

# Price Stabilization of Animal Feed After Avian Flu Outbreak

by Dr. HỒ TIẾN DŨNG

Animal raising is a long traditional husbandry in our country. Nevertheless, it is lagging far behind that of regional countries, breeding products can meet only domestic consumption and cannot indicate their advantages on the world market. One of measures to boost up the domestic animal husbandry is to transform the extensive and semi-intensive breeding into the industrial farming because livestock feed is the main material of the husbandry and its prices give direct effects on the product quality and the raisers' income.

In recent years, a lot of feed prices tend to go up sharply and unsteadily. As a production input accounting for 70% of product price, the feed price hike accompanied by the avian flu has resulted to a sudden increase in prices of food (milk, meat, egg) and other items, causing confusion in local markets as well as socio-economic situation.

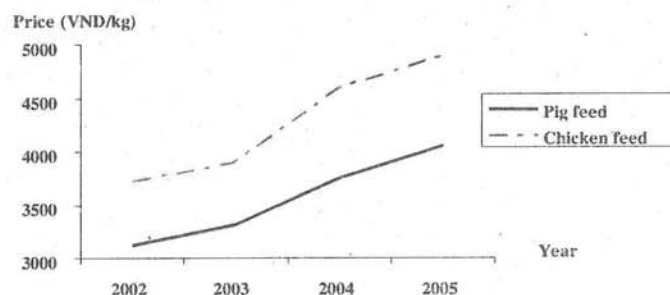
According to statistics of the Ministry of Agriculture and Rural Development, feed prices have experienced a continuing sharp rise over the past three years, as indicated in the following table:

Before such a price boom of animal feed, many farmers are

Table 1: Prices of some animal feed over years (VND/kg)

Feed	2002	2003	2004	September 2005
Mixed feed for pigs	3,122	3,313	3,757	4,049
Mixed feed for chickens	3,722	3,900	4,600	4,895

Figure 1: Change in prices of animal feed



12 EDR

Table 2: Prices of raw materials in selected countries (US\$/kg)

Country	Maize		Silage		Fish meal	
	2004	2005	2004	2005	2004	2005
China	166	174	337	350	598	629
Korea	277	290	289	296	689	716
Malaysia	181	190	359	371	431	458
Taiwan	205	212	361	378	630	660
Thailand	145	152	343	358	521	536

Source: Pig International Magazine

reluctant to pour their money in animal husbandry. Even a lot of farms and households transfer their investment capital to other areas. According to husbandry experts, most of small-sized breeders will suffer loss because of high feed prices although their product prices increase. Large farms can only produce less or no profits; this generates tough problems to reproduction farms.

The main reasons for continuing hike in feed prices can be reviewed as followed:

First, due to effects of the avian flu many businesses' production was only sluggish, even some of them only operated at 30% to 40% of their capacity while the fixed costs and payroll were almost unchanged. They on the one hand did not fully utilize the input capacity, thus raising

the production cost; on the other hand, they initially increased feed prices in order to offset losses caused by the avian flu.

Second, the input price hike increased the production cost due to the cost-push effect. According to businesses' opinions, the prices of local and foreign materials soared 20% to 47% and made feed prices up 16-18% in the 2004-2005 period. The changes in prices of local and foreign raw materials are indicated as follows:

Third, the prices of feed rose because it went through intermediaries, most of feed processing companies use agents for their product distribution, so feed prices from the factory to customers are pushed up highly.

Based on assessment and evaluation of major factors affecting the change in feed prices, businesses and state agencies should attach importance to the following solutions to stabilize feed prices:

(1) To secure raw materials for the feed processing sector.

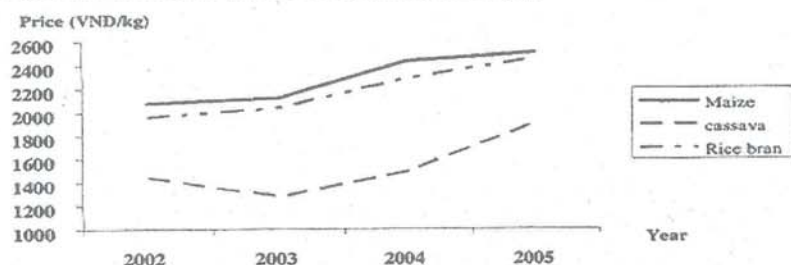
To provide enough materials for the feed processing sector, a series of measures should be implemented at the same time as follows:

- Planning and developing local material sources to fully exploit available sources.

