate their stocks and would buy new stocks only with great circumspection. The result was a decline in prices at international raw fur markets which has however levelled out in 1983. An appreciable upward adjustment in prices can only be expected if and when the present economic recession were to come to an end and consumer spending to increase.
- 2.5. The effects of the recession can be clearly seen in a market such as Germany which is the biggest consumer of furs in the world and which imported more than 65% of the total SWAKARA production annually.
 - (i) Turnovers in the fur trade declined by 30% between 1981 and 1983.
 - (ii) Total imports of raw furs (all kinds) declined by 43% from 28.4 million fur skins in 1980 to 16.2 million in 1982. The value of these imports declined by 33% from DM 1 009 milliard in 1980 to DM 673,3 million in 1982.
 - (iii) About 35 companies from the fur trade, manufacturing and processing sectors failed during 1982/83. They represented 10% of the active companies in the fur industry but were responsible for about 25% of turnover.

(iv) The annual turnover of German retail furriers increased until 1980. In 1981 however it declined by 7.7%, by 6.5% in 1982 and by 3.3% in the first half of 1983. The number of active retail furriers declined in the same period by 2.6% to 2 070 employing 15 000 people.

2.6. It is clear that events in an important market such as Germany will have had a strong impact on the karakul industry of Southern Africa. Despite the poor performance of the fur industry in Germany and elsewhere, however, prices for SWAKARA are increasing gradually mainly as a result of:

(i) reduced stocks as a result of the lower production of SWAKARA;

(ii) a gradual increase in consumer demand for SWAKARA;

(iii) the introduction at auction of reserve prices for SWAKARA in November 1982.

2.7. As a result of the lower pelt production four auction sales only of SWAKARA were held during 1983. At the first sale of the year in February 1983 an average price of R11-82 per skin was obtained, followed by R10-97 in July 1983, R11-42 in September 1983 and R13-85 in November 1983. These prices compare favourably with the overall averages of R9-89 which was obtained in 1982. The introduction of reserve prices by the Board contributed substantially to the stabilization of prices. In terms of the Board's price protection policy pelts which do not obtain market-related reserve prices are withdrawn from the auction and subsequently purchased by the Board. Such pelts are offered for sale by the Board through either private treaty or inclusion in subsequent auctions. Virtually all the pelts that were purchased by the Board in 1983 were sold at a profit during the course of the year.

2.8. The crisis of the past few years has highlighted the vulnerability of agricultural industries that produce mainly for exports.

This vulnerability to international economic conditions is heightened in the case of fashion-related products which are subject to the cyclical movements typical of fashion articles.

- 2.9. As a result of the long and continuous period of high pelt prices the karakul industry developed into an industry which exploited in the main only one of its products i.e. pelts. The recent problems experienced by the industry led to the formulation of new policies which when fully implemented will reduce the dependence of karakul farmers on a single product. The karakul sheep is a multi-purpose breed which is hardier and more drought resisting than any other breed and thus better adapted to the arid regions of our country where droughts occur regularly. Tests have proven that the nutritional need of karakul sheep is lower than that of other breeds which makes it ideal for farming in arid regions, especially in the light of Government policy which gives high priority to the conservation of our soil.
- 2.10. One of the disadvantages of the pelt bias of the karakul industry was the large number of inferior pelts that were produced and marketed. This was especially true of the production of black pelts which represents more than 70% of the total production. The new policy to include the production of meat as an integral part of karakul farming has the great advantage of enabling the selection at birth of lambs suitable for either pelt or meat production. The selection of lambs with inferior pelts for the meat market will enable farmers to remove a large percentage of inferior pelts from the fur market as well as considerably reducing their dependence on pelts as only source of income. As a result of the new approach one can expect a larger production of meat from karakul flocks if allowed by grazing conditions.
- 2.11. One of the greatest longterm problems facing the karakul farmer is the considerable increase in the cost of his production inputs, which he is unable to pass on to the consumer since he produces a commodity which is sold on the international market by public auction. Such important inputs as labour, vehicles, fuel, fencing wire, plastic pipes, windmills, veterinary requirements and

transport costs are all subject to a very high rate of inflation. As long as these unprecedented cost increases continue all agricultural industries that have to compete on international markets will find it wellnigh impossible to make ends meet. This situation is further aggravated by the effect of exchange rates which very often cause serious declines in the yield of agricultural exports.

