

Breaking Point

The Rising Costs To Egg Producers

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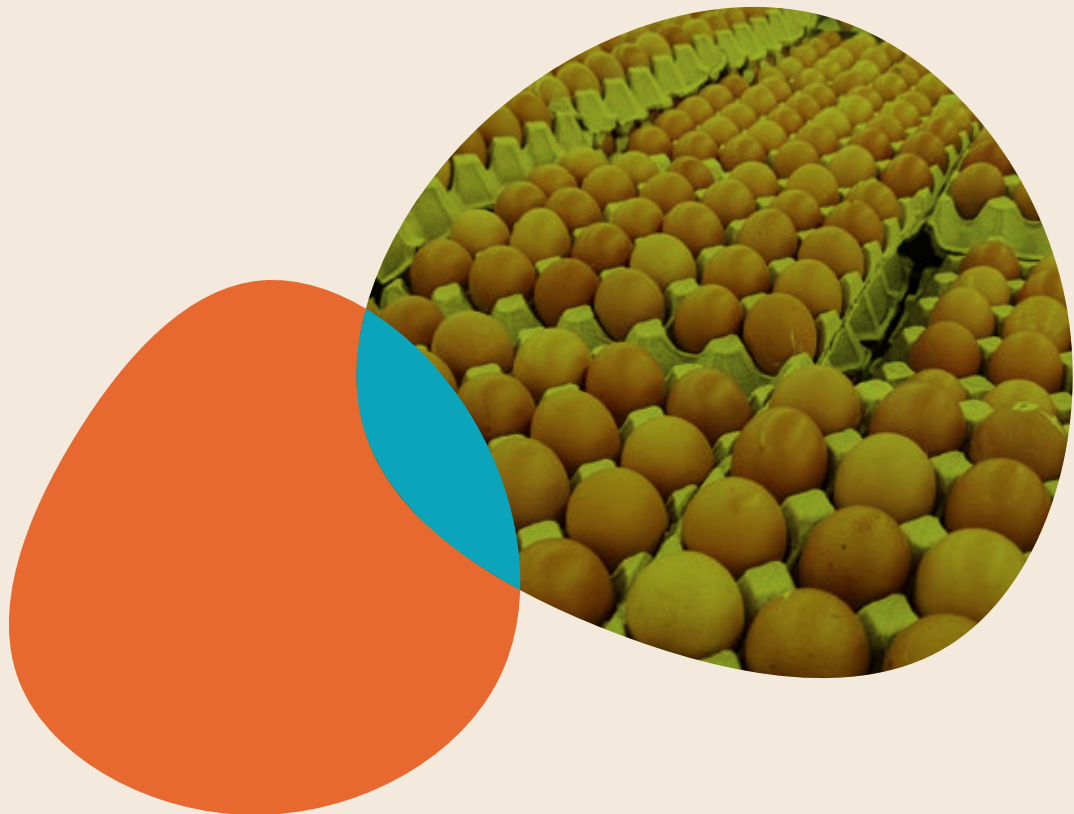
Executive Summary

In January 2022, a new report published in the Oxford Academic journal noted that the 'dietary intake of eggs may be an applicable solution for food-insecure families'¹. Today, however, we're facing a future where eggs may be off the table for everyone.

Once an affordable source of nutrition, eggs are becoming increasingly expensive. Not only for consumers, who are facing the worst cost of living crisis most of us have ever seen, but for those producing them too.

The British Egg Industry Council (BEIC) reports that farmers today are having to pay almost one third more in production costs² to maintain their levels of output than they were previously, putting the future of eggs in jeopardy.

In this report, we're asking the big questions: why? Why are prices rising so quickly? Why are producers close to breaking point? And why are some faring better than others?



¹ <https://pubmed.ncbi.nlm.nih.gov/34027973/>

² <https://www.egginfo.co.uk/news/british-egg-industry-crisis-production-costs-soar>

Introduction

Fluctuating feed prices and production costs in the egg industry are certainly not new challenges. They've been reported for decades³.

But never before have so many distinct factors come together, at the same time, to generate such an urgent crisis.

First, politics. Then disease. And now war. Each of these factors has brought with it its own unique problems and challenges, many of which are creating a level of price volatility that we've never experienced before. The war in Ukraine, for example, alone is understood to have added between 25 to 30 pence per dozen eggs to the cost of poultry feed⁴.