The development and expansion of the feed processing industry depends upon the availability of local raw materials. Vietnam is



Figure 2: Change in prices of local raw materials



a farming country with favorable weather and geography for expanding materials sources, in addition to cassava and rice middling and bran. Most of other raw materials are in serious shortage, even main materials including soybean, fish meal and premix satisfy only 50% of current demand. With the feed processing industry's robust growth as at present, it is forecast that the input sources will face serious deficit, even in specific time scarcity may easily happen.

Just because of this, along with development and investment in the animal feed processing industry, the production of local raw materials should be boosted up to meet requirements both in quantity and quality as well as competitive prices.

- To keep imported raw materials in the trend of price reduction.

The private sector has made great contributions to the development of Vietnam's feed processing industry. Many famous corporations such as CP (Thailand), New Hope (China), Nong Lin (Taiwan), and Beyer (Germany) have done their business in Vietnam and strikingly changed the quality and scale of the feed processing industry. This can be proved by the abundance of product categories and feed increasingly used for the industry animal husbandry. However, while foreign companies operate in Vietnam to make the best use of cheap labor, their feed prices remain high.

According to the Vietnam's Animal Feed Association, 50% - 60% of raw materials used for processing feed in Vietnam must be imported. Annually, the industry has to import tens of thousands of tonnes of maize, 800,000-900,000 tonnes of silage

with an import tax rate of 5%, 150,000-200,000 tonnes of fish meal with tax rate of 10%. Necessary ingredients for animal feed processing including lysine, methionine, vitamin, minerals, and organic materials are wholly imported. In addition to import tax, businesses have to pay too high transport costs due to rising petroleum prices.

The heavy dependence on high-price imported materials has resulted to the domestic speculation to increase prices of raw materials; therefore, the Government is required to carry out specific measures to fill the gap in quality and prices of local and imported materials as follows:

+ To encourage scientists and local and foreign-invested businesses to invest in high technologies to produce materials including lysine, methionine, threonine, cytin, oxidants, anti-fungus agents, flavorers, digestives...

+ The Government should cut off import taxes to help lower the production cost of local raw materials. At the same time, it needs to extend the time for tax payment and alleviate debts for feed production businesses which provide feed for the livestock which have been destroyed due to the avian flu.

+ Small and medium enterprises have to plan the import of raw materials, thereby cooperate with one another to open an L/C for a great quantity with the aim to reduce transport cost in the production costs.

- Feed processing enterprises should pay attention to and pour investments in the purchase and preservation of raw materials...

The domestic materials market often changes and has seasonal feature. The peak harvest of raw materials such as maize,

soybean in the Southeastern Region and Central Coastal Region is not compatible with the husbandry season, especially for farms in the Mekong Delta. Because of this inadequacy, feed processing companies are forced to purchase and preserve a great quantity of raw materials for animal husbandry. In the meantime, the quality of raw materials can quickly deteriorate after the harvest, the prices of imported materials are high and the transport and preservation of raw materials encounters a lot of troubles. To limit these limitations, businesses should implement the following measures:

+ Producers have to purchase and preserve materials in line with technical process. When purchasing, they need to pay attention to some physical and chemical indicators of raw materials as well as origin, moisture, fungus, rate of destroyed and mixed materials. If some materials like cereal, cassava...or farming byproducts have fungus or high moisture, they will degrade the quality of animal feed and economic efficiency. In particular, they contain a lot of poisons harmful to livestock and human health.

+ The purchased materials are mainly raw farm products in large volume which have not yet processed. Due to humid weather in the harvest time, the materials like cereals, silage, soybean, fish meal are easily infected with fungus, and viruses are easily destroyed, causing heat and nullifying nutrients in raw materials. As a result, producers must dry or semi-process to eliminate destroyed parts before production and preservation in the dry and clean condition. Machinery, equipment, tools, containers must be regularly sanitized and dried in the process of material preservation.

