

Situational Analysis

Poultry Industry of Punjab Amidst COVID 19

Threats, Challenges and the Way Forward



Punjab Board of Investment and Trade

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Disclaimer: The views and suggestions expressed in this report are result of opinions and information shared by the industry official platforms and its businessmen and do not necessarily reflect the policy of Government of Punjab or PBIT

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1- Sector Introduction and Significance

Pakistan is an agrarian economy where agriculture and allied contribute about one fifth to country's GDP forming the backbone of the rural economy as it provides employment to 42% workforce of the country. Livestock is the largest shareholder in the agriculture with enormous contribution of



58% in the agricultural GDP. It can be appraised from the fact that a rural population of nearly 40-45 million is directly dependent on livestock and allied farming for their livelihoods.

Poultry sector is one of the most vibrant subsectors of livestock sector. The current investment in Poultry Industry is more than Rs. 700 billion. This industry is progressing at an impressive growth rate of 8 to 10 percent per annum over last few years. Pakistan has become the 11th largest poultry producer in the world with the production of 1,163 million broilers annually. This sector provides employment (direct/indirect) to over 1.5 million people.

Poultry today has been a balancing force to keep check on the prices of mutton and beef. Poultry meat contributes 34 percent (1,518 thousand tons) of the total meat production (4,478 thousand tons) in the country. Poultry meat production showed a growth rate of 9.1 percent whereas egg production showed a growth of 5.6 percent (19.0 billion Nos.) during 2018-19 as compared to previous year. Transformation of poultry production in controlled shed system is making a tremendous difference of quantity and quality of poultry production. There are now over 6,500 controlled environment poultry sheds in the country which indicates that our poultry sector is moving in the direction of modernization and using advance technology.

2- Important Facts

- Presently turnover of Pakistan Poultry Industry is about 1,168 Billion rupees (pre-COVID 19 Scenario).
- Poultry sector is one of the most organized branches of the agro based sector of Pakistan. Its growth rate is 10-12% per annum.
- At present over 190 billion rupees worth of agriculture produce and byproducts of agriculture are being used in poultry feeds (becoming part of the larger agriculture value chain).
- There are over 15000 poultry farms spreading deep into the rural areas across the country. Capacity of farms range from 5,000 to 500,000 broilers.
- Marketing channels of broilers and eggs are predominantly in the unorganized sector.
- 40-45% of the total meat consumption is being procured from poultry products.
- Poultry Slaughterhouses, Processing/Value Addition in organized sector is 5-6%
- Annually we are producing 17,500 million table eggs.
- Annually we are producing 1,440 million kilo grams chicken meat.

3- Background

University of Veterinary and Animal Sciences (UVAS) convened an online session with all stakeholders of Livestock and Poultry sector on 7th April, 2020, which included representatives of academia, Livestock Department Government of Punjab, farmers, farmer's associations, processing companies, exporters and FAO expert. The required measures to ensure sustainability of food supply chain were discussed in detail. The details of the meeting and recommendations were also shared via official letter with the all the relevant offices of the Government including The Prime Minister's Secretariat.

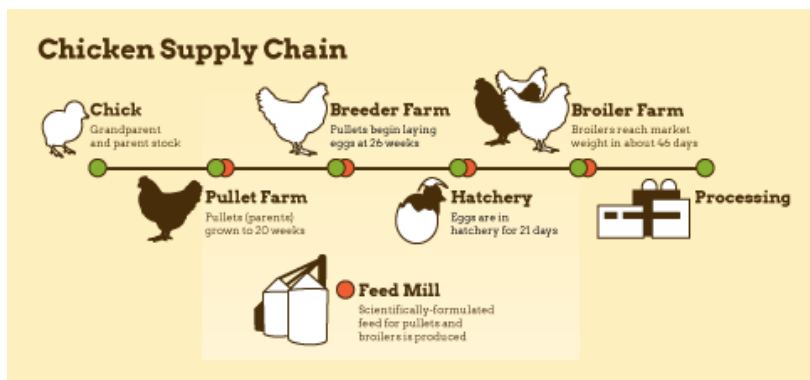
Similarly Pakistan Poultry Association also made requests and suggestions to the Prime Minister and to Governor of the State Bank of Pakistan on 6th April, 2020 apprising the current state of the industry and proposing recommendations to help the Poultry Industry in times of crisis.

4- Existing Incentives being offered to the Industry

The Federal government has given a number of concessions on import of poultry machinery, parent and grandparent stock of chicken and hatching eggs to reduce input cost. During the Budget 2017- 18, government reduced the sales tax from 17 percent to 7 percent on import of various types of poultry machinery, reduced custom duty from 11 percent to 3 percent and removal of 5 percent Regulatory duty on import of grandparent and parent stock of chicken and reduced custom duty on the import of hatching eggs from 11 percent to 3 percent. These concessions will help in reducing cost of production of value added poultry products and promote value added poultry industry in the country. Furthermore, federal government is also considering support for waiver of 100 percent cash margin on opening of letter of credit (LC) on import of raw material for poultry value addition to make the Pakistani products more competitive in the export market.

5- Situation Analysis

With reference to the information made available through the letters and over voice interviews of the businessmen from the poultry community, it is being reported that the current threat of COVID 19 is having devastating effects on the whole food supply chain due to recent containment measures.



The industry is of the view that the situation has rendered Livestock and Poultry industries to non-sustainable and non-profitable situations. These include lowering of demand

in the market at lowest ebb, non-availability of transportation services and workforce in processing plants, manipulation of farmers to lift their produce at cheaper rates and inability of exporters to meet the supply orders in international markets. This has resulted into a crippling emergency situation of food supply chain.

Based on the telephonic interviews conducted by the PBIT team, the industry is facing problems because of a simple phenomenon in which production cost starts to exceed the cost

of sales, where such fluctuation is beyond the averaging factors of seasonal fluctuations. It is shared that major input cost is “cost of feed”. There has been a 40 rupees per kg increase in the cost of the feed in one year and the rate of sale of chicken has almost remained constant for the past five years. Sale price of the chicken was fluctuating between 130 per kg to 140 per kg (averaging for different seasons however the final price tends to increase during off-seasons) giving farmers 5 to 6 rupees profit per kg. Now post COVID 19 situation, with complete ban on large gatherings which were the main consumers of the meat, ie. Marriages, religious gatherings, there has been a sudden fall in demand. The chicken is normally sold at the farm at an average price of approximately 70 rupees per kg at the sale mandi markets like tolington market in Lahore.

In the short run, the entities that own complete value chain are relatively well placed to manage the adverse effects especially the ones that are dealing with the processed meat with frozen stocks facilities. However, beyond a certain point the maintenance cost for both the frozen food producers and for farmers; the holding cost (wages, buy flock from hatcheries, pay for feed, pay utility bills and pay rents) increases beyond sustainable levels. It is important to note that the production cycle of the industry is placed in a manner that holding stocks beyond optimal time results in accelerated losses every day. For reference a 15000 chick farm, per day holding cost is around 2 lakh.

Due to the reasons mentioned above the farmers are being forced to close their farms and many have been forced to stock-out already. Also the new-chicks at the farms that are not finding a buyer are being dumped by the hatcheries.

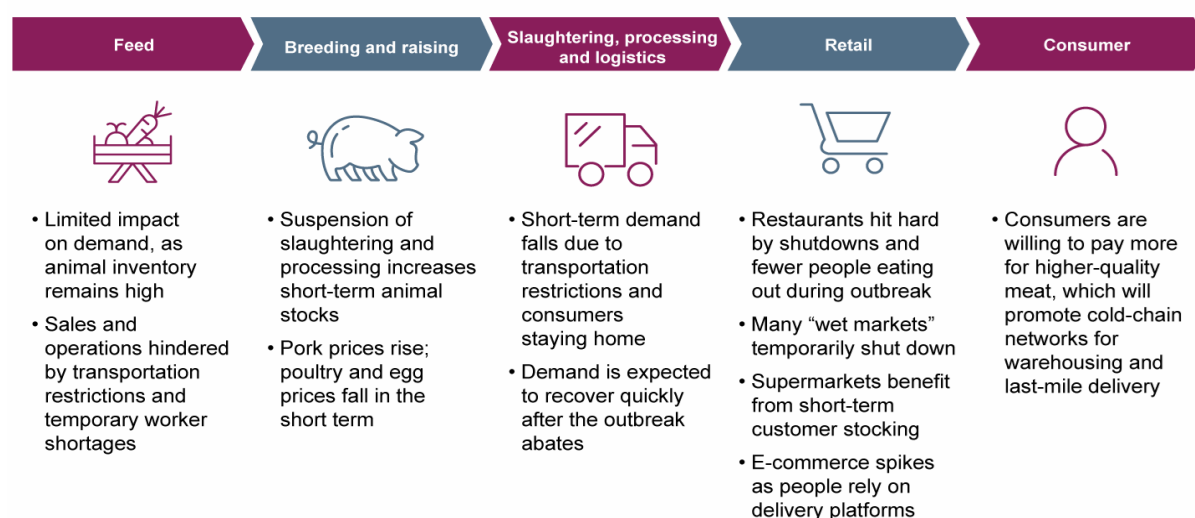
The current situation has resulted in only a very few farmers (a 10% to 20%) investing in the flocks acquired from hatcheries to meet the demand for the coming Eid-ul-Fitar.

It is important to note that due to the current supply side crises, the industry shall lose its capability to rejuvenate the supply to meet the enhanced demand in the post- corona crisis scenario, resulting in a demand pushed price hike, causing another crisis for the Government.

6- Situation Analysis of Poultry industry in China during COVID

COVID-19, while not infecting poultry, has, nevertheless, had a significant impact on China’s poultry industry. After the COVID-19 outbreak began in December in Hubei Province, many Chinese villages were locked down to control the spread of the disease. As

the epidemic has eased, China has only begun to lift some restrictions. The effective supply of agricultural products resulted into the foundation for a stable, functioning economy and safeguards people's livelihoods. Thus, keeping agricultural enterprises running was an indispensable economic component in the ongoing battle against the epidemic—yet discussions of the outbreak have thus far devoted very little attention to the challenges they faced. COVID-19 effected different segments of China's food chain and the sketch is as below:



Source: Bain & Company

Fig-1: Segments of China's Food Chain

There were two key problems:

First, livestock farmers faced severe pressure from supply and market disruptions, since animals need to eat every day and production cycles are short—daily for dairy and six weeks for chickens.

Second, the arrival of the spring ploughing season was putting crop farmers in a bind. They urgently needed to return to work. But the outbreak and ongoing control measures present many challenges. While manufacturing and service enterprises could flexibly adjust their production schedules to mitigate losses arising from the epidemic, the agricultural sector waits for no one. The normal phase of spring ploughing includes the provision of labor, seed, fertilizer, pesticide, and agricultural machinery, all within a set time frame. Once smallholder

farms miss the necessary services, such ploughing and pollination, during the critical farming season, their income for the entire year will fall.

To understand the operational situation and demands of small, medium, and micro-enterprises impacted by the epidemic, the Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) project team conducted telephone and online follow-up interviews in February with enterprises surveyed over the past three years, which includes some enterprises in the agricultural sector. The survey probed their work resumption and production situation, the main difficulties they faced, their efforts to adapt, demands for appropriate policies, and other issues.

Most Chinese farms were household smallholders and not registered as enterprises. Therefore, our survey does not capture the direct impact on crop farms. But other types of agribusinesses, such as mechanization services, pollination services, fertilizer dealers, and livestock farms, are covered in sample and provided a broad picture of the impacts. As of Feb. 10, only 24.6% of agricultural businesses had resumed production. Since these businesses provide key inputs or services, interruptions in their services may negatively impact agricultural production.

During analysis, it was found that the main issue agricultural enterprises faced logistics disruption, especially shortages of raw materials and delivery problems. The stress was particularly acute for livestock farmers: 38.5% of them list “logistics disruption” as the biggest challenge, compared to 35.6% of all agricultural enterprises, 19.7% for non-agricultural enterprises, and 18.9% for the service sector.

Shortages of raw materials—in particular an inadequate supply of feed to livestock farmers—were the main result of these disruptions. While about 60% of the agricultural enterprises surveyed have encountered such shortages, they are most severe in the livestock farming sector—where feed shortages mean that animals and poultry may starve to death. With the preexisting problems and lingering high prices from the swine fever outbreak, the industry faces a crisis that could lead to more price spikes.

Overall, respondents’ two most common complaints were that feed could not be delivered to the farms, and that trucks could not enter villages to collect their products.

The Chinese government rolled out a series of pertinent measures, including opening a green channel for feed, in order to effectively stabilize agricultural production. While maintaining

effective control of the epidemic, it was of the greatest importance to encourage enterprises in rural areas to return to work.

Given that countries and regions around the world have also adopted lockdown policies, the survey results suggest that as spring arrives, agricultural enterprises in many places face serious logistics problems, and that livestock farming also faces challenges similar to China's—problems that may require government intervention to avert shortages or price spikes.

7- Understanding Major Cost Centre:

Chicken meat and eggs are one of the most easily available, abundant and cheap sources of protein that can be made available to the masses, especially in tough economic situation the citizens of Pakistan would need cheap supply of meat and eggs. The following table shows major costs centres in the production of the chicken by the farmers.

Main Cost Centres	Estimated Cost for 2 Months Cycle
One Day Old Chicks (30,000 @ 35 PKR each) the price is taken as average, the cost of the chick varies according to the fluctuation in the market demand	10,500,000/-
Feed (2000 Bags @ 3000 each)	6,000,000/-
Diesel Generator + Brooding	200,000/-
Electricity/Utility Bills	200,000
Labour + Security Salary	250,000
Misc, Maintenance & Husk etc	200,000
Rent	200,000
If FCR = 31 Production	62000 kg by live weight
Total Cost	8,600,000
Break Even Price for the Farmer	138 PKR/Kg

The table above clearly shows that feed is the major cost centre which is around 69.7% of the entire cost of production. The cost of production varies according to the variation in the cost of the feed in the industry. The table above shows estimated average price of the broiler that

is Ex-factory price. Approximately 2 layers of suppliers i.e. middle men are added before it reaches the customer. Hence before taking any policy decision it is important to understand the major cost centres.

8- Way Forward

8.1- Recommendations based on Stakeholder's Feedback – A Way Forward

1. Cargo Flights/Freighters Services on Subsidized Rate

Poultry Industry was exporting items like hatching eggs and some other processed products. However hatching eggs and meat of large animals were being sent via air cargo to Saudi Arabia and other middle-eastern destinations. Now, due to closure flight operations, **it is requested that on emergent basis a freighter service by PIA on suitable rates may be started from Lahore preferably or Islamabad.** If the delivery is delayed then a competitor country may come in and fill the gap, in which case it will become very difficult to again gain the market access resulting in revenue losses in millions of USD for the country and loss of Forex. Around 200 to 300 tons per week can be sent using the requested service by PIA.

2. Agricultural Tariff for the Poultry Industry

Poultry is a sub-sector of agriculture sector in Pakistan hence, the electricity tariff that is applied to the Agricultural Tariff i.e. applied to the tubewell, the same should be applied for the poultry industry.

3. Defer Utility Bills

On immediate basis there is a need to defer the utility bills of the industry for at-least three months. As it is one of the major input cost of the industry. Especially, the poultry industry farmers do not have additional revenues to operate and in case of non-payment of the electricity bill and consequent disconnection of electricity line of the farm, the farmers won't have the running cash to buy diesel and run the farm on the generator. As the 95% of poultry flock is kept on controlled environment and electricity is essential to keep it environment controlled and the flock alive.

4. Defer Loan Payments

Loans for poultry industry including the principle and mark-up may be deferred for two years

5. Import Duty, Sales and Income Tax Exemption

With respect to avoiding any food crisis and ensuring food security, there is a general consensus in the industry, that any raw material and machinery that is being used to produce food should be exempted from import duties, sales and Income tax for a specified number of years.

6. Package for the Poultry Industry

To immediately provide working capital to the sector the government may ask the banks to provide package to the poultry industry of 100 billion PKR, similar to the one provided to the agricultural sector. This will help the farmers to buy feed, pay utility bills, give pays to the employees and buy flock from hatcheries.

7. Easy Loans

The government may declare sector as a priority sector and Banks may also be asked by the government to provide easy Loans for working capital on special discounted rates to the poultry industry so that operational costs can be met on urgent basis. The step will most effectively help the industry to retain their employees as well.

8. Reduce Cost of Feed

Import duties may be reduced and the government may ensure that the feed suppliers reduce the price of feed that is supplied to the farmers.

8.2- Long Term Recommendations

1. Comprehensive media campaign should be launched at national level to create awareness and educate general public that the consumption of milk, meat (chickens, beef and mutton) and eggs is not only safe but also significantly helps in boosting immune system for combating the imminent corona Virus infections.

2. Post COVID-19, necessary directions should be passed on to law enforcement agencies to facilitate personnel involved in logistics of food materials of all kinds on national and local routes.
3. To ensure un-interrupted milk, meat and egg supply chain in the country from villages to urban households. However, the required SOPs can be devised to avoid spread of disease.
4. Equal incentives should be given to all stakeholders i.e. poultry, meat and dairy industries in order to maintain the equilibrium.
5. To ensure food security and to support the industry, government should include provision of processed chickens and eggs in intended food program of Prime Minister
6. The provincial price control committees should be empowered and steered by Pakistan Competition Commission, with a mandate to assure that prices of feed, chicks, meat and medicine are kept uniform across the year. This would not only ensure stability of the prices across the year, it will also ensure profitable revenues for all the stakeholders in the value chain. Enforcement of the actual rates across the province, hence controlling any price manipulation
7. Inter-provincial coordination for development of livestock sector
8. A national committee may be set up to improve coordination with private sector to promote value addition livestock industry and diversification of livestock products
9. Increase measure should be taken for the control of Trans-boundary Animal Diseases (FMD, PPR, Zoonotic diseases) of trade and economic importance through provincial participation
10. Board of Investments may be tasked with bringing more investments in livestock sectors by promoting new announced incentives and packages and by exploring new markets for export of meat and dairy products with focus on Global Halal Food Trade Market
11. Embassies may be also be engaged to promote poultry industry processed products and the value added products around the world
12. A special industrial zone may be developed on emergent basis for the livestock sector focusing on the processed meat and its value added products.

It is expected that the above recommendations can significantly contribute towards reducing the negative impact of COVID 19 on livestock sector of Pakistan.



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