This isn't a problem we can take lightly. If the situation does not change, the impact on British agriculture and the UK economy could be catastrophic. The British Free Range Egg Producers Association (BFREPA) estimates that, if things continue as they are, many producers will be forced to close their doors within the next six months⁵. It's never been more important to build a robust business that has what it takes to navigate uncertainty.



³ <https://www.poultryworld.net/poultry/reviewing-50-years-%E2%80%A8in-the-egg-industry/>

⁴ <https://www.fwi.co.uk/livestock/poultry/layers/egg-producers-on-the-brink-as-30-cost-rise-wipes-out-profits>

⁵ <https://www.fwi.co.uk/livestock/poultry/layers/egg-producers-on-the-brink-as-30-cost-rise-wipes-out-profits>

Understanding the Challenges

Egg producers have faced challenges in the past. And they will undoubtedly face new challenges in the future.

Today however, producers are experiencing a 'perfect storm'; a combination of factors occurring simultaneously that are coming together to create greater, more urgent, and potentially more devastating challenges than ever before.

Some of the biggest threats facing egg producers today include:

1 Avian Influenza

In recent years, more severe instances of disease have been witnessed across farms in the UK, with avian influenza in particular being a major area of concern. In what the British Veterinary Association Senior Vice President James Russell calls 'the biggest disease outbreak since we had foot and mouth in 2001'⁶, it has been reported that upwards of 1,800,000 laying hens have had to be destroyed by egg producers across over 20 commercial sites⁷.

The growing severity of avian influenza, and other farmyard diseases, is creating two huge challenges for today's egg producers.

Firstly, a reduction in the national flock size due to culling is having a noticeable effect on the quantity of produce available, which could lead to a shortage, with figures showing that due to disease outbreaks, during the first four months of 2022 egg production had dropped by 4% year on year, totalling just 18,000 tonnes⁸.

⁶ <https://inews.co.uk/news/free-range-egg-producers-crisis-industry-perfect-storm-rising-costs-virus-1576970>

⁷ <https://www.bbc.co.uk/news/business-60691116>

⁸ <https://www.farminglife.com/country-and-farming/northern-ireland-poultry-producers-on-edge-with-production-costs-through-the-roof-3646547>

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Secondly, the essential measures that have been introduced by the UK Government for the protection of at-risk flocks are resulting in additional costs for egg producers. On 29th November 2021, the UK government enacted a housing order across England, Scotland, and Wales requiring all bird owners, including egg producers, to house their birds in more secure indoor environments; a measure that remained in place for five months⁹.

While these new housing protocols supported the health of flocks, they also resulted in rising costs for farmers, particularly with the need to ventilate and illuminate more indoor barn space. This housing order also extended beyond the marketing derogation of 16 weeks; forcing egg producers to legally change the labelling of their eggs from free-range to barn.



⁹ <https://www.farminglife.com/country-and-farming/northern-ireland-poultry-producers-on-edge-with-production-costs-through-the-roof-3646547>

2 Increasing Production Prices

The cost of producing a chicken has doubled over the past year¹⁰. That's according to research from the NFU shared by President Minette Batters, who says it's the farmers themselves who are having to eat these additional costs. So why are production prices rising so fast?

The primary issue creating this challenge is Russia's invasion of Ukraine, and the subsequent impact on the cost of animal feed. With Russia and Ukraine together responsible for around one third of global wheat supply, disruption to export activities as a result of the unrest has caused the cost of chicken feed to almost double to £400 per tonne¹¹. Feed accounts for up to 70% of production costs¹², so even a small rise can have a major effect¹³.

However, animal feed is just one aspect driving up the cost of production. It's also important to consider the soaring costs of both petrol and diesel, which are now almost £2 per litre, and the impact on the cost of transporting animal feed.

Then there's the 6.6% rise in minimum wage¹⁴ and an increasing amount of pressure to pay higher, more competitive hourly rates due to a shrinking workforce. While this is certainly a positive step - particularly during the cost of living crisis - it still results in a significant rise in labour costs across the industry.

Together with a 54% rise in energy costs¹⁵, and a 15% increase in the price of egg packaging¹⁶, it's easy to see how production costs have risen so sharply.