+ Apart from purchase and preservation, a basic principle which producers must respect is to keep materials in a period as shorter as possible. This means the schedules of production and purchase must be compatible and the system of preservation and transport must be convenient for the principle of first in, first out.

(2) To make gradual investment in equipment innovation to increase productivity and reduce production cost.

Businesses invest in infrastructures, machinery and equipment with different scale and quality in accordance with their production and financial capacity. However, the poor situation of technologies and machinery requires businesses to make thorough improvements for development in the following trends:

- Besides businesses' efforts, the Government should give incentives and supports to businesses which move their factories out of resident areas by preferential credit and land for building new factories in planned areas.

- Feed production factories in cooperation with other businesses, even farmers, need to build the network of warehouses, drying courts, roads, and wharves in material producing areas.

- At present, the feed industry's machinery and equipment remain obsolete as compared with neighboring countries. Especially, many small and medium enterprises cannot afford to build silos for material preservation. Not a few feed companies have no analysis department of materials and finished products. Therefore, these companies must innovate their production lines and equipment toward modernization. This is a feasible solution in terms of cost and profit. The equipment and machinery for drying, milling, mixing and carrying do not need high technologies, so businesses can get local manufacturers do it or buy Taiwanese or Chinese products for cheap prices. Nevertheless, as for high-tech equipment such as pill makers, experiment and quality control equipment, and storing silos, businesses should import them from developed countries which are famous for their advanced technologies because they require high precision directly decisive to the product quality.

(3). To rationalize the distribution channel to alleviate intermediaries and improve direct sales to the end-users.

To restrict middlemen's price increasing, in addition to the Government agencies' efforts; businesses are required to establish appropriate distribution policies as follows:

Businesses have to cooperate with state agencies and the Association of Feed Producers to request the members not to raise the selling prices too high. They also force distributors not to "hoard" goods but to give enough supply to the market. Distribution agents and shops enjoy only a commission, but not price difference.

Major distribution centers can be established. They will notice factories' feed prices and indicators of product quality. Especially for large raising farms, businesses should deliver products right to them; this will reduce intermediary costs.

In the long term, chief customers of feed companies are raising farms in industrial forms. Just because of this, they should carry out direct delivery to reduce middlemen's role. In addition, the feed distribution channel will be associated with the distribution of breeds and veterinary medicine.

(4) To promote the role of state management over feed production and trading.

- Development orientations for feed producers

The country currently has 197 feed producers, most of which have less capital and are not able to import a large volume of raw materials. They often compete with each other in buying local materials and thus boost up their production cost. In the meantime, there are poor quality products on the feed market, causing troubles and obstacles to the state management over the feed trading. Therefore, the management of feed companies should be implemented as follows:

- + Not to grant new licenses easily but encourage businesses to expand their production: For the time being, some regional countries like Thailand, Malaysia, and South Korea, each has only 30 to 50 feed production enterprises, but they are large corporations or conglomerates, each company takes a specific market

segment. To restrict the number of feed producers will help the Government interfere and stabilize the markets of raw materials and animal feed more quickly and effectively.

- + To announce the current capacity of regions and factories: The future investors will use this information to decide their investment or not.

- + The feed market in the Southeastern Region tends to saturate while the markets in the Hong River Delta and Northern Midland are increasingly expanded due to their low husbandry industrialization and the breeding industry's northward planning. Just because of this, the Government should give priority to the establishment and expansion of feed companies in the North, restrict or suspend licenses to businesses in the Southeastern Region.

- To control and stabilize feed prices

As analyzed above, our country's feed prices are 15% to 30% higher than regional countries. Given the situation, many feed processing factories also increase their selling prices. One of reasons is that they want to compensate their losses caused by the avian flu.

The increase in feed prices is rather reasonable to a certain extent; however, the Government should give assistance to farmers as well as feed producers in order to restore the country's poultry livestock apart from cage sanitation and good breeds supply. The Government can stabilize prices by controlling materials prices in the sensible time because animal feed has different features.

In short, the price stabilization of animal feed after the avian flu outbreak should be given importance to enhance the competitiveness of our country's husbandry, especially when Vietnam is about to become a WTO member. ■

## REFERENCES

1. Review of animal husbandry in the 2000-2004 period, the Ministry of Agriculture and Rural Development.

2. Pig International Magazine, issues in 2005.