As a result of the South African climate which does not necessitate the wearing of fur garments, the karakul industry is committed to exports. The karakul industry consequently contributes to the earning of vital foreign exchange which is essential, especially in a less developed country such as South West Africa with its meagre primary resources. In 1976 the karakul industries of South- and South West Africa earned R85.7 Million in foreign exchange which declined to R18.9 Million in 1982. Without the contribution of the agricultural sector the balance of trade of South Africa would have been in a much less favourable position.

3. THE PROSPECTS FOR 1984:

A. PRODUCTION:

A further reduction in the production of pelts to a total of 1.1 million in South- and South West Africa is expected. Production in South Africa will probably decline to a level of 400 000 whilst in South West Africa a decline to 750 000 is expected. Whereas the reduction in pelt production during 1983 was the result of a further reduction of flocks due to the disastrous drought, the expected decline in 1984 will be the result of gradual restocking of flocks. Increasing prices as well as better grazing conditions if it should rain, will accelerate restocking, i e less lambs will be diverted to the pelt market and a larger number of lambs will be used to increase flocks to the extent allowed by available grazing. The supply of lambs to the meat market which reached its peak when flocks had to be reduced drastically will most probably level out in the short term especially if pelt prices should continue their upward trend.

B. PRICES:

The upward trend in pelt prices which became apparent during 1983 should continue in 1984. Indications are that the consumer demand for SWAKARA is on the increase giving rise to greater interest and keener competition at wholesale. This improvement in demand came about despite the fact that there are as yet no clear indications that the economic recession in the main overseas markets for SWAKARA is improving. If general economic conditions should improve during 1984, pelt prices should improve at an accelerated rate.

South African Karakul Board

WINDHOEK

STATISTICAL SUPPLEMENT

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SUPPLEMENT 1:

PRODUCTION OF KARAKUL PELTS 1972 - 1982

<u>YEAR</u>	<u>SOUTH AFRICA</u>	<u>SOUTH WEST AFRICA</u>	<u>TOTAL</u>
1972	2 097 530	3 416 481	5 514 011
1973	1 820 933	3 188 510	5 009 443
1974	1 738 571	2 953 929	4 692 500
1975	1 856 905	2 985 090	4 841 995
1976	1 992 220	2 817 582	4 809 802
1977	1 816 825	2 611 216	4 428 041
1978	1 953 246	2 709 552	4 662 798
1979	2 058 315	2 899 090	4 957 405
1980	1 664 810	3 006 817	4 671 627
1981	725 209	1 956 946	2 682 155
1982	564 541	1 346 255	1 910 796
1983	477 542	823 522	1 301 064

SUPPLEMENT 2:

GROSS VALUE OF PRODUCTION 1972 - 1982

<u>YEAR</u>	<u>SOUTH AFRICA</u>	<u>AVERAGE PRICE</u>	<u>GROSS VALUE</u>
1972		R9-96	R20 891 398
1973		R9-21	R16 770 792
1974		R9-33	R16 220 867
1975		R11-90	R22 097 169
1976		R17-82	R35 501 360
1977		R13-88	R25 217 531
1978		R12-65	R24 708 561
1979		R16-11	R33 159 454
1980		R14-23	R23 690 246
1981		R10-27	R 7 447 896
1982		R9-89	R 5 583 310
1983		R11-96	R 5 711 402

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SOUTH WEST AFRICA

<u>YEAR</u>	<u>AVERAGE PRICE</u>	<u>GROSS VALUE</u>
1972	R9-96	R34 028 150
1973	R9-21	R29 366 177
1974	R9-33	R27 560 157
1975	R11-90	R35 522 571
1976	R17-82	R50 209 311
1977	R13-88	R36 243 678
1978	R12-65	R34 275 832
1979	R16-11	R46 704 339
1980	R14-23	R42 787 005
1981	R10-27	R20 097 835
1982	R9-89	R13 314 461
1983	R11-96	R9 849 323

