

Malaysia's farmers: Floating chicken, egg prices is best way forward

KUALA LUMPUR (Feb 28): The Malaysian government's plans to remove price controls for chicken and eggs was the "best way forward" to balance supply and demand compared to artificially managing this with price caps, local farmers have said.

Datuk Jeffrey Ng, an adviser for the Federation of Livestock Farmers' Associations of Malaysia (FLFAM), said the move was one the association already proposed previously and discussing with the government on its possible implementation.

"For the sake of the whole industry and the whole supply chain, I think floating the market is the way forward," he told Malay Mail when contacted.

Ng was asked to comment on Agriculture and Food Security Minister Datuk Seri Mohamad Sabu's announcement this week of the government's plans to float chicken and egg prices in Malaysia after June.

According to Ng, FLFAM represents more than 2,000 chicken and egg producers, effectively all of the farmers available in Peninsular Malaysia.

He confirmed FLFAM's members have yet to discuss the finer details of the proposed float, and said they must also consult further with the government to understand its mechanisms and implementation.

Ng also said the ideal solution should be one that was mutually beneficial to all stakeholders in order for it to be sustainable.

"We need to find a win-win situation for everyone, from producer to wholesaler to retailer to end consumer," he said.

When highlighting some of the shortcomings of price controls, Ng noted that this was only imposed on eggs during the shortage a year ago and that prices were floated before then.

When asked if the floating the prices of chicken and egg would eliminate the shortages in the past year or even encourage higher supply, Ng said this was something that should be determined by a free market. — Malay Mail photo

With government's price ceiling, Ng said producers would not get a clear signal on how much they should produce and were sometimes forced to scramble to respond or retool their operations if they did not get enough subsidies or have adequate funds to sustain themselves.

"So, there's a lot of confusion in everything, in production. This is actually not healthy for the industry," he said in highlighting drawbacks of a price control system.

Ng said chicken and egg producers consequently had to think hard about whether to operate under price controls, as there would likely be periods they would have to operate at a loss as subsidies would not cover all their costs.

“Is that fair to the producers? But if the subsidy is too high, it’s not fair to consumers or the government too. So, it’s very difficult to balance this kind of scenario,” he said when advocating for the price float.

When asked if the floating the prices of chicken and egg would eliminate the shortages in the past year or even encourage higher supply, Ng said this was something that should be determined by a free market.

As with any other industry, he said more people would enter the egg and poultry sectors if it were lucrative or leave it if it were not profitable or overcrowded.

On whether the float could result in lower prices due to increased competition, Ng said it was one possible outcome of the proposed system.

“But if, for example, the cost of production is going up higher and higher, but consumers are not willing to pay that price and demand drops, you are forced to sell at a lower price, but then you cannot sustain that kind of production.

“You have to reduce production, people have to close down, when that happens, supply will also short. So, there’s a lot of scenarios which could happen, but it’s based on the nature of the free market then,” he said.

Ultimately, a system where prices are floated will enable the supply situation and the demand situation for chicken and eggs in Malaysia to keep rebalancing, and to also result in prices at the right levels.

“It has to self-balance, then the price will find the right level to continue. Clearly, Malaysia’s price is much, much lower than the international price, and whether this can be sustainable or not, I doubt it. Because even if you have to buy it from India, the eggs are more expensive than local eggs, so how to stay at that kind of operation?” he said.

In the **Department of Statistics Malaysia’s (DOSM)** December 30 report on a special study on 2022 production costs for chicken and egg in Malaysia, it showed the government paid subsidies of between RM0.60 and RM1.40 per kg of chicken from February to October 2022, and between RM0.03 and RM0.08 per egg during the same period.

The report’s data showed the costs to produce eggs — which varied by state — were generally higher than the price ceiling, while costs for chicken tended to fluctuate above and below the maximum allowable prices.

Based on the DOSM report, the production costs last year in Malaysia for Grade A eggs were RM0.53 (per egg), RM0.51 (Grade B), and RM0.49 (Grade C), with the cost averaging out to RM0.48 sen per egg.

But the production costs of eggs would differ according to state, with the highest in the study being Negri Sembilan at RM0.64 (Grade A), RM0.61 (Grade B), and RM0.57 (Grade C).

Currently, the controlled retail price for a standard chicken or a chicken which has been slaughtered, cleaned and with all parts retained was RM9.40 per kg in Peninsular Malaysia; RM9.90 per kg in Langkawi; between RM9.80 and RM12.90 per kg in Sarawak, depending on the district; either RM11 or RM11.30 per kg in Sabah, again based on the district; and RM11.30 per kg in Labuan.

As for eggs based on their weight, the maximum retail prices in Peninsular Malaysia including Langkawi for Grade A, Grade B, Grade C eggs are 45 sen, 43 sen, 41 sen per egg, respectively.

Maximum prices per egg in Sarawak are higher at 47 to 50 sen (Grade A), 45 to 48 sen (Grade B), 43 to 46 sen (Grade C), as well as in Sabah at 50 sen to 51 sen (Grade A), 49 to 50 (Grade B), and 48 to 49 sen (Grade C), while in Labuan it is 51 sen (Grade A), 50 sen (Grade B) and 49 sen (Grade C).

Cost factors: Chicken feed, electricity bills, salaries and more

Beyond just looking at the idea of floating prices for chicken and eggs, Ng spoke of the need to look at the whole industry and supply chain to ensure food production remains a viable business and to also prevent food prices from going up for consumers.

For example, the government's move to increase the price at which electricity is supplied to businesses since January has actually affected the cost of producing chickens, Ng said.

He noted the recent higher electricity bills affect the entire supply chain, such as for chicken feed millers and chicken processing plants who need electricity to produce feed and slaughter and process chickens, noting that those in the supply chain may need to increase prices, which would then also contribute to food costs going up.

In a situation where the aim is to lower food production costs but when electricity costs are increased at the same time, Ng said it would not be sensible for producers to keep bearing the extra cost until it comes to a point where they have to shut down due to financial losses.

While saying government subsidies should be removed if price controls were to be removed for chicken and egg, Ng said there would also be a need to look at the whole picture to manage food costs.

"If you float the price, the subsidy should be removed, but if you want to lower the food bill, some of the things that we have to do, like costs that go to the input of producing food, we need to look at this.

"Just like last time when we had GST, chicken and eggs were not in the GST category, so then chicken and egg cost will be maintained, so it doesn't affect the food inflation," he said.

"When the government was talking about or deciding on increasing tariff for electricity, the food industry is something they have to look into, because that increase of tariff will definitely increase the cost of production. If the cost of production goes up, then prices will have to go up, it will have a direct impact on food cost to Malaysia," he explained.

Last December, the Malaysian government announced that medium voltage and high voltage users including multinational companies would be charged with a surcharge of 20 sen per kWh for the January 1 to June 30, 2023 period due to highest power generation costs, while deciding not to increase electricity charges on households, farmers and businesses which are low-voltage users.

As for the cost of chicken feed, Ng said FIFAM is "still working very closely with the government" to find a way to solve this issue and to explore if there are better alternatives for existing chicken feed options, noting that he believes the price of chicken feed will eventually find a level itself.

There are multiple other aspects that could affect the costs of producing chicken and egg or their related products, with Ng saying that the increase in minimum wages for example do not just affect the salaries for workers at the lower income tier, but also the amount of salaries which farmers have to pay their entire workforce.

Ng explained that if those receiving minimum wage were to have their salaries increased to match the government's mandatory minimum levels, other workers such as their supervisors and managers who are in the higher wage brackets too would also expect an increase in their salaries.

He noted that salaries have quite a substantial impact on costs, as processing plants and suppliers to farmers may also have to increase prices due to the increased salaries.

In the same DOSM report, chicken feed, utilities and salaries were among the major contributors to the cost of producing chicken and eggs in Malaysia.

For example, DOSM stated that 96.89 per cent of egg production in Malaysia was direct cost while 3.11 per cent was indirect cost, with the direct cost's biggest contributor being chicken feed at 76.18 per cent, while the third and fourth highest contributor to direct costs were utilities (8.82 per cent) and salaries and wages (7.02 per cent).

A similar pattern was seen in the production costs of chicken in 2022, with direct cost accounting for 98.61 per cent, and with the direct cost's biggest contributor being chicken feed (65.13 per cent), and the third and fourth highest contributor to direct costs again being utilities (7.20 per cent) and salaries and wages (5.85 per cent). – Malay Mail

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