¹⁰ <https://www.bbc.co.uk/news/business-60691116>

¹¹ <https://www.farminglife.com/country-and-farming/northern-ireland-poultry-producers-on-edge-with-production-costs-through-the-roof-3646547>

¹² <https://www.bbc.co.uk/news/uk-wales-61218741>

¹³ <https://www.farminglife.com/country-and-farming/northern-ireland-poultry-producers-on-edge-with-production-costs-through-the-roof-3646547>

¹⁴ <https://www.gov.uk/government/publications/minimum-wage-rates-for-2022>

¹⁵ <https://commonslibrary.parliament.uk/research-briefings/cbp-9491/>

¹⁶ <https://www.fwi.co.uk/livestock/poultry/layers/egg-producers-on-the-brink-as-30-cost-rise-wipes-out-profits>

3 Cost Volatility & Price Uncertainty

From fuel and energy to feed and fertiliser, the cost of almost everything is going up. But that's just part of the problem. The other part is that prices aren't just rising but undergoing rapid and severe changes. There are considerable fluctuations in prices today, resulting in greater cost volatility and, subsequently, greater financial risk.

Price uncertainty isn't a new challenge. In fact, in a 2019 study of free range egg producers across the UK, nearly half cited cost volatility as the biggest and most important challenge facing their business¹⁷. However, the problem appears to be becoming more and more severe, with cost volatility now being seen across practically every area of chicken production, significantly increasing risk for UK egg producers.

One area that's a prominent topic of discussion right now is fertiliser. With Russia being the world's largest exporter of fertiliser¹⁸, disruption related to the war with Ukraine is having a huge impact on costs. In the past few years, the UK has relied heavily on importing fertiliser, as the cost of producing it in the UK was sky-rocketing and, while the price of imported fertiliser was already evolving prior to the invasion, these changes have been even steeper during the war.

Recent figures suggest the cost of fertiliser has risen by around 53%¹⁹, increasing to £1000 per tonne. This increase in costs also directly impacts the cost and supply of CO₂, as it is a by-product of fertiliser. In the past, this has been linked to shortages across the country.

¹⁷ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7386762/>

¹⁸ <https://oec.world/en/profile/bilateral-product/fertilizers/reporter/rus>

¹⁹ <https://www.foodmanufacture.co.uk/Article/2022/03/29/government-helps-farmers-faced-with-high-fertiliser-prices>

4 Labour Shortages

With studies finding that labour shortages in the agricultural industry can result in increased wages and production costs whilst simultaneously lowering output²⁰, it's clear that the huge number of vacancies across the food sector are a challenge.

The UK farming sector has been on the brink of a labour crisis for some time, beginning with the mass exodus of an estimated 1.3 million foreign born workers²¹ following Britain's departure from the European Union. With EU workers previously accounting for roughly 20% of the UK's food and drink workforce²², this hit hard. By the second half of 2021, there were 500,000 vacancies across UK food and farming²³.

The problem has now been exacerbated further by the Russia/Ukraine war. Prior to the invasion, the UK was approving T5 temporary worker applications for almost 30,000 Ukrainian workers per year²⁴, making them the largest demographic group working seasonally across the country. Now, however, things are different. With 7 million Ukrainians displaced²⁵ applications for temporary work are expected to drop. And for those already in the country, many are reported to be feeling 'lost and torn' between remaining in the UK, and returning to the Ukraine to fight for their country²⁶.

Richard Griffiths of the British Poultry Council notes that these shortages are forcing farmers to scale back production²⁷ as the costs to produce are simply too great.

²⁰ <https://www.mdpi.com/2071-1050/14/8/4452/pdf>

²¹ <https://www.escoe.ac.uk/estimating-the-uk-population-during-the-pandemic/>

²² <https://www.fdf.org.uk/dfd/resources/publications/breaking-the-chain/>

²³ <https://committees.parliament.uk/publications/9580/documents/162177/default/>

²⁴ <https://www.freedomunited.org/news/ukrainian-seasonal-workers-exploitation/>

²⁵ <https://www.unhcr.org/ua/en/internally-displaced-persons>

²⁶ <https://www.theguardian.com/environment/2022/mar/28/scandal-in-plain-sight-charities-call-for-help-for-ukrainian-seasonal-workers>

²⁷ <https://www.poultryworld.net/poultry/labour-shortage-causing-crisis-in-uk-poultry-supply/>

5 The Cost of Living Crisis

A significant challenge that farmers are facing today is that, despite their own costs rising, they are not seeing a simultaneous rise in egg prices²⁸; a factor that is making it even more difficult for them to handle the rising costs of egg production in the UK.

The cost of producing 12 eggs has risen by 30 pence²⁹. To offset this, farmers have asked supermarkets to increase the cost to customers by 40p/dozen³⁰; a move which would see producers better positioned to navigate the crisis. "We've asked every major retailer to increase the price of free range eggs by at least 40p per dozen – organic eggs need an increase closer to 80p per dozen³¹" says Robert Gooch, Chief Executive of the British Free Range Egg Producers Association (BFREPA).

However, supermarkets are not overly eager to do so, and it's easy to understand why. At a time when UK families are in the midst of a major cost of living crisis, raising the prices of affordable staples could have catastrophic consequences, and could contribute towards a rise in the number of people experiencing food insecurity.

"Supermarkets are trying to deal with at the moment, a really delicate balancing act between farmers who face rising costs and households and individuals who are really struggling at the moment to make ends meet," says Tom Holder of the British Retail Consortium³². It's a difficult situation where no one is coming out on top.

²⁸ <https://www.thescottishfarmer.co.uk/news/20081601.supermarkets-suffocating-egg-producers/>

²⁹ <https://www.theguardian.com/environment/2022/mar/31/cost-of-farming-crisis-egg-producers-plea-to-uk-supermarkets-to-raise-price>

³⁰ <https://www.fwi.co.uk/livestock/poultry/layers/egg-producers-on-the-brink-as-30-cost-rise-wipes-out-profits>

³¹ <https://www.farminglife.com/country-and-farming/supermarkets-are-blamed-for-crisis-in-the-egg-industry-3660242>

³² <https://www.cips.org/supply-management/news/2022/april/egg-shortage-warning-as-rising-costs-suffocate-producers/>

Impact on Producers and the Economy

It is clear that there are a number of different challenges facing egg producers today that are all coming together to increase the cost of running a successful business. But what could be the outcomes of these rising costs to farmers and the economy?

Sadly, unless the situation changes, many egg producers don't believe that they will be in a position to continue operations. Recent research suggests that over half of all egg producers in the UK today are thinking about ceasing production, if the supermarkets cannot increase their prices, as they simply cannot afford the rising costs. Of them, nearly three quarters don't think they will last another year³³. BEIC Chairman Andrew Joret, believes that some producers could go under in days³⁴.

Production is already showing signs of slowing down, with orders for pullets being withdrawn and some egg producers delaying restocking. Figures show that between June and September 2022, nearly 4 million layers are set to disappear from the laying flock, which will significantly impact the egg supply across the country.

Unfortunately, it appears that even those producers that are currently able to navigate the rising cost crisis do not see a positive future in store. BFREPA's Robert Gooch says that "Many of my members are losing money on every egg laid, and our data shows that even those who are making a small profit do not see a long-term future"³⁵.

Not only is this situation devastating for egg producers, but the subsequent effect on the wider economy could be catastrophic. Minette Batters states that the potential outcome of this crisis is that the UK produces less food, becoming reliant on imports³⁶.

³³ <https://www.cips.org/supply-management/news/2022/april/egg-shortage-warning-as-rising-costs-suffocate-producers/>

³⁴ <https://www.fwi.co.uk/livestock/poultry/layers/egg-producers-on-the-brink-as-30-cost-rise-wipes-out-profits>

³⁵ <https://www.farminglife.com/country-and-farming/supermarkets-are-blamed-for-crisis-in-the-egg-industry-3660242>

³⁶ <https://www.bbc.co.uk/news/business-60691116>

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The beginnings of this next crisis are already being seen. The latest figures suggest a 15% decline in the number of chicks being placed with pullet rearers³⁷, which hatchery company Joice and Hill Poultry directly attribute to the rapidly rising costs³⁸.

The national flock in the UK has dropped by around 4 million broiler and layer birds over the past 12 months³⁹, with at least 1.8 million layers disappearing due to culling. While avian influenza is certainly responsible for some of this, a reluctance to replenish flocks is undoubtedly another aspect contributing towards this decline. This figure will carry on declining, should chick and poultry placings continue to drop, with commercial laying chick placings showing a 15% reduction year on year, from April 2021 to April 2022.

Reduced flocks and closed businesses will severely reduce the amount of food that the UK produces, making supermarkets and manufacturers more reliant on global imports; a move which will increase food costs - and the cost of living - to unmanageable levels.



³⁷ <https://www.theguardian.com/environment/2022/may/19/egg-prices-in-uk-could-increase-as-farmers-warn-of-tidal-wave-of-rising-costs>

³⁸ <https://www.fwi.co.uk/livestock/poultry/layers/egg-producers-on-the-brink-as-30-cost-rise-wipes-out-profits>

³⁹ <https://www.theguardian.com/environment/2022/mar/31/cost-of-farming-crisis-egg-producers-plea-to-uk-supermarkets-to-raise-price>

Solutions

Chief Executive of BFREPA, Robert Gooch, says that 'this is a situation entirely out of farmers' hands'⁴⁰.

But is it? While it is certainly true that egg producers will struggle to have any direct impact on rising costs, it doesn't mean that there is nothing they can do to lessen the impact on their business, and on their future in the food industry.

Reducing the Risk & Impact of Disease

Reports dating back to 2015 suggested that the costs of an outbreak can range between £500,000 to £10 million⁴¹. Taking measures to reduce the risk and impact of disease amongst egg laying birds can help to avoid any unnecessary and unexpected costs during this difficult period. At this time it is critical for egg producers to ensure they have robust biosecurity measures in place to minimise the risk of introducing disease onto the farm, and to make sure they are in a position to respond rapidly should an outbreak occur.

Legislation Guidance

Egg producers must make sure that they are remaining up to date with the latest legal requirements and advice for protecting both their birds and their businesses. As the situation continues to evolve, recommendations and mandatory requirements are expected to continue to be introduced, much in the same way as free range birds were required to be moved indoors during the height of the latest outbreak. The more aware producers are of these changes, the faster they can implement the right action.

⁴⁰ <https://www.theguardian.com/environment/2022/mar/31/cost-of-farming-crisis-egg-producers-plea-to-uk-supermarkets-to-raise-price>

⁴¹ <https://www.fwi.co.uk/livestock/poultry/uk-bird-flu-costs-hit-50m-poultry-health-roadshow-told>

Farmer Support

Egg producers need to be having difficult conversations. With their workers, suppliers, supermarkets and across the entire supply chain. Support with these conversations is available, and it can help to drive improved outcomes. With help of dedicated consultancy services, producers can better understand the pathway to risk mitigation, have the right conversations at the right time, and make smarter decisions that will help them navigate today's challenges, and prepare them for tomorrow.

Collaborating with Government

Farmers and egg producers are not facing today's challenges alone. The rising costs - and their impact - are being felt across the agricultural and farming industries. And the best way to mitigate the effects is for everyone to work together. By collaborating with Government agencies and industry organisations like the NFU and BFREPA, both of which Livetec works with, producers have an opportunity to share their thoughts on the current state of farming, listen to others, and come together with industry experts to take action; to spark the change that's needed to protect the future of British food.





Livetec: Supporting Farmers Through Uncertainty

Years ago, nobody could have predicted Brexit, COVID-19 or a war in Europe.

Never mind predicting that the impacts of these three events would overlap, which goes to show that there are always going to be new challenges emerging, and that we can never fully prepare for them. But we can plan for problems and reduce our risk.

At Livetec Systems, we develop solutions that support farmers through these periods of uncertainty, helping them to come out the other side stronger, and more confident.

Offering a range of biosecurity planning and implementation solutions, alongside compliance support and futureproofing services, we're proud to work closely with agricultural leaders to help them build processes that acknowledge and address today's unusual challenges and facilitate the development of strong business models.

For more information on Livetec Systems, and our bespoke, science-backed solutions to the modern-day challenges affecting today's farmers, visit: www.livetecsystems.co.uk

Our Support to Egg Producers

BFREPA and Livetec's Advisory Support Service

There is always someone to talk to. At Livetec, we work closely with one of the best organisations to go to when you're unsure about how to move forward, the British Free Range Egg Producers Association. Together we offer a unique Advisory Support Service to BFREPA members, equipped with our helpline aimed specifically at UK egg producers.

Our helpline offers real time support as needed, from clarifying complex legislation to providing general biosecurity advice, tailored guidance to assistance for those in protection zones, Livetec and BFREPA are here to help.

Find out more here:

<https://www.bfrepa.co.uk/about-bfrepa/livetec>

Helpline number:

01525 623125



Livetec is the leading provider of livestock protection - the go-to partner for all biosecurity issues across the industry.

We provide an extensive range of innovative solutions for our clients:

