FULL COMMITTEE HEARING ON FOOD PRICES AND SMALL BUSINESSES

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FULL COMMITTEE HEARING ON FOOD PRICES AND SMALL BUSINESSES

Thursday, May 15, 2008

U.S. House of Representatives,
Committee on Small Business,
Washington, DC.

The Committee met, pursuant to call, at 10:06 a.m., in Room 1539 Longworth House Office Building, Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Present: Representatives Velázquez, Altmire, Cuellar, Clarke, Hirono, Chabot, Gohmert and Fallin.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman Velázquez. Good morning. I call this hearing on food prices and small business to order.

From coast to coast, Americans are seeing continued increases in the cost of food items. According to the U.S. Department of Agriculture, the average price of such basic staples as bread, milk and eggs increased over 30 percent during 2007. That was the largest annual jump in price in almost two decades. But the trend is projected to continue during the current year. Such increase have undeniable repercussions on consumers, small businesses and the U.S. economy as a whole.

Today we will discuss the relationship between food prices and the entire economic chain from farm to grocer, to restaurant and to home. We will also explore the various factors contributing to the rising costs of food products and examine the specific effect on family farmers and entrepreneurs. It is an admittedly complex task that requires carefully considering a full range of viables.

Some may be tempted to point fingers at a single industry or sector, but there are many contributing factors to the perfect storm that is driving food prices upwards. We need to be mindful of every piece of this puzzle and gauge the specific and collective impact. That holds true whether we are talking about the corn used to make ethanol, the wheat used to make bread, or the produce that is purchased in bulk by grocers.

As we will hear today, a number of troubling developments are coming to a head simultaneously. For starters, rising unemployment and fallout from the subprime mortgage crisis have left our economy in a weakened state. This creates a difficult environment for businesses. Consumers have less disposable income, and tightening credit markets make it difficult for small firms to access capital.

Restaurants, grocers and other food entrepreneurs are also having to pay more for their raw materials. It now costs each of them a great deal more money to bring the same products to market. Their customers meanwhile have less to spend, and they are more resistant than ever to paying higher prices. It is an economic Catch 22 that hits small businesses from both directions.

The problem is compounded further by rising global demand for agriculture foods. Developing economies such as China and India are putting new strains on supply and weather-related production shortages of wheat, rice and other crops are making these products more expensive for everyone, including American firms.

Last, but certainly not least, the weakened U.S. dollar and the continuing climb of oil prices have a sizeable effect on what small businesses pay for basic staples. Just a few weeks ago, this Committee delved into the economic implications of the $115 barrel of oil. As we push north of the 120 mark, the impact on food prices and the entrepreneurs who must bear them continues to deepen.

The challenges posed by such a dramatic combination of factors is considerable, but they are not insurmountable. As history has demonstrated time and time again, our Nation's small business economy is remarkably resilient. Entrepreneurs can help us get things back on track. So we should not be discouraged. Instead we should lend them our support. That means continuing to focus on the root causes of these problems and understanding how the many variables interact with one another. With a clear sense of those dynamics, we can set about formulating and implementing solutions that allow the market to restore economic strength. It is a time-tested and commonsense approach.

Arriving at policy solutions will require a comprehensive dialogue. I am very pleased that to help us in that discussion, we have a diverse range of perspectives represented on today's panel. I want to thank each of today's witnesses for joining us today. I am looking forward to your testimony and its many insights into this critical issues.

With that I now yield to the Ranking Member Mr. Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. I thank the Chairwoman for yielding, and I thank her for holding this hearing on food prices and small business. I think this is a very important hearing this morning. This is a critical issue affecting not only American families, but also, as was mentioned, American small businesses.

I also thank our witnesses for taking the time out of their very busy schedules to be with us here today. I know we all appreciate that very much.

Anyone who has been to a grocery store recently to purchase basic consumer staples has noticed that the price of food has been rising, and oftentimes quite substantially. According to the Department of Labor, last month food prices edged up .9 percent to almost 1 percent, driven by increases in numerous products including bread, and butter, and coffee, and margarine, and milk and other products.

American families are paying more for food, and so are America's small businesses. Small restaurants, grocers and food manufacturers are also feeling the squeeze, forcing them to raise their prices oftentimes. According to the Department of Agriculture's Economic Research Service, the cost of food is expected to continue to rise this year by 4 to 5 percent.

What is behind these increases? Rising demand for energy and ethanol has caused the price of grain to jump. China, India and other countries are consuming more of our grain and our meat and other products, and the weakness of our dollar has made our exported products an even better value.

This hearing is an excellent opportunity to examine how small businesses are being affected by food price increases and explore possible solutions to these challenges. Again, I would like to thank the Chairwoman for holding this hearing and look forward to hearing from our panel of experts.

One thing I might mention is I am the Ranking Member also of this Committee and the Antitrust Task Force, and we have got an important hearing. John Conyers, the Chairman of the Judiciary Committee, is the full Chairman. I am the Ranking Member. We have a hearing at 11:00. So I believe Congressman Gohmert is going to fill in for me at that point.

I yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

Now it is my pleasure to welcome Tom Buis. Tom Buis is the president of the National Farmers Union, and Mr. Buis represents farmers and ranchers in all States with organized chapters in 32 States. As president, Mr. Buis oversees the Government Relations Office which advocates the interests of family farmers in Congress.

Welcome. Congratulations on the farm bill. And, sir, you have 5 minutes to make your testimony.

STATEMENT OF MR. TOM BUIS, PRESIDENT, NATIONAL FARMERS UNION

Mr. BUIS. Thank you, Madam Chair, for holding this hearing, and other members of the Committee. It is a real honor to come to the Small Business Committee to testify.

We would like to say we represent farmers and ranchers, but they are small businesses, and I want to state for the record probably one of the biggest concerns that I hear around the countryside is this concern over the higher commodity prices and higher food prices. And a lot of people want to seem to point their finger at the farmers, but like any business, we have to make a profit. And if you look at commodity prices over the last 20 years, you will find very few years where our industry has been able to get back the cost of producing the commodities that we produce. In fact, over time, the average rate of return for our business is less than 2-1/2 percent return on investment. So it is not like every farmer is out there going to the bank and getting rich.

Over the past 2 years, we have seen our input costs rise faster than the price of the commodities. If you look at all the energy that it takes to produce a kernel of wheat, a bushel of corn or whatever, it is tremendous. John Kennedy once said farmers are the only people who buy retail, sell wholesale and pay freight both ways. That needs to be updated and modernized to say we are also the only industry that pays the fuel surcharge both ways. We are price takers, not price makers. We can't pass on those costs. We are totally at the mercy of the marketplace.

Having said that—I did put some extensive testimony together on what we see as the causes, and I would be glad to answer any questions. But roughly you can't blame corn ethanol, and for those people who do—number one, have you ever tried to eat field corn? The primary use for field corn is animal feed. And if you want to look at the price paid to farmers on livestock, dairy, it has all gone down in the past year. So when people try to blame corn ethanol for all of the increase in food prices, I think they are just using us as a strawman. It no doubt has increased the price of commodities, which needed to be, because the previous 10 years we averaged producing feed for animals at 27 percent below the cost of production. There was a very good study done by Tufts University showing the real beneficiaries of that. It wasn't the family farmers.

Energy. Energy has such a direct input—impact on food. From the very start, all the fuel, the fertilizer, the pesticides, the storage, the drying, the handling is a big part of the farmers' input costs. But when it leaves the farm, then it is transported somewhere, more fuel. Then it is processed, which uses energy to process the product, whether it is corn flakes or ethanol or livestock feed. After it leaves there, it has to be trucked back to—either the distribution chain or the retail chain or elsewhere. And by the time that consumer gets it, the cost of $127-a-barrel energy is at least twice what the impact of that raw commodity is.

Second big factor, weather-related production problems. Wheat is a commodity that is used for food, primarily for food, and last year in the growing season, we had worldwide weather production problems in all the major wheat-growing countries of the world. It wasn't that a bunch of wheat acres came out to go into corn ethanol. It was Mother Nature.

Cause number three: the weak dollar. Since we left the gold standard in the early 1970s under President Nixon's administration, you can track high commodity prices with the value of the dollar. When the dollar is weak—and we reached 30-year lows recently—commodity prices go sky high. Investors want to put money in to hedge against inflation. Other countries want to buy it with the cheap dollars that we are sending for their trade deficit; makes it an attractive buy and cheaper than it was when the dollar was strong.

Four, speculators in the commodity markets. If you look at the real high, the record high commodity prices that we have reached, they occurred when farmers didn't have the grain. They didn't have the commodity. They occurred in a time period when farmers were thinking about planting or waiting for the winter wheat harvest. And those prices have now moderated in the production of wheat as we are getting ready to have a good crop in areas like Oklahoma, where we had a bad crop last year, and Kansas and elsewhere. So we will see those prices come down. And today the price of wheat in central Oklahoma is $7.70 a bushel, not the $15 that a lot of people will quote.

I have got a lot in here I won't touch, and I know I am out of time. Let me offer a few suggestions for how we address it.

Number one, we have to get a handle on the price of energy. I have read a lot of people's statements saying corn ethanol is the only thing we have any control over. I think that is totally false. I think that is a cop-out. We can do something about the high oil prices. We have recommended shutting off the purchases for the Strategic Oil Reserve. We have recommended opening the Strategic Oil Reserve. If it is not a crisis when gasoline is $4 a gallon, I don't know what is.

And we also advocate for hunger, And the farm bill that was passed yesterday makes the largest commitment ever in our Nation towards hunger and nutrition programs. It needs to be. There are 26 million people in the United States that participate in these programs, and as a farmer I have to say I am ashamed that anyone goes hungry, because year after year, except in rare cases, we overproduce.

Thank you, Madam Chair. I appreciate the opportunity and would be glad to answer any questions.

[The prepared statement of Mr. Buis may be found in the Appendix on page 34.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Buis.

Our next witness is Mr. Geoff Tracy. Geoff Tracy is established in Washington, D.C. He is testifying on behalf of the National Restaurant Association. The NRA was founded in 1919, and it is the leading business association for the restaurant industry. The NRA represents an industry comprised of 945,000 food service outlets employing 13 million people.

Welcome, sir.

STATEMENT OF MR. GEOFF TRACY, PROPRIETOR, CHEF GEOFF'S, WASHINGTON, D.C., ON BEHALF OF THE NATIONAL RESTAURANT ASSOCIATION (NRA)

Mr. TRACY. Thank you. Chairwoman Velázquez and Ranking Member Chabot and members of the Small Business Committee, thank you for the opportunity to testify today regarding food prices and the impact on small businesses like mine.

My name is Geoff Tracy. I own three restaurants all within 6 miles of where we sit here today. I believe in many ways I represent the American dream. I have combined hard work, education and an entrepreneurial spirit to create a small, successful business that employs over 200 people and serves more than half a million guests each year.

