

Cover Story: Subsidies not a panacea for poultry industry

ALREADY up in arms over the government's initial extension of a price control scheme to Feb 4 at a time when the industry is grappling with a 30% rise in animal feed costs, poultry players say there are more questions than answers to a recently announced subsidy scheme which is to cover a further period of extension.

Poultry players say it is better in the longer term for market forces to determine prices while economists urge Malaysia to explore viable local alternatives to imported animal feed, which has shot up by 30% since October 2021.

A week ago, Putrajaya announced that a subsidy of 60 sen per kg of broiler, and five sen per egg for producers will be given out during the period when the Keluarga Malaysia Maximum Price Control Scheme (SHMKM) is extended from Feb 4 to June 4.

A trusted solution for development financial institutions

Development financial institutions (DFIs) play an important role in promoting strategic sectors that are important to the country. However, it can be challenging for DFIs to monitor and manage their funds as they are not licensed for deposit taking and, thus, are unable to open current accounts for borrowers.

The four-month subsidy is expected to cost the government RM528.5 million.

Poultry industry veteran Datuk Jeffrey Ng Choon Ngee says the mechanism for the subsidy has yet to be communicated to the industry, which is adding to the confusion.

"There is also some confusion on the farmgate prices of broilers. According to the Ministry of Agriculture and Food Industries, this will be at RM5.90 per kg. However, the price set by the Ministry of Domestic Trade and Consumer Affairs is RM5.60 per kg, so there is some confusion here," he tells The Edge, adding that the subsidy is inadequate, especially for smaller-sized poultry farms.

"Though these subsidies will help to an extent, they are inadequate, because many poultry farmers, especially the smaller ones, had to fork out sizeable working capital to stay afloat during the lockdowns due to the pandemic, as demand was low and no soft loans were granted to them. The rise in commodity prices, coupled with the imposition of price control, has raised the question of survival for small and medium-sized poultry farms.

"It is not a case of these farms not running their businesses well. The rise in [prices of] commodities is a global issue affecting poultry farmers worldwide, and crude palm oil, which is also a component of animal feed, is at a record high right now.

"It will definitely help the industry if the price control is removed — more than subsidies," says Ng.

Since October 2020, feed prices have risen sharply owing to the global increase in corn and soybean meal prices, which make up about 75% of costs. This has also resulted in a chicken supply shortage as it has

become economically unfeasible for poultry players — especially the small and medium-sized ones — to continue producing. This was then further aggravated by the imposition of SHMKM, which restricted them from raising prices.

Leong Hup International Bhd group chief financial officer Chew Eng Loke is of the view that subsidies, once implemented, will be difficult to remove.

“It will be better for the country to let market forces determine prices as consumers will switch to alternatives if prices are unreasonably high.

“[My] personal opinion is to let market forces determine the prices of chicken and egg. Assuming each person eats 50kg per year x RM0.60 per kg = RM30 per year; allowing each taxpayer to claim, say, RM50 cost of living deduction should be much easier to implement administratively than subsidies,” he tells The Edge.

Issuance of import APs

The government has also issued more Approved Permits (APs) for the import of frozen whole chicken, in an effort to address the supply shortage of chicken while stabilising prices in the market.

It was reported that 32 companies were previously given approval to import frozen chicken, but the identities of these companies were not revealed by the Ministry of Agriculture and Food Industries. However, it was also reported that four hypermarkets (Lotus, Lulu, Mydin and NSK) are now allowed to import frozen whole chicken.

When contacted, Mydin Holdings Bhd managing director Datuk Wira Ameer Ali Mydin confirmed that Mydin was one of the hypermarkets granted the import AP for whole chicken.

“We received the approval to import whole chicken, but not chicken parts. We are allowed to import from three countries — Brazil, China and Thailand. We are very thankful to the government for approving our application for the import AP, and now it is for us to negotiate the right prices to import the chicken,” he says.

“However, to stabilise the availability of chicken, I believe it will take another two months.”

A poultry industry veteran who requested anonymity opines that the issuance of the import AP will not alleviate the current shortage.

“The increase in feed costs is a worldwide phenomenon, hence it will not be cheap to import. Issuing APs is a short-term solution to the problem but it is counter-productive, as it does not provide an incentive for local producers and does not encourage local production,” he says.

Additional imports are expected to further add to the country’s burgeoning food import bill which, according to data from the **Department of Statistics Malaysia**, has risen by 10% to RM51.4 billion in 2021, from RM46.76 billion in 2016.

In 2020, the food import bill was at a record high of RM55.5 billion. The self-sufficiency ratio (SSR), which is the magnitude of production for domestic consumption of poultry meat at that time, was 98.2%, and its import dependency ratio (IDR) was 4.2%, while the SSR for eggs was at 113.5% and IDR was 0.004%.

Production of poultry meat fell 3% to 1.6 million tonnes in 2020 compared with 1.65 million tonnes in 2019, while production of eggs increased 22% to 825,876 tonnes in 2020 against 675,959 tonnes in 2019. The per capita consumption of poultry meat in 2020 was 47.4kg; in 2019 it was 49.2kg.

Long-term solutions

Associated Chinese Chamber of Commerce and Industry of Malaysia's Socio-economic Research Centre executive director Lee Heng Guie is of the view that a "rethink of the agrofood industry" is needed to solve this issue.

"The poultry industry in 2020 had an SSR of more than 100% [consisting of both chicken and egg], so we have to view it as a strategic industry for our national food security, and there must be a holistic policy in place for this. In Thailand, for example, food-related industries are protected by the government as they are strategic — not just for domestic consumption but they contribute to foreign exchange earnings as well," he tells The Edge.

Khazanah Research Institute deputy director of research Dr Sarena Che Omar points out that though Malaysia has more than 100% self-sufficiency in the production of chicken and eggs, it is not self-sufficient in the production of animal feed.

"This doesn't mean that we should start planting corn and soybean, [as] we simply do not have the competitive advantage to be able to grow these crops to price match (or price lower) against these large exporting countries.

"But what we can do is ask ourselves what alternative sources of animal feed Malaysia can produce and has a competitive advantage in. And there is an answer — palm kernel cake, a by-product of oil palm, and insect farming (such as black soldier flies) are a huge potential for Malaysia," she says.

<https://www.theedgemarkets.com/article/cover-story-subsidies-not-panacea-poultry-industry>