I am here today on behalf of the National Restaurant Association, and I also serve on the board of directors of the Restaurant Association of Metropolitan Washington. As you know, restaurants have a huge impact on the U.S. economy. I am one of over 13 million people who work in restaurants in this country. And other than the government, we are the largest employer in the United States. Sales for 2008 are estimated to be $550 billion. The industry serves 133 million guests a day, and every dollar spent dining out generates $2.34 in business for other industries.

In short, we buy and sell a lot of stuff, creating a paycheck for a lot of Americans, and generating a ton of tax revenue. I am told that the total economic impact is $1.5 trillion. That is a little bit beyond my scope of understanding. And in a world of big business; in a nation where big corporations outsource jobs to foreign countries; we remain an industry of small businesses and local operators. We are rooted in communities and our neighborhoods. Seven out of ten restaurants are single-unit operators, and if you have been to a charity gala and made a bid at a silent auction or looked at the sponsor of your child's Little League team, you know that restaurants contribute generously to the community. And, yes, there is a Chef Geoff Little League team.

Right now we are facing a big challenge. The price of food is going through the roof. Food and beverage costs are one of the most significant line items for a restaurant in our P&L, accounting for approximately 33 cents of every dollar in sales. Profit margins are not big in the restaurant world; 9 out of 10 restaurants don't survive the first 2 years of business. And those that do, the average restaurateur earns about a nickel on every dollar in sales.

An increase in food costs can have a dramatic impact on the bottom line. The wholesale food price inflation we are currently experiencing is the highest it has been in 27 years. Last year wholesale food prices jumped 7.6 percent, and on a 2008 year-to-date basis through March, wholesale food prices continue to rise at 8.5 percent.

While the industry is used to fluctuations, recent increases are creating significant challenges. When I check the food deliveries in the morning and review the invoices, the numbers are not good. This year flour has risen 87 percent, eggs 73 percent, cooking oils 49 percent, cheese—one of my favorites—27 percent, rice 25 percent and milk 20 percent. This is on top of double-digit cost increases in the previous year.

I am doing everything I can to keep my menu prices in line with what my guests perceive as value. I am switching around menus, modifying portion sizes, heckling my vendors. But I am a chef, not a magician. With skyrocketing wholesale food prices, the bottom line is going to get even smaller, or Americans will have to dig a bit deeper into their wallets to enjoy a meal.

My vendors give me all the reasons why these prices are going up so dramatically, and I am always talking to my vendors. They tell me energy prices make it more expensive. They tell me that billions of people in China and India want the same items that I want, increasing demand and increasing price. They tell me it is the weather. My produce vendor is always giving me some excuse about the weather somewhere. My cheese guy tells me it is the weak U.S. Dollar, and my nice cheeses are going to cost me a few more bucks this year. And many of my vendors tell me it is about the corn and the grain, and that a larger share of the grain market is being diverted into ethanol and biodiesel production. And since the chickens and the pigs and the cows all eat the stuff, the price of my eggs, milk, cream, cheeses, oils, flours and seemingly everything else is going up and up.

While many of these factors are out of our control, there are U.S. Government policies in place that are contributing to food price inflation. Food-to-fuel mandates and subsidies that encourage the use of grains for fuel instead of food should be revisited. These policies pit Americans' need for food against our need for fuel. While both are important priorities for the Nation, the restaurant industry supports the development of efficient, renewable fuels, including the promotion of the use of recyclable restaurant oils, something I do, while safeguarding against price distortions in the food supply. These price distortions have and will continue to impact our customers and small businesses. We urge Congress to examine the impact the food-to-fuel price mandates and subsidies have had on price increases.

In conclusion, the NRA urges Congress to examine the impact of these mandates and subsidies in the context of national and global priorities. There are certainly many factors contributing to the sharp increases in wholesale food prices, but this is one within our control.

Thank you again for the opportunity to testify today, and I appreciate all the time. I would be happy to answer any questions at the appropriate time.

[The prepared statement of Mr. Tracy may be found in the Appendix on page 40.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Tracy.

Our next witness is Mr. Frank Formica. Frank Formica is the third-generation owner and operator of Formica Brothers Bakery in Atlantic City, New Jersey. Mr. Formica will be testifying on behalf of the American Bakers Association. ABA is a voluntary trade association designed to represent the interests of the wholesale baking industry at the national and State levels.

Welcome.

STATEMENT OF MR. FRANK FORMICA, FORMICA BROTHERS BAKERY, ATLANTIC CITY, NEW JERSEY, ON BEHALF OF THE AMERICAN BAKERS ASSOCIATION

Mr. FORMICA. Thank you, Madam Chairman Velázquez, Ranking Member Chabot, members of the House Committee on Small Business. Thank you for holding this critically important hearing on the impact of high food prices on small businesses.

The current crisis has greatly impacted my business. I hope that today we can explore realistic solutions to the current situation.

My name is Frank D. Formica, an Italian American baker proudly continuing over a century of family tradition in the baking industry. I am the owner of Formica Brothers Bakery in Atlantic City, New Jersey. Over the past 92 years, millions of customers have eaten sub sandwiches and bread made from Formica Brothers Bakery, including Frank Sinatra, the Beatles, Jay-Z and Garth Brooks, to name a few.

On behalf of myself and the American Bakers Association, I appreciate this opportunity to highlight the critical status of our economy and the epidemic that is afflicting bakers and our customers across the country. In my case, over a century of family tradition is at risk of becoming extinct.

The Formica Brothers legacy began over 100 years ago in the year 1900 when my grandfather Francesco and my grandmother

Rosa emigrated from Sicily, Italy, and realized their American dream by building Formica's Bakery in Atlantic City, New Jersey. I grew up baking Italian bread alongside my grandfather, my father and uncles, and today we produce 40,000 pieces of bread a day, creating roughly 200 different varieties of handcrafted European breads, which are sold both wholesale and retail in the greater Atlantic City market.

Yes, I am one of the vendors he tries to get down, but I don't deserve him.

Our daily retail base of over 500 retail customers and 300 wholesale customers and roughly 55 families who work for our bakery depend on Formica staying in business, a responsibility that I do not take lightly, and now one, quite frankly, that keeps me awake at night.

Let me share a couple of examples of how the current conditions are impacting Formica's and our customers. Formica uses 50,000 pounds of flour a week. The price of flour had been relatively stable over a 20- to 30-year period, between about 11 and 17 cents, an average of 14 cents. Starting in September of 2007, the price jumped until it reached a peak of over 60 cents a pound. What did that mean for me? A year ago we paid $7,000 a week, $364,000 a year for flour. Today we are paying $20,000 a week, $1,040,000 a year for the same amount of flour.

In addition to flour, all other ingredients have substantially increased. On top of the ingredients, the cost of distributing our products has soared. Further threatening my business and livelihood of the families—and my family, my employees are the fact that we use 600 gallons of fuel oil to deliver gasoline to our wholesale customers. Last year those costs averaged 1,200 a week, 62,000 a year. This year it is 2,000 a week as we speak, $104,000 a year.

In addition to the increased cost of flour and fuel, we have seen prices increase the entire inventory in products and services that we depend on to run our business. We have been able to pass on some of these increases to our customers through higher prices, but we absorb the majority of the cost, which has crushed our profit margin, a profit margin that I am fighting to keep above water for the first time in 92 years, and that includes the years of the Great Depression, which we operated straight through.

Last year Formica successfully marketed high-protein whole wheat products to a school program manufacturer that was distributing to over 267 school districts on the east coast. We invested a half a million dollars in equipment and facilities to support this increase in business. As the price of commodities jumped, especially flour, and we had to pass these costs along to the manufacturer, the cost of producing these healthier products outstripped the already strained school budgets, and schools cancelled the program. As a result, I had to lay off many employees, try to recoup the costs associated with this lost contact.

Other bakers have had similar experiences trying to provide healthy, low-cost meals to schools. High food and commodity prices have caused many factors—caused by many factors, including increased worldwide demand, a weakened dollar, adverse weather conditions such as last year's drought in Australia. We can't control them. We can't control the weather. We can control government programs such as the ethanol program, which distorts the marketplace by subsidizing crops for fuel versus food. Also in our control, are government programs that pay farmers not to farm land.

On behalf of my customers, my employees, my family and my community, I ask that you consider and adopt the American Bakers Association action plan to ease the pressure on our foodstocks. Number one, the ABA urges Congress to ease ethanol mandates by immediately waiving the renewable fuel standard. That, coupled with eliminating the import tariff and the blenders' credit on ethanol, will allow our country to make progress towards renewable fuels, which we support wholly, but not at the price of sacrificing foodstocks.

At this time with the worldwide food shortages, why is the government continuing to incentivize corn for ethanol and not corn for food uses? The U.S. has a finite number of acres to use for farming, and fuel crops have taken over many acres that were previously used to grow food. Where will the land come from to grow more crops to meet ethanol mandates? U.S. cropland is already stretched to the limit.

The ABA urges Congress to consider the needs of consumers when supplies of wheat and other commodities drop to dangerously low levels. Historically U.S. Wheat stocks have averaged a 3-month supply. Current estimates have our wheat stocks down to 24 days, which means there is 24 days' worth of wheat based on our present demand, with an ever-increasing worldwide demand, the lowest amount since 1948. While recent USDA reports that the projected wheat plantings will increase by over 4 million acres, the USDA recognizes that any increase will be more than offset by the increased use and trade prospects which this government supports; meaning that the more wheat entering the food chain that we projected this year will do little to alleviate the current food crisis, let alone return us to the historical average stockpile, which was our cushion for bad weather.

All of these assume normal weather patterns, but as farmers can tell you—I am sure they can—there is no such thing as a normal weather pattern. In fact, in March of 2007, the USDA projected similar positive outlooks; but that Easter weekend, a heavy freeze hit the Wheat Belt and devastated much of the anticipated crop. Unfortunately, our margin for error is gone.

Lastly, the ABA urges Congress to address the increasing pressure on available farmland in the U.S. Currently 34.6 million acres of U.S. cropland lay idle through a conservation reserve program, a noble cause. A significant portion of CRP acreage is located in large wheat-producing States. ABA believes that as much as one-third of the acres under contract for CRP could be returned to production without sacrificing the environmental goals.

[The prepared statement of Mr. Formica may be found in the Appendix on page 48.]

Chairwoman VELÁZQUEZ. Thank you. Thank you, Mr. Formica.

Our next witness is Mr. Daryl E. Thomas. Mr. Thomas is senior vice president of sales and marketing for Herr's Foods, Inc., in Nottingham, Pennsylvania. Herr's Foods, founded in 1946, is a leader in the snack food industry. Mr. Thomas will be testifying on behalf of the Grocery Manufacturers Association. For 90 years, GMA's business initiatives have represented the industry interests.

Welcome.

STATEMENT OF MR. DARYL E. THOMAS, SENIOR VICE PRESIDENT, SALES AND MARKETING, HERR FOODS, INC., NOTTINGHAM, PENNSYLVANIA, ON BEHALF OF THE SNACK FOOD ASSOCIATION

Mr. THOMAS. Thank you very much. Madam Chair Velázquez, Ranking Member Chabot and other distinguished members of the Committee. We thank you for the opportunity to come and to share with you today. I am also here today—I currently serve as chairman of the Snack Food Association, And so I am also representing those constituents.

To do some background on Herr's, Herr's is a family-owned and -operated food company that was started 62 years ago by James S. Herr, my father-in-law. He too. Served as chairman of the Snack Food Association, and more recently served at chairman of the National Federation of Independent Business.

Herr's employs 1,250 full-time employees. We are a full-line manufacturer of salty snacks, including potato chips, corn-based tortilla chips. And I will say that the corn we use to make our tortilla chips looks like that corn, except it is off the cob. So it is a corn product like that. Our wheat flour-based pretzels—our company and our industry manufactures a broad spectrum of products, using the raw materials of wheat, corn, vegetable oil. Our products are affordable nutrition for consumers. They provide energy and also pleasure. I am here today to share the impact of rising fuel and commodity prices are having on our industry and on our business.

Our cost to manufacture is skyrocketing. Consumer prices, as a result, are going up. Job security is being threatened, and, quite frankly, as a privately held company, one of the things we pride ourselves in is being very generous in support of charities and different causes, And that, too, is feeling the pressure of these higher costs.

Herr's and our industry currently are facing unprecedented commodity price increases. Typically we have seen a 2 to 3 percent increase over the years in rising costs, and in a pretty predictable fashion have been able to pass a lot of that on to the consumers to protect our bottom line and the well-being of our shareholders and our stakeholders at Herr's. This year our costs are up 15 percent. Corn itself is up 30 percent. Vegetable oils that we cook with is up 124 percent, and wheat flour is up 82 percent. So all these commodities are seeing a dramatic increase. This current situation demands that we pass these higher costs of doing business on to our customers and the consumer.

Thus far this fiscal year that we are in, we had to increase our prices 3 percent and anticipate another 5.6 percent on top of that to just break even on our commodity prices that have skyrocketed. There has been a number of factors that are contributing to this such as the weather, surging economies around the world, market speculation. These things are beyond our control and not necessarily all unwelcomed. However, there is one thing that is most controllable and we believe requires immediate attention, and that is the Federal food-to-fuel or biofuels mandate.

Last year the U.S. devoted roughly one-quarter of its corn harvest to ethanol production. That number is expected to surpass 30 percent this year and will keep growing if the alternative fuel mandates are met. Displacing such large quantities of our corn harvest in the fuel production is clearly having an impact on the stability of our food supply. If there are to be any additional unforeseen shortfalls, we do fear that there could be food shortages in the U.S. and around the world, as some countries are seeing already.

Today as a representative of Herr's, of the Snack Food Association and the Grocery Manufacturers Association, I am hopeful that Congress and our legislatures will act quickly to revisit the mandate schedule and bring relief to the food manufacturers and consumers.

I appreciate the opportunity to come and share with you, And I look forward answering any questions that you might have. Thank you.

[The prepared statement of Mr. Thomas may be found in the Appendix on page 55.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Thomas.

Our next witness is Mr. Bob Dinneen. Mr. Dinneen is the president and CEO of the Renewable Fuels Association, the national trade association for the U.S. ethanol industry. Mr. Dinneen became president of RFA in July of 2001. Organized in 1981, RFA provides advocacy and industry data to its members, Congress and Federal and State government agencies.

Welcome, sir.

STATEMENT OF MR. BOB DINEEN, PRESIDENT, RENEWABLE FUELS ASSOCIATION

Mr. DINNEEN. Thank you very much, Madam Chair and members of the Committee. Thank you for the opportunity to be here today and perhaps shed some light on solutions that we ought to be looking at in terms of food price inflation.

I am very sympathetic to the plight of the witnesses here. I have been to Chef Geoff's restaurant. I disagree with him. I think he is a magician. And Mr. Thomas the snack food association has no bigger fan than Bob Dinneen. Their pain is real. The solutions they are suggesting are misplaced.

As has been discussed already today, including in the Chair's opening remarks, the causes of food price inflation are several. It is indeed rising demand. It is indeed weather-related issues, droughts in Europe and Australia last year that impacted wheat supplies. It is speculation in the marketplace. It is a result of the falling dollar that has encouraged greater exports. And it is most definitely the rising price of oil. You can't grow $2.50 corn on $4.50 diesel. And the fact of the matter is eliminating the ″food-to-fuel″ mandates, which might be a very clever phrase that some high-priced PR firm came up with, is really not based in reality.

The production of ethanol is actually producing food and fuel because we are only using the starch in the production of ethanol. What is left from that ear of corn when we are done with it is all the protein, all the vitamins, all the minerals, and much of the feed value, which is then fed to livestock and poultry markets across this country. That is a very important point, because it is not simply we are utilizing so much of the corn crop, we are passing along most of the feed value from the corn that we are utilizing.

Eliminating the renewable fuel standard, as has been suggested, would be moving in the exact opposite direction of what we need to do. We need to recognize the role of oil in inflation all across this country, including most specifically food price inflation, and recognize that the only thing that we have available to us to address that effect are biofuels. Ethanol is here today. The ethanol industry today is 147 small businesses across this country that are producing 8-1/2 billion gallons of high-quality renewable fuels that are blended into 7 percent of the Nation's motor fuel—I am sorry, 70 percent of the Nation's motor fuel. Ethanol itself represents 7 percent of the U.S. motor fuel supply. If you were to eliminate that supply, the price of oil, the price of gasoline would skyrocket even further.

A Merrill Lynch analysis that was quoted a few weeks ago suggested that crude oil prices would increase about 15 percent without world biofuel supplies. This morning we are looking at the highest gasoline prices in our Nation's history, on average $3.77. Where would they be were it not for the supplies of ethanol across this country? An Iowa State University analysis completed a couple of weeks ago showed that gasoline prices across the country would be 30 to 40 cents higher today if it were not for ethanol being blended into gasoline.

Just yesterday the International Energy Administration noted that 63 percent of the increased demand for oil supplies was being met by world biofuels, and they expressed a great deal of concern about the backlash against biofuels, because frankly, there isn't anything to replace it. A refinery hiccups in this country, and gasoline prices skyrocket. Take 7 percent of the U.S. motor fuel market off of the supply, and you will see gasoline prices go through the roof, and that will hurt Chef Geoff, it will hurt food companies all across this country, it will hurt consumers directly, and hurt poor consumers most specifically.

We have to continue the movement that this country has made, the commitment that this country has made to domestically produce renewable fuels like ethanol. It is the only tool that we have to provide a hedge against skyrocketing energy prices across this country.

Thank you.

[The prepared statement of Mr. Dinneen may be found in the Appendix on page 59.]

Chairwoman VELÁZQUEZ. Thank you very much to all of you for being here this morning and providing important insights into this important issue.

Let me just say that the role that this Committee plays goes beyond small businesses sometimes, and in the sense that anything that is happening in Congress regarding legislation that is considered in other Committees where we can show that it impacts small businesses, we can play a role, and we can seek referral of those legislation to this Committee. And as an example, I will mention that both myself and my colleague, Ranking Member Chabot. We both were conferees on the farm bill.

So with that, I just would like to begin asking each panelist to take a moment to discuss your thoughts as to what is driving the higher food prices. Some will point—and we have seen it this morning—to one particular thing, while others will suggest it is many different factors creating the perfect storm. So what do you believe is causing high food prices? And what do you see as an immediate solution? Mr. Buis?

Mr. BUIS. Thank you, Madam Chair. And thanks for all your hard work on the farm bill, you and Mr. Chabot. We appreciate it.

I mean, you have to look at a variety of factors, and you have to address a variety of factors. Again, the price of oil, the price of gasoline, the price of diesel fuel is driving up everyone's costs. And food is very energy intensive from the farm all the way to the consumer.

The second thing is definitely weather on wheat. You know, I hear about egg prices going up. I don't think anyone mentioned that. That was a disease in the laying industry that caused a lot of chickens to be put into the food system as opposed to use for laying eggs. It is not corn ethanol again.

I also think you have got the problem with the weak dollar, without a doubt. We set record export levels on most commodities this year at the same time we had record high commodity prices. But those countries—other countries are actually paying less for our products because they are buying with the cheap, weak U.S. dollar.

So I think that is the big factors. You can't—you can control a lot of them. I mean, by the time that food gets to the chef's table, there is also a lot of other factors, labor costs, health care. We can do something about health care in this Nation. We have ignored that for decades as well as the energy policy.

Chairwoman VELÁZQUEZ. But do you see any type of action that can be taken to address any of those factors that we are seeing?

Mr. BUIS. Absolutely. Again, open the Strategic Oil Reserve. Dip into it. Take that pressure off of an already short market.

Number two, I think you can start to address some of the factors of distribution. We are getting ready to start a wheat harvest here in 2 weeks. We are going to have a good wheat crop, which will take pressure off of wheat, which is in short supply because of the weather. You know, sometimes you kind of have to be a little patient.

One response to roll back the RFS would be the biggest mistake that Congress could make, because, number one, 30 years ago we had this wake-up call when we had the oil embargo from OPEC. We did nothing about it. We went to sleep time after time after time. Brazil, they took action. They became energy independent. It won't happen overnight. And if we pull the plug now, we will be pulling the plug on those future-generation biofuels feedstocks like cellulosic.

Chairwoman VELÁZQUEZ. Mr. Tracy.

Mr. TRACY. Well, I am a chef, business owner. I don't understand these global economic situations. It is a very complex situation. I just know how it impacts me. And I guess if there is anything that can be done, I would ask people to consider every single option and—because it is multifaceted. And look at every single one. And the National Restaurant Association is saying in addition to looking at some of the other ones is to look at the renewable fuel production from nonfood sources, nonfood sources.

So that is just—I just keep looking at these numbers, and they keep going up, and they are really aggressively going up, and ultimately I have to pass these prices on as a business owner because otherwise I am just not—I am not going to stay in business. Otherwise I am taking it out of the pocket of every American.

Chairwoman VELÁZQUEZ. Mr. Formica.

Mr. FORMICA. Thank you again, Madam Chairman.

Again, I just think it is simple. It is supply and demand. If there is not enough acres to grow the wheat here, and we are exporting it under our programs, and the demand is high, we have got to find a way to grow more wheat. To grow more wheat we need more acres.

I want to make one statement about weather. Last year we came down here, March 12th, and we met with the USDA—I guess, department—Mr. Schafer—and he told us that we need—we need good weather. That will help us. But weather is not a solution. Last year we were told not to buy our wheat at 18 cents because it went up from 16, and we are going to get a good crop; 3 devastating months later it was at 36. So weather is no the solution.

And I think definitely relieving tariffs on importing ethanol is hurting the objective. If that is our objective is to get more ethanol-dependent in this country to get off of foreign imports, then why wouldn't we relieve the tariff on that as well as the blenders' credit? I think that will solve a lot of problems for both of us.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Thomas, do you have any comments?

Mr. THOMAS. Yes, thank you, Madam.

I think the idea of reducing our dependency on foreign fuel and coming up with an alternative commodity is a commendable endeavor. I think the problem is that there was a failure to accurately assess the cost of that strategy.

You know, there is a lot of things that have been listed as causes for the current situation that we are reporting to you on today. It has been described as the perfect storm with surging demand, weather, speculation, you know, all of these things have contributed. But to me one of the basic things that comes to mind is we are taking 30 percent of our corn crop and moving it out of the food supply. That has to have an effect on the prices of corn. When you take that much out of the market, there is going to be a shortage of corn. That is going to drive the price up, supply and demand. As the price went up, farmers are changing—naturally so—they are changing their crop strategy. They are moving from growing corn—or from wheat into these other products. And it has been exacerbated by the weather and the droughts that we have seen around the world.

There is a lot of—all these things probably go together to contribute to the problem that we face, and the question in my mind is how can we quickly respond and bring relief to food companies, to consumers, because I think that we are on an upswing here, and

I don't think anybody here has any idea today what this means going forward.

But just from our vantage point as a small business, we can't take price increases fast enough to cover our costs, and, I mean, it really—it is diluting our bottom line, and I think it is going to have dramatic impacts that we are not going to like, and it is just going to continue to get worse unless we take a quick response. The easing of the mandate, I think, is the quick response that makes sense.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Dinneen.

Mr. THOMAS. Madam Chair, just quickly, because I know it is not Mr. Thomas' wheelhouse, but it wasn't actually 30 percent of the corn crop last year; it was 22 percent. And again, that is of corn use. And you have to consider the feed value as well, and that is ignored in that comment.

In terms of what we can do, $125 barrel oil, that is what this is about. This isn't about food to fuel. It is about the crude-to-food connection.

Chairwoman VELÁZQUEZ. Let me ask you, either Mr. Dinneen or Mr. Buis. And you mentioned it, but it caught my attention, that Brazil, while we were sleeping at the switch, they were producing ethanol and invested a lot of money and effort and research in achieving energy independence. Can you—do you have any insight as to how is the situation in Brazil with food prices at this point?

Mr. BUIS. What it would put the prices at?

Chairwoman VELÁZQUEZ. On food.

Mr. BUIS. They are a big food producer, as we are, but you have to keep in mind also we are also big food exporters. And while Mr. Thomas, with all due respect, is talking about how we shorted the food market on corn, that is just not true. We produced the largest corn crop in our Nation's history last year in terms of acreage and in terms of volume, almost 3 billion bushels more. Now, that equates to about the amount that went into ethanol. But on top of that, we exported the largest amount of corn ever in our Nation's history, almost 2-1/2 billion bushels of corn. We can produce.

An older farmer once told me the best solution for higher prices is higher prices, and we are going to see it. You are seeing transformation of corn acreage back to bean acreage this year. So soybean prices will come down. You saw more acreage go into wheat. Madam Chair, we can do all. And for those naysayers that say the sky is falling from corn ethanol, they need to take a long, hard look at the real facts.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chair.

Let me begin by just asking Mr. Buis on behalf of the farmers union and Mr. Dinneen on behalf of the Renewable Fuels Association—let me make sure I have got this straight. Both of you gentlemen believe that the—one of the major reasons for prices going up on food and wheat and everything else we have talked here, you would dispute the fact that diverting a significant amount of the corn crop and other crops is one of the principal reasons that the prices have gone up, having that go to ethanol basically. You would—you disagree with that premise; is that correct?

Mr. DINNEEN. Let me be clear. Certainly the increased demand for grain for ethanol production has had an impact,but the impact pales in comparison to all of those other factors that have been discussed today.

Mr. CHABOT. So an impact, but not a significant impact when you compare it to the other things?

Mr. DINNEEN. Nowhere close. And again, it gets right back to oil as being the driving force.

Mr. CHABOT. And I will get to that.

Mr. Buis, you would agree with that?

Mr. BUIS. I do agree. I testified over in the Senate a few weeks ago, and next to me was the chief economist at USDA who said the same thing.

Mr. CHABOT. Mr. Tracy and Mr. Formica and Mr. Thomas, you gentlemen don't buy that, correct? You believe that is a significant part of it, the diversion into ethanol and others?

Mr. FORMICA. Based upon the fact of how many acres that were planted by corn that previously were wheat, I mean, it is just a question of supply.

Mr. DINNEEN. Wheat acres actually went up last year, though. And they went up the last 3 years.

Mr. CHABOT. Let me get the other two gentlemen.

Mr. TRACY. I guess on my side I think there are many, many causes. And I just think that the ethanol issue, the corn-driven ethanol as opposed to other nonfood sources of ethanol, is just one reason.

Mr. CHABOT. Would you say a significant reason?

Mr. TRACY. I have no idea.

Mr. CHABOT. Mr. Thomas?

Mr. THOMAS. I would say it is a significant reason. When you look at the crop reserves, they are at an all-time low. That went someplace. And it obviously has an effect on supply and demand on driving the price up.

Mr. CHABOT. Let me just stop there. I have got another question now.

So there is just a disagreement on that particular issue relative to the fact that oil being so high right now, $125, $126 a barrel right now. It has been going up when people—it was thought that it could actually get to $100 a barrel, and we are beyond that now, and it wasn't that long ago. But obviously that is running up the price at the gas pump that consumers are paying.

But the fact that oil is so high, then—that we are so reliant upon foreign energy, you would all agree that that is a big problem; is that correct? I am noting by the nodding of the heads that everybody agrees with that. Also you, Mr. Dinneen?

So that is a problem. And I would argue—not necessarily argue, but make the point that I think to a great extent we are reaping really bad decisions that our government, whether they were Presidents or Congress, made over the years in doing a number of major things, one being restricting where we can go after energy that we have under our control, for example, in ANWR up in Alaska and the Outer Continental Shelf; that we have made it virtually impossible to build refineries in this country. We haven't built one since 1976. So even if we have the crude, we can't refine it quickly enough to actually utilize it. Boutique fuels, having to have this one in this State and that area makes it tougher to get the supply around efficiently. Not building nuclear power plants in 20 years in this country. France has 75 percent of their electricity generated by such facilities. So a number of decisions that the government made up here in Washington, D.C. That has affected these.

Is there anybody that would disagree with the premise that that is one of the major problems that we are all facing now in these high costs at the gas pump, heating our homes, and what we are paying for food, a restaurant, whatever? Is there any disagreement on that point amongst the panel members here? Does everybody agree basically? I think everybody is affirming that they do.

Let me—if I go to the restaurant industry, Mr. Tracy, how significant did the minimum wage increase have on your business? Was it a factor? Was it insignificant? What would you say?

Mr. TRACY. I am—fortunately my wages are well above the minimum wage for all of my employees, and, you know, with the exception of if it had increased dramatically for tipped employees, which earn a lot more than minimum wage, but that has always been kept down to a level—a dollar increase on tipped employees would be a very significant cost. But over the last 5 to 6 years, there hasn't been any dramatic effect. Our wages have stayed well above minimum wage.

Mr. CHABOT. In your conversations with others in the restaurant industry, do you believe there has been an impact?

Mr. TRACY. Minimum wage is something that the restaurant industry on a whole is concerned about. We have a lot of sort of beginning, entry-level members of our workforce.

Mr. CHABOT. Thank you.

Mr. Formica, I think you were going to say something there.

Mr. FORMICA. Similarly, we are well above minimum wage, and we have 300 accounts that are restaurants or delis or grocery stores, and it has never been discussed as a major issue.

Mr. CHABOT. Okay. And I am almost out of time here, but I do want to mention—I know we have been getting a lot of letters and phone calls from our local bakers making us aware—not that we are not aware of it, but making us even more aware of the impact that the high cost of wheat—I think you mentioned on average 14 cents, and now it is up to 60 plus.

Mr. FORMICA. It was 60. It is 40 right now. But I appreciate that.

Mr. CHABOT. So I would commend your colleagues for their effort to make us aware of it.

I can't honestly say that Congress has acted to the degree it really needs to act to do really do something about that, but I would completely agree with the entire panel here that I think it is our responsibility to do something about these high gas prices.

I know in Cincinnati, for example, Monday when I came up here, I bought gas in the morning, and it was like 3.69 a gallon. By the time I went to the airport a few hours later, all the ones that I had passed had gone up to $3.95 in Cincinnati, and it is really hurting an awful lot of people, and we absolutely need to do something about it. So thank you very much, and I yield back, Madam Chair.

Chairwoman VELÁZQUEZ. Thank you.

Ms. Hirono.

Ms. HIRONO. Thank you, Madam Chair. Is this on? Thank you very much.

I think one thing that this panel does point out is I think there is general—there is agreement that the high cost of oil is really driving much of everything, including gasoline, cost of fuel, transportation, all of that. And there may not be agreement on what part ethanol production has, et cetera. So I think it is really important as we proceed that we need to have fact-based solutions. We should not go charging off into so-called solutions that really may not address the problem accurately.

I do want to note that Mr. Buis—is that how you pronounce your name?

Mr. BUIS. Buis. You can tell I am bias.

Ms. HIRONO. Yes. I noted that you suggested that one of the things we should do is cut the subsidies, multibillion-dollar subsidies, to Big Oil, and that is a start. I would be curious to know what the other panelists think about that as an immediate kind of a thing that Congress could do.

Mr. TRACY. Well, again, energy policy is not my level of expertise, but, you know, again, I think a comprehensive review of all of the factors is very critical. And as you said, so that we have some hard numbers and some real data so that we don't just act and then have to deal with the, you know, negative or positive results down the line, that we make some real positive and sort of long-term plans.

Ms. HIRONO. And that is what we are attempting to do in many of our Committees, not just this Committee, but the Transportation and Infrastructure Committee, the Energy Committee, all of these Committees. But as a start in a situation where Big Oil is making multibillion dollars in profit, record profits, does it make sense to you that we continue to give them huge subsidies, taxpayer subsidies?

Mr. FORMICA. It depends if the subsidies were put in place for them to perform in the marketplace. They were supposed to go out and find other sources, find other resources, do search—I mean, I would not know, again, similar to a restaurant owner or the baker owner, not having the expertise, but certainly knowing good business practice, if the government put those subsidies in place so that it could stabilize our oil supply, maybe it is just the enforcement of what they are getting the subsidies for that would solve the problem.

Mr. DINNEEN. I guess I am shocked to hear the bakers defend subsidies to oil and at the same time be suggesting that we should be eliminating subsidies for the domestic renewable energy industry. I find that hard to believe when we are looking at $125-a-barrel oil.

I agree with you, Congresswoman. We ought to be looking at this issue and from a fact-based standpoint. But as some people have suggested on this panel, and Governor Perry from Texas has called for eliminating the renewable fuel standard as the thing that is going to help reduce food price inflation—in fact, we looked at that very closely, and we determined that if you were to eliminate the renewable fuel standard in the way that Governor Perry from Texas has requested, gasoline prices would actually increase from $3.68 to $4.79. Now, I got into this business because I was never very good at math. But I think that is $1.11 on top of record-high gasoline prices. That will impact consumers. That will impact each one of these gentlemen and their businesses in a very meaningful way.

Ms. HIRONO. Mr. Thomas, did you want to add something to this discussion?

Mr. THOMAS. I would just echo that that is not my area of expertise either. I think any and all things should be looked at, and I think your point of the fact-based—there is information that I think at—we need to also keep in mind with the biofuel issue, and one of the points that was not brought up that I would like to just mention is that there is a lot of question around the efficiency of that as a real fuel source. I have seen a study reported on CNN that it requires over 20 percent more fossil fuel to manufacture, refine and actually burn one of these biofuels.

So I think the other piece is looking at the shortage. We can say that it is all of these petroleum products and the profits that these companies are making that is driving the fuel—the food price up, but the fact of the matter is there is a shortage. We have an all-time low reserve on our grain products. In fact, it was just recently reported that a national retailer is having to ration some of their products to their customers and stuff. I think there is a shortage, and it comes back to the supply and demand thing.

Mr. BUIS. I have to correct the record. There is not a shortage. In fact, we added to the surplus of production almost every year. We are short in wheat. We are short in some specialty rice that is imported into this country, not because of our production of rice. We have more rice than we have had in the last 3 years in the United States.

Ms. HIRONO. I think my time is almost up. Again, this discussion we are having points out how important it is to get our facts straight. I appreciate your comments.

Mr. FORMICA. Just one comment, Madam Chair. I am just surprised that the Renewable Fuel Association wants to get rid of the subsidies for the oil companies, but wants to keep them for themselves, and I find that making my argument. Thank you.

Chairwoman VELÁZQUEZ. Ms. Fallin?

Ms. FALLIN. Thank you, Madam Chair.

It is an interesting discussion. We appreciate all you gentlemen joining us here today. It is quite evident that the cost of food is rising for our families and our consumers and our businesses and the cost of fuel—

I am one of those people who believe that we have to diversify our fuel sources and use all sources of fuel. And I am very concerned that our Nation spends so much money—it is estimated to be about $500 billion—in buying foreign energy from foreign countries and that we import about 62 percent of our energy needs for our country. To me, that is a national security threat and an economic threat to your businesses and our country itself.

But I am very concerned about the cost of food and families and the price of gasoline and how it is affecting everyone. So I am interested in all your discussions about do we have enough corn? Do we not have enough corn? Are we taking away from the wheat market and the land that is producible for wheat? And is that driving up the cost that affects the food supply and everything else?

But I was interest in your comment a minute ago—is it Mr. Dinneen?

Mr. DINNEEN. Dinneen.

Ms. FALLIN. Tell me again the costs if you were to eliminate ethanol corn production. You said the price of gasoline would go from $3 something to $4 something?

Mr. DINNEEN. When the analysis was run, the price of gasoline was $3.68 a gallon. That was a week ago. It is now $3.77. It was run based off of Governor Perry's request, which would be to eliminate 4.5 billion gallons of the 9 billion gallon renewable fuels standard. So only half. Some of the gentlemen have today testified that it should all go away, but just eliminating half of that and having to find 4.5 billion gallons of replacement energy would drive up gasoline prices $1.11 in the near term.

In the longer term, the marketplace would adjust and the impact would only be about 13 percent. But, nonetheless, it would still have a dramatically negative impact, and the skyrocketing effect in the beginning would be very painful.

Ms. FALLIN. Well, my question was, in looking at $1.14, and I hope I read your—I was trying to follow the testimony. But didn't someone say that ethanol makes up about 7 percent of the fuels in the United States?

Mr. DINNEEN. Yes. I did.

Ms. FALLIN. So if it makes up 7 percent of the fuels, why would we have such a large increase in the cost of gasoline if we did away with it or even cut it in half?

Mr. DINNEEN. Because refinery supplies are so tight. There just isn't an additional 4.5 billion gallons of fuel supply to suddenly satisfy the increased demand.

Ms. FALLIN. And we have been talking about the increased demand of fuel.

I have a report here—it is kind of interesting that it is from the U.S. Energy Information Administration—that states that if we discovered the renewable oil in ANWR it would give the United States 10.4 billion barrels of economically recoverable oil, which is twice the proven oil reserves in all of Texas, Mr. Gohmert. And I guess my question is, do you feel that if we were to allow more exploration production in the United States that it would help reduce the price of fuel, open up more supply in the marketplace and maybe have an effect upon food costs?

Mr. DINNEEN. Well, I absolutely believe that we need to be encouraging all forms of energy, particularly renewables, but all forms of energy. And our energy crisis right now is so significant we need to take aggressive steps to assure that we are maximizing supplies.

I do think, though, that with respect to ANWR it would be 10 years before you would see any gasoline from that region; and you have to look at what is available in the near term and what the consequences of actions might be in the near term.

Ms. FALLIN. You know, it is interesting that you say that. I was reading some reports from 1991, 1994 and debates in Congress about whether we should drill in ANWR or not; and back then one of the congressmen said that it is not economically feasible to drill in ANWR because a barrel of oil is $17. Well, if you look at it 10 years today when we didn't do it 10 years ago, now it is $124 a barrel. And 10 years ago we didn't think it would be worth it then, and here we are today in the mess we are in.

Mr. DINNEEN. Good point.

Ms. FALLIN. And, actually, we did pass it in Congress; and it was vetoed in 1994.

Mr. DINNEEN. And in 1990 they also didn't envision a renewable energy industry in this country as significant as it is today. But, thankfully, we made the investment then; and we need to continue it.

Ms. FALLIN. That is right.

I think my time has run out. Thank you.

Chairwoman VELÁZQUEZ. Mr. Gohmert.

Mr. GOHMERT. Thank you, Madam Chair.

Let me ask, you use the 10-year figure. I am on the National Resources Committee as well. And the most recent data that we have gotten makes me ask you, how recent is your data that says 10 years? That has been said for 10 years, but that is not the most recent data. How recent and current—I mean, you were testifying that 10 years—how recent is that information that you have?

Mr. DINNEEN. I think the last time I saw a figure might have been a month ago. But I would defer to your expertise on that. The fact of the matter is, it wouldn't happen in the near term.

Mr. GOHMERT. People in Alaska have said we now have a pipeline 74 miles from there, and we could have it online in 3 years now. So that was the most recent information in the past week that I have heard. And I didn't know if yours was more recent than that.

We just this week did a nice thing. We passed a bill that would hold up putting any—you know, 40,000 barrels a day into the Strategic Oil Reserve. Nice gesture. If we brought ANWR online, then you have a million to a million and a half barrels a day.

We are playing around the edges with this thing. Natural gas—national farmers, you know what that does to the price of fertilizer. I mean, I am hearing from my farmers, the fertilizer is killing us. It is not just the corn that has gotten more expensive. The fertilizer is more expensive. And in some areas we have had too much rain; other areas we have had drought.

In my area, we have more livestock, raise a lot of chickens, a lot of beef. Not so much the row agriculture.

But it just seems that we have kind of a perfect storm right now between fuel costs and our refusal to deal with what we have before us. Some of the information that I have heard in the last few weeks, it is no secret that some—that the so-called experts are saying 20, 30 percent of the price of a gallon of gasoline is speculation, and the speculators aren't stupid. They are looking at what we have done in the last 17 months and they are saying, gee, everything you are doing puts your own energy off limits.

We have made it more difficult to go after coal. We have put more of that off limits.

We had a report in the last couple of weeks—some indicate there may be a trillion barrels of oil left in the entire Middle East. Schlumberger says if they would be allowed to go for it, they can recover 3 to 5 trillion barrels of oil from the shale in Colorado, Utah and Wyoming.

We have got people that we thought were going to be onboard for doing what France did. And I am not an advocate for doing what France does on anything, but nuclear seems to work over there. And we have made that too difficult. We keep making it harder and harder to bring refineries online.

So I did want to ask—and tell me how you pronounce your name.

Mr. BUIS. Bias.

Mr. GOHMERT. You touched on this in the written statement, it seemed. But how much acreage of corn is used for food stock versus that used for energy production right now? Do you know?

Mr. BUIS. Last year, it was 22 percent used for corn ethanol of which you still had a third of that value that went back into livestock feed. There is about I think 8 or 9 percent that goes into food uses. The biggest food use is fructose corn syrup.

You know, I think, contrary to a lot of public opinion, what we are talking about using for ethanol is not sweet corn. It is not canned corn. There may be some tortilla snack food chips made. But tortillas and that tortilla protest in Mexico last year that corn ethanol got blamed for it, it is made out of white corn. And the United States is prohibited from providing Mexico with any more than 2 percent of their white corn needs under trade agreements.

It is not used to make beer. Last year, before the Fourth of July, which is probably the biggest beer-drinking holiday in America, the beer breweries all blamed corn ethanol for raising the price of beer. Beer is made out of rice and barley. I am a corn farmer originally from Indiana, and I know they make drinking spirits out of corn. It is called whisky. It is not called beer.

Mr. GOHMERT. And it depends on the beer.

Mr. BUIS. Right.

Mr. GOHMERT. I don't drink alcohol, but I had a friend that said they sent in some beer—they were concerned about it—to be analyzed. And a report came back, we are sorry to inform you your horse has diabetes. So you never know what is in this stuff.

But, anyway, this hearing is short. You have come a long way to give us your time and your information, and we will be looking at that. But it doesn't have to stop at this hearing; and I know, Madam Chair, we welcome their input after the hearing. Please don't let your thinking stop here. We need your help. We need your information. Put it together and try to come up with something that helps all of us. Thank you for your time.

Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. I have some other questions.

Mr. Formica, in the Farm Bill that we passed yesterday, there is a program called the Conservation Reserve Program, which is a land retirement program. Farmers agree to not produce crops on this land for a duration of time because that land previously had been overused. There has been a lot of talk lately about opening acreage of that land to plant crops. Would you favor that?

Mr. FORMICA. Absolutely.

Chairwoman VELÁZQUEZ. And do you believe that that will help alleviate some of the pressure on the market by planting the crop?

Mr. FORMICA. Just by the mere fact we are only at a 24-day wheat supply when we usually depend on 3 months, that would have to add to our cushion in the case of another perfect storm down the line that we could depend on.

Chairwoman VELÁZQUEZ. Does any person on the panel have a different perspective?

Mr. BUIS. Absolutely, Madam Chair.

The Conservation Reserve Program was created in the mid-1980s to stop soil, wind and water erosion on farms. Much of the land that has been removed from production was done so because it wasn't suitable for farming. And now we have had some land come out of production. It is not at its all-time high. We are probably at the limit of what could come out and be reasonably farmed.

That is not the cause of today's crisis. If you really want to look at wheat production, and despite what these gentlemen have been told, that corn is displacing wheat acres, that has occurred since the 1980s. Where a farmer can plant a higher value commodity like corn or soybeans or rice or cotton, they will do so because of the economics of it. And I don't know how you force people to plant a crop that they are not going to make a decent return on their investment.

The wheat acreage that is displaced by corn is very minimal; and to open up the Conservation Reserve Program would open our country up to a lot more environmental challenges, whether it is silt running into the rivers, the tremendous erosion that occurs. You know, it was done for a purpose; and just opening up without looking at it I think is a big mistake.

If the market says to that producer, I can make more money growing wheat than I can make growing corn, the farmers will grow wheat. We have just subsidized the end user of wheat for so many years. And we can see by that chart on the bagel. Even at today's record high prices on wheat, we are 7 cents out of that 95 cents. And the reason I used the bagel was The Washington Post had a headline story complaining that a bagel shop in Bethesda was going to have to raise the bagels from 95 cents to $1.15 because of corn ethanol. No connection whatsoever. We could give them the wheat. They were raising it by more than that.

Chairwoman VELÁZQUEZ. Mr. Formica.

Mr. FORMICA. I just wanted to ask, we are talking about two things. The Conservation Reserve Program is an environmentally sensitive program, is that not correct? So I am not talking about replacing wheat for corn. We are talking about farmers getting subsidized not to plant on their land at all. And studies have shown by smarter gentlemen than me and ladies than me that some of this land can be released out of the program for wheat production. I don't see how that impacts, you know, the corn for fuel program.

And my question is—and I will defer to Mr. Buis—are there not farmers right now contracted in the reserve program that now at the price of wheat per bushel could make money by farming that for wheat?

Mr. BUIS. If you guaranteed them that speculative price we had in February and March, you might have. But, right now, wheat prices are barely above the cost of production.

Mr. FORMICA. There was some interest in that not only 6 weeks ago.

Mr. BUIS. This has to be factual based, and anyone who thinks that every farmer is getting $20 a bushel for their wheat is mistaken. The price in central Oklahoma today is $7.80.

Chairwoman VELÁZQUEZ. I will be the one asking questions.

Mr. Formica, let's go back to corn and ethanol. Yesterday, in the Farm Bill that we passed, there is a provision contained in the Farm Bill that reduces the ethanol tax incentive by 6 cents and creates a program for cellulosic ethanol made from grasses and biomass. Wouldn't this approach encourage alternative inputs by taking pressures off corn markets?

Mr. FORMICA. Well, I don't pretend to understand the mechanics of that. But if anything—I don't know—it would seem that it would when I read this report. And I just was curious as to if we relieve the tariff import on ethanol, we really wanted to relieve the stress of this country, dependent on taking the 7 percent and maybe getting it to up 9 percent, couldn't that be done by importing through ethanol?

Chairwoman VELÁZQUEZ. Okay. Mr. Dinneen, do you believe this will solve part of the problem, by shifting from corn to alternative imports?

Mr. DINNEEN. There is no question that the industry is continuing to evolve. The foundation of the industry today is providing the base upon which a cellulosic second-generation ethanol industry will indeed develop. The legislation that you have introduced will encourage research into cellulosic ethanol, will certainly help.

I would point out, however, that you are not going to have a second-generation ethanol industry if you don't have a first-generation ethanol industry providing the markets, providing the infrastructure upon which that next-generation industry can grow.

And just really quickly, because Mr. Formica has mentioned the secondary tariff on ethanol a couple of times, you should know that we actually do import a fair amount of Brazilian ethanol today. We imported about 450 million gallons last year. We are likely to import significantly more this year.

The secondary tariff is not there as any barrier to entry. It is only there to offset the tax incentive that they then get. And if you were to eliminate the secondary tariff as he is suggesting, it just means that the U.S. taxpayer is subsidizing already highly subsidized Brazilian ethanol, and I am not sure that makes a great deal of sense.

Chairwoman VELÁZQUEZ. Okay. Mr. Gohmert, do you have any other questions?

Mr. GOHMERT. Yes. Thanks, Madam Chair. Just to follow up. And, actually, you stopped them going between themselves. I was enjoying them doing it instead of us up here.

Chairwoman VELÁZQUEZ. We will be here tomorrow at this time.

Mr. FORMICA. We might still be here ourselves.

Mr. GOHMERT. But it does point out the problem we have. I mean, we disagree on the different ways to do things, but everybody here wants to be able to say we had the successful plans. So it is not like anybody is going into anything to fail. Everybody wants it to work. And you know, there is a great point that if the money is there, people are going to grow the crop.

I have seen a presentation on Jatropha. Have you heard of that? It is a plant that grows in some areas where a lot of stuff won't grow, supposedly 10 times more efficient at producing ethanol. It is an impressive presentation. But I am sure there is a disagreement over that, too.

But any solutions anybody has to propose we would welcome. Because one thing seems clear. It is going to take everything—there is no one silver bullet. It is going to take everything we can.

With regard to—I mean, coming back to the corn again, I mean, obviously, that has caused a great disagreement. And we have people on both sides of the aisle that disagree on that as well. I would just like to figure out what the truth is.

So I would like to ask, any other thoughts?

Yes, sir, Mr. Thomas.

Mr. THOMAS. Just one of the things that occurs to me—I mean, it is interesting. We are all sitting here, and with due respect to each of our individual organizations and companies, I mean, there is an economic incentive that, you know, we all have to kind of, you know, see the prices either come down or to protect income.

I think the Farmers Union, obviously, their position is that they are getting a higher price for their grain products; and they want to protect that. I think the Renewable Fuels Association is likewise protecting the interests of their industry.

It is interesting that I think that we are sitting here, though, and the argument today is about corn. And just a simple fact of supply and demand is, if the supply is as plentiful as is being suggested, I wouldn't think we would be having this argument. So I do think there is a force out there that has absolutely reduced the supply of corn. It is driving the prices up.

And, Madam Chair, you mentioned about it, some suggestions, some ideas as to alternative things we might do. The concern is is that the mandate says 25 percent I think this past year, 30 percent this year, and that number continues to go up, whether or not those ideas will help to ease the burden.

But there is also going to be an increasing burden as we go along, and I would just plead for a quick response in whatever manner we can to bring the relief to the industry. But you know, I think, we appreciate your taking the weight of our concern; and it seems like you have personalized it as well. So thank you.

Mr. GOHMERT. Well, and I appreciate that.

One of the things that seems could be the most immediate effect on the price of gasoline would be if the people who are driving the price up by 20 or 30 percent by speculating that it is going to go up were all of a sudden to think, uh-oh, Congress is really getting serious about this. They are really going to address this. Well, then the speculation takes the 20 to 30 percent out, you know, in a week's time.

So it would be nice if we could come up with a game plan that the leaders in Congress, Speaker Pelosi and Leader Reid, could announce that might just take that dollar off of gasoline right off the top quickly.

But, Mr. Formica, do you have a—

Mr. FORMICA. I appreciate it once again.

I think it is great. I mean, at the end of the day everybody here has an interest that has to do not only with money but with families and lives and livelihoods. And on my mother's side of the family—I told you about my father's side. We had the largest farm in western South Jersey at the turn of the century. So we come from farmers on my mother's side, bakers on my father's side.

I am sure, regardless of what anybody doesn't like about fuel industries, Mr. Dinneen's business has to do with that, too, but I just think that we have to come up with a solution when it comes to the food prices that are affecting us at the very base level of society, something necessary. If Congress was to come up with something that would at least put in a stop gap, when we go below 23 days, 20 days, whatever the intelligent people tell us, that Congress will step in and maybe do something about the speculating for commodity wheat. You know, I am even talking about corn or fuel now. I am just saying that we have got to do something that can maybe interlace all of the programs to stop the supplies from getting low.

Mr. GOHMERT. Regarding the bakers, one of the concerns that I hear—and we have really diverse interests up here pushing both sides—sugar. Any comments about that?

Mr. FORMICA. Well, sugar right now is like people do not—unfortunately, everybody can't just raise their prices and pass them on. People are changing recipes, getting out of different—making products. Sugar looks like it is going to go through the roof based on the most recent bill passed. And I can't even begin to, you know, know what prices are going to do. But, yes, it is a huge concern.

Mr. GOHMERT. Are you talking about the Farm Bill yesterday?

Mr. FORMICA. Right. Right. What was done with sugar in that Farm Bill, again, just coming out as a reader of it, not an architect of it, looks unconscionable for people that depend on that commodity.

Mr. GOHMERT. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Buis?

Mr. BUIS. I would like to comment about the sugar program. Actually, the way it is designed we are about to have a flood of imported sugar from Mexico because of the NAFTA agreement. And to help not disrupt the U.S. sugar production, that is going to be diverted to ethanol production. It is going to go into corn ethanol or to help relieve the pressure on corn.

So, you know, we hear these fears all the time about high sugar prices; and you know it is—it is a domestic industry that has been here a long time. And just to displace it with imported sugar that is produced with labor standards way below the United States, environmental standards and health and safety standards that are not up to par with us does not make a lot of sense either.

Chairwoman VELÁZQUEZ. Okay. Mr. Cuellar, do you have any questions at this point?

Well, gentlemen, let me just say that this has been one of the most exciting, enthusiastic, spirited hearings that we have held in this committee; and definitely we will continue to monitor the food price situation.

Also, we will look at exercising our oversight role regarding some of the Farm Bill implementation impacting farmers and impacting small businesses.

I want to thank you all for being here today, and I ask unanimous consent that members will have 5 days to submit a statement and supporting materials for the record.

Without objection, so ordered.

This hearing is now adjourned. Thank you.

[Whereupon, at 11:34 a.m., the committee was adjourned.]

NYDIA M. VELAZQUEZ, New York
Chairwoman

STEVE CHABOT, Ohio
Ranking Member

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

Statement of the
Honorable Nydia M. Velázquez, Chairwoman
House Committee on Small Business
Hearing on: "Food Price Impacts on Small Businesses and Family Farmers"
Thursday, May 15, 2008

From coast to coast, Americans are seeing continued increases in the cost of food items. According to the U.S. Department of Agriculture, the average price of such basic staples as bread, milk, and eggs, increased over 30 percent during 2007.

That was the largest annual jump in price in almost two decades, but the trend is projected to continue during the current year. Such increases have undeniable repercussions on consumers, small businesses, and the U.S. economy as a whole.

Today, we will discuss the relationship between food prices and the entire economic chain—from farm, to grocer, to restaurant and home. We will also explore the various factors contributing to the rising cost of food products, and examine the specific effect on family farmers and entrepreneurs.

It is an admittedly complex task that requires carefully considering a full range of variables. Some may be tempted to point fingers at single industry or sector, but there are many contributing factors to the "perfect storm" that is driving food prices upwards.

We need to be mindful of every piece of this puzzle, and gauge the specific and collective impact. That holds true whether we're talking about the corn used to make ethanol; the wheat used to make bread; or the produce that is purchased in bulk by grocers.

As we will hear today, a number of troubling developments are coming to a head simultaneously. For starters, rising unemployment and fallout from the subprime mortgage crisis have left our economy in a weakened state. This creates a difficult environment for business. Consumers have less disposable income, and tightening credit markets make it difficult for small firms to access capital.

Restaurants, grocers, and a myriad other food entrepreneurs are also having to pay more for their raw materials. It now costs each of them a great deal more money to bring the same products to market. Their customers, meanwhile, have less to spend. And, they are more resistant than ever to paying higher prices. It's an economic catch-22 that hits small businesses from both directions.

The problem is compounded further by rising global demand for agricultural goods. Developing economies such as China's, are putting new strains on supply. And weather-related production shortages of wheat, rice and other crops are making these products more expensive for everyone—including American small firms.

Last, but certainly not least, the weakened U.S. dollar and the continuing climb of oil prices have a sizeable effect on what small businesses pay for basic staples. Just a few weeks ago, this Committee delved into the economic implications of the $115 dollar barrel of oil. As we push north of the $120 mark, the impact on food prices—and the entrepreneurs who must bear them—continues to deepen.

The challenges posed by such a dramatic combination of factors are considerable, but they are not insurmountable. As history has demonstrated time and time again, our nation's small business economy is remarkably resilient. Entrepreneurs can help us get things back on track, so we should not be discouraged. Instead, we should lend them our support.

That means continuing to focus on the root causes of these problems, and understanding how the many variables interact with one another. With a clear sense of those dynamics, we can set about formulating and implementing solutions that allow the market to restore economic strength. It's a time-tested and common sense approach.

Arriving at policy solutions will require a comprehensive dialogue. I am very pleased that to help us in that discussion, we have a diverse range of perspectives represented on today's panel.

U.S. House of Representatives

SMALL BUSINESS COMMITTEE

Thursday, May 15, 2008

Representative Steve Chabot, Republican Leader

Opening Statement of Ranking Member Steve Chabot

Food Prices and Small Business

I thank the Chairwoman for holding this hearing on food prices and small businesses. This is a critical issue affecting not only American families, but also American small businesses. I also thank our witnesses for taking the time from their busy schedules to be here today.

Anyone who has been to a grocery store recently to purchase basic consumer staples has noticed that the price of food has risen. According to the Department of Labor, last month food prices edged up 0.9 percent, driven by increases in numerous products including bread, butter, coffee, margarine and milk.

American families are paying more for food, and so are America's small businesses. Small restaurants, grocers and food manufacturers are also feeling the squeeze, forcing them to raise their prices. And according to the Department of Agriculture's Economic Research Service, the cost of food is expected to continue to rise this year by four to five percent.

What's behind these increases? Rising demand for energy and ethanol has caused the price of grain to jump. China, India and other countries are consuming more of our grain and meat. And the weakness of our dollar has made our exported product an even better value.

This hearing is an excellent opportunity to examine how small businesses are being affected by food price increases, and explore possible solutions to these challenges.

Again, I'd like to thank the Chairwoman for holding this hearing, and I look forward to hearing from our panel of experts.

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BRUCE L. BRALEY
1ST DISTRICT, IOWA

Congress of the United States
House of Representatives
Washington, DC 20515

May 15, 2008

Congressman Bruce Braley Statement Submitted for the Record

House Small Business Committee
Hearing on *Food Prices and Small Businesses*

Thank you Chairwoman Velázquez, and thank you for holding this hearing. Constituents in my District and throughout the country are starting to feel the pinch of higher prices for food and fuel.

Ethanol has been taking more than its fair share of criticism these days. It seems that ethanol has become the new scapegoat on rising food prices.

Critics are calling on Congress to revisit the biofuel policy we enacted just 5 months ago, based on concerns about food prices. The emphasis on corn ethanol's impact on food prices is misguided.

One of the primary causes of food price increases is the skyrocketing cost of oil, as it continues to set new records now trading at over $125 a barrel. It takes oil to produce and transport virtually everything found on a grocery shelf.

In a Wall Street Journal article this past March, Merrill Lynch commodity strategist Francisco Blanch said that "oil and gas prices would be about 15% higher if biofuel producers weren't increasing their output." To put that in plain language, without ethanol we'd be paying over $4.00 a gallon for gasoline today.

Everyone knows that a bushel of corn costs more now than it did a few years ago, and this will have some impact on food prices. But the argument can be made that any increase in food prices because of ethanol is offset by the money saved in the transportation of our food. Transportation costs are one of the main causes of food price increases and ethanol is keeping down the cost of gasoline.

There are many other things that cause the price of food to go up including increased demand for grain from developing countries like China and India, where higher incomes are boosting the consumption of processed foods and meats. Shortages in grains due to droughts in Australia and poor weather in Canada, Western Europe, and the Ukraine are also increasing demand.

Other factors contributing to rising food prices include hedge fund speculation on commodity markets, a weak dollar, higher labor costs, global dynamics including trade, and a sharp rise in food marketing costs. In fact, marketing costs account for about 80% of food prices today, up from 67% in the 1970s.

Ethanol is the first step in creating a diversified, national renewable energy portfolio that includes fuels produced from native grasses, biomass, and agricultural waste. Renewable fuels technology is in its infancy, and in order to realize our nation's great renewable energy potential, we need to invest in it.

We should shift our energy dependence from the Middle East to the Midwest. We need to build a bridge to a world where we're less dependent on oil, and have energy independence. That way, we're not subject to the whims of oil companies.

To roll back U.S. biofuel policy will only tighten fuel supplies, increase gas prices, and weaken our economy and national security at a time when Americans can least afford it.

Thank you, Chairwoman Velázquez, for holding this important hearing on rising food prices and how they are affecting small businesses, and thank you to the witnesses for coming in today. Let's talk about what's causing increasing food prices, but let's make sure it's an honest conversation.

Statement of Rep. Jason Altmire
Committee on Small Business Hearing
"Food Prices and Small Businesses"
May 15, 2008

Thank you, Madam Chair, for holding today's hearing to examine the impact of rising food prices on our country's small businesses. In every region of the country, Americans are seeing an increase in the cost of food. The U.S. Department of Agriculture recently reported that the average price of bread, milk and eggs has increased over 30 percent in the last year. These increases have an impact on everyone from consumers, to small businesses to our economy as a whole. Today's panel will talk about the factors that are creating a "perfect storm" of higher food prices, tighter budgets and lower sales. I hope to get their guidance on what we can do to bring some relief to Americans who are struggling.

As our economy faces a slow down, consumers have less disposable income and are less likely to pay higher prices. Small businesses, on the other hand, are having to pay more for raw materials and are being forced to pass the costs on to their customers. These are difficult challenges facing our small businesses and we must be willing to lend our support to help get them back on track.

Madam Chair, thank you again for holding this important hearing today. I yield back the balance of my time.

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National Farmers Union
Testimony of Tom Buis

Before the
U.S. House of Representatives
Committee on Small Business

Food Prices and Small Businesses

Thursday, May 15, 2008
Washington, D.C.

**STATEMENT OF TOM BUIS, PRESIDENT
NATIONAL FARMERS UNION
BEFORE THE HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS
CONCERNING: FOOD PRICES AND SMALL BUSINESSES
MAY 15, 2008**

Good morning, Madame Chairwoman and members of the committee. I appreciate the opportunity to testify on behalf of the farm, ranch and rural members of National Farmers Union (NFU). NFU was founded in 1902 in Point, Texas, to help the family farmer address profitability issues and monopolistic practices while America was courting the Industrial Revolution. Today, with a membership of 250,000 farm and ranch families, NFU continues its original mission to protect and enhance the economic well-being and quality of life for family farmers and ranchers and their rural communities. We believe that consumers and producers can work together to promote a quality domestic supply of safe food.

I commend the committee for holding this hearing to gather information about the impact of food price increases, and also to explore the real reasons behind these increases. I hope the hearing will also serve to gather input on what steps can be taken to address the problem for the nation's citizens most in need. Yes, American families are impacted by higher food prices, some more than others. There is no doubt that higher food prices are having a tremendous impact on low-income families. Families without the resources to absorb food price increases are struggling to put dinner on the table; those below the poverty level and who do not make a livable wage are most impacted.

Food is not an optional commodity for anyone, regardless of income demographics. As a farmer from Indiana and a national farm leader, I find it appalling that anyone in America or the world goes to bed hungry. America's farmers and ranchers have almost always produced a surplus of food commodities year in and year out. For the most part, food price increases are not about the lack of production, but other macro-economic factors including trade distortion, distribution and political decisions.

The Causes of Higher Food Prices

Today's food price increases can be attributed to many factors; I will highlight a few within my testimony. While many like to blame the increases on biofuels, specifically corn ethanol, a closer examination will reveal that other factors beyond corn ethanol have played a greater role in higher food prices. While there is no doubt that corn ethanol has increased demand for corn, and thus boosted prices for corn and some other commodities, it is not the biggest reason for the retail food price increases. The more significant reasons are $124 per barrel of oil, the declining value of the U.S. dollar, increased demand from developing economies around the world, and world-wide weather related production shortages, especially in wheat.

<u>Cause #1 – Energy Prices</u>

Studies have shown that energy costs have twice the impact on retail food prices as the price of corn. A recent report by John Urbanchuk of LECG reports that a one dollar increase in corn results in a 0.3 percent increase in the consumer price index for food, whereas a one dollar increase in gasoline results in a 0.6 percent increase for food. With the average food item traveling more than 1,500 miles before reaching the final consumer, it is no wonder that food costs are increasing when looking back the last seven years; gasoline prices have increased 198 percent per gallon, diesel fuel prices have increased almost 250 percent per gallon and crude oil has increased 453 percent according to the Department of Energy's Energy Information Agency. In response to the distance food travels, NFU has prioritized the Buy-Local/Eat-Fresh food movement to encourage consumers to eat food grown by farmers in their area. That said, increased ethanol production is actually keeping gasoline prices from going even higher. A Merrill Lynch analyst estimates the biofuels industry is reducing gasoline price by 15 percent per gallon today. The U.S. average price per gallon would increase $0.50, from $3.39 to $3.89 today without biofuels.

Cause #2 - Weather Related Production Shortfalls
In 2007, most major wheat growing regions experienced weather related production problems. The United States, Canada, Australia and Europe all experienced weather related production shortfalls at the same time. In response, wheat prices reached record levels and export demand skyrocketed, as world wheat stocks reached new lows. While some have blamed U.S. farmers for shifting wheat acreage to corn, it should be noted that very little U.S. wheat acreage is suitable for corn production. It takes more water to grow corn than wheat and most of the wheat acreage that could be converted to higher value commodities, such as corn or soybeans, long ago made the conversion. USDA's 2008 planting intentions indicate an increase in wheat acreage, as the higher prices are more economically favorable than other commodities.

Cause #3 - Weak Dollar and Export Demand by Emerging Economies
Today, the U.S. dollar's value has fallen to a 30-year low, according to USDA, as compared with other major currencies, which in turn makes the price of U.S. commodities increasingly competitive abroad. Since the value of the dollar was delinked from gold, we have witnessed the linkage between a weak dollar and higher commodity prices. Last year we saw record agricultural exports in terms of volume and value despite record high market prices. Total agriculture exports in 2007 amounted to a record of nearly $90 billion, an increase of $20 billion over 2006. At the same time, the value of agricultural imports is rising, on average 10 percent growth per year since 2001 according to USDA. With rapidly growing economies across the globe, a new demand has been created for food commodities. The new middle class populations in Asia, Latin America and Africa have demanded an improved diet including meat and dairy products.

Cause #4 - Speculators in the Commodity Markets
As opportunities to make profits have waned on Wall Street, with stocks and bonds in turmoil as a result of the mortgage crisis, investment firms seized opportunities in the commodity futures markets. Billions of dollars from pension and other investment houses poured into the hot commodity markets. As a result, many commercial entities of farm commodities have faced skyrocketing margin calls on hedge contracts which have for a long-time been a financial risk tool for farmers and grain elevators. As margin calls increase, local cooperatives and private grain elevators have hit credit limits, resulting in the elimination of this important marketing tool. The result, farmers cannot forward price their commodities and protect their risk. If farmers cannot capture higher commodity prices, while facing skyrocketing input expenses, we are facing a potential train wreck for rural America

Food vs. Fuel
Yellow corn is the single biggest crop in the United States, and contrary to popular belief it is primary used for animal feed, not human food. No doubt, biofuels have increased farm commodity prices for corn as a result of increased demand. The increased demand for corn in 2007 resulted in, finally, profitable prices for farmers, after nearly two decades of below cost-of-production price levels. America's farmers responded to the increased demand by producing the biggest corn crop in history. In 2007, corn production in the United States increased by 2.6 billion bushels (from 10.7 billion in 2006 to 13.3 billion in 2007). Of this 2.6 billion bushel increase, new ethanol demand only accounted for 600 million bushels (4%). The total corn used for ethanol in 2007 amounted to 2.5 billion bushels. The remaining 2 billion new bushels of corn was used for feed, food and exports above and beyond 2006 levels, with record high corn exports of 2.9 billion bushels. The increased corn acreage primarily came at the expense of soybean acreage and to a smaller degree from cotton, rice and wheat. Simply put, America's farmers responded to the marketplace.

Recently, there seems to be a litany of corn ethanol criticism. In the past year, ethanol production was blamed for the Mexican tortilla shortage, despite the fact that tortillas are made from white corn, and trade agreements limit the United States from providing Mexico with no more than two percent of their white corn needs. Corn ethanol was even blamed for the rising price of beer. Last year, right before the biggest American beer drinking holiday, the breweries announced they were raising beer prices because of increased ethanol production. That announcement made great headlines, but rice and barley make beer, not corn.

Many in the media have mischaracterized the creation of a national mandate on renewable fuels as the cause of rising food costs. I was very disappointed to hear former President Clinton blaming the production of ethanol on pasta riots in Italy – two totally unrelated issues. I was also shocked to read Texas Governor Rick Perry's statement and the call from a minority in Congress waiver from the renewable fuels standard (RFS), with the expectation that consumers would find immediate relief from their grocery bills.
Not only would reducing ethanol consumption result in higher gasoline prices for consumers, it would have no impact on lowering corn prices.

According to an April 10, 2008 report issued by the Agricultural and Food Policy Center at Texas A&M University, "relaxing the RFS does not result in significantly lower corn prices." The report goes on to state the current ethanol production infrastructure has grown in excess of the RFS and relaxing the standard would not cause a contraction in the industry. The A&M study also reiterated the point that corn prices have had little to do with rising food costs. Staple food items such as bread, milk and eggs have higher prices "largely unrelated to ethanol or corn prices, but correspond to fundamental supply/demand relationships in the world".

While corn ethanol it is not the singular solution to our nation's energy problems, it undoubtedly has reduced our dependence on foreign oil. For every barrel of ethanol produced (1 barrel = 42 gallons), 1.2 barrels of petroleum are displaced at a refinery. According to an LECG study, more than 228 million barrels of oil were displaced by the 6.5 billion gallons of ethanol produced in 2007. While critics will say our government is subsidizing and mandating the use of ethanol, the subsidies pale in comparison to the amount we spend subsidizing the oil companies and protecting the shipping lanes to import oil from the most unstable region of the world.

Because of the advanced renewable energy production, we have witnessed the plywood boards coming off rural Main Street businesses, instead of going up. The annual local economic impact of a 40 million gallon ethanol plant is without a doubt significant. The economic base is expanded by $110.2 million; household income increases $19.6 million; 694 permanent new jobs are created; and an additional $1.2 million is created in new tax revenues. USDA estimates government payments will decrease to 4 percent of gross cash income for farmers, compared to 7 percent in 2000-2005 as a result of expanded ethanol production. The future of renewable fuel production rests in the advancement of cellulosic ethanol, wind energy, solar energy, biodiesel and many others to be created.

Farmers Share of Retail Food Dollar
According to USDA, our farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home. Off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

The farmer's share of a $2.69 loaf of bread is $0.22; for a $5.05 box of corn flakes, the farmer receives $0.16; out of a $3.99 gallon of fat free milk, the farmer receives $1.54 and a one pound top sirloin steak that costs $7.99 at the grocery store provides $0.88 to the farmer. Attached to my testimony is NFU's latest Farmer's Share document highlighting the price consumers pay for a number of food products and the correlating price received by the farmer for that retail food item.

Solutions
Farm Bill Nutrition Programs
The Food, Conservation and Energy Act of 2008, which is making its way through Congress, contains $10.3 billion in new funding, in total over $400 billion for domestic and international nutrition programs. The

nutrition title of the bill accounts for more than 73 percent of the overall farm bill budget and is the single biggest increase for any title in the new bill. According to USDA's Economic Research Service, approximately one in five Americans participates in at least one food assistance program at some point during a given year.

International Food Reserve and Aid
NFU has long-called for the establishment of an International Humanitarian Food Reserve. The Reserve would ensure the international community's capacity to fulfill current and future commitments for humanitarian nutrition assistance programs. The Reserve should be a multi-nation coordinated response to both long-term nutritional deficits, as well as localized disaster emergencies; it should be created in a manner as to not interfere with normal commercial markets and channeled through international agencies and non-governmental organizations. Furthermore, NFU supports the recent calls by members of Congress to expand the United States' international food aid. The President's recent request of $750 million for food aid programs is a step in the right direction, but more needs to be done.

Strategic Oil Reserve
National Farmers Union has urged the president to halt deposits to the Strategic Petroleum Reserve (SPR), which currently holds more than $80 billion worth of oil. There is precedence for this response, with President Bush's decision two years ago to temporarily halt deposits in order to help alleviate consumer gasoline prices. Not only would we like to see deposits halted, but with the price of oil reaching $124 per barrel last week, we urge the president to open the SPR to help alleviate gas prices. SPR oil entering the marketplace within thirteen days after a presidential directive would result in a much more profound positive economic impact for consumers than waiving the RFS or discouraging the production of biofuels.

Excessive Oil Profits Tax
As I mentioned above, the price of fuel has twice the impact on retail food costs as the price of corn. While ethanol production is being characterized as the root of all evil, the oil and gas industry continue to receive billions of dollars in tax breaks from the federal government while major oil companies make record profits. Exxon Mobile reported its 2007 profits were the highest ever recorded; earning more than $1,287 of profit for every second of 2007, for a total of $40.6 billion. Instead of cutting the ethanol mandate, maybe Congress should cut the big oil and gas subsidies. Some have suggested imposing an excessive profits tax on oil companies and direct those revenues to help offset any increased consumer expenses or increased livestock inputs as a result of oil prices. Farmers Union would fully support that effort.

Summary

In summary, rising food prices do affect American families but not as a result of our renewable energy policies or at the benefit of American farmers. The challenge of higher food prices needs to be evaluated in its full context and the multiple causes be studied including increasing energy prices, reduced production, weakened currency, international trade, speculators in commodity markets and increased world demand.

Two short years ago, agriculture critics blamed the United States for low commodity prices that prevented developing nations from producing their own food and cheap commodities for enhancing the obesity epidemic. Today, the same critics are blaming higher commodity prices for causing hunger across the world. We cannot win. What do they want? It seems as though all other sectors of our economy are encouraged to achieve the American Dream, except for farmers. I have repeatedly stated that profits should not be a dirty word for agricultural producers.

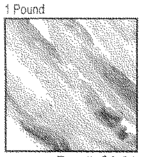
Thank you for the opportunity to testify and provide the American farmer and rancher's perspective to this debate. I would be happy to answer any questions committee members may have.

Farmer's Share of Retail Food Dollar

Did you know that farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home?

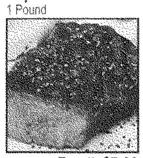
According to USDA, off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

Bacon
1 Pound



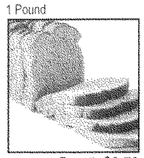
Retail: $3.29
Farmer: $0.41

Top Sirloin Steak
1 Pound



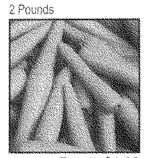
Retail: $7.99
Farmer: $0.85

Bread
1 Pound



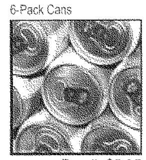
Retail: $2.79
Farmer: $0.21

Fresh Carrots
2 Pounds



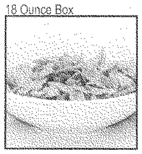
Retail: $1.89
Farmer: $0.52

Beer
6-Pack Cans



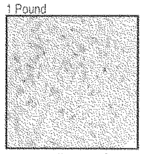
Retail: $5.05
Farmer: $0.11

Cereal
18 Ounce Box



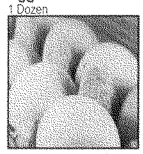
Retail: $4.95
Farmer: $0.16

Cheddar Cheese
1 Pound



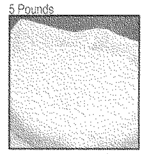
Retail: $5.49
Farmer: $1.76

Eggs
1 Dozen



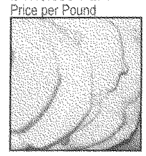
Retail: $3.99
Farmer: $1.03

Flour
5 Pounds



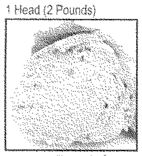
Retail: $2.89
Farmer: $1.05

Boneless Ham
Price per Pound



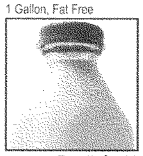
Retail: $4.29
Farmer: $0.41

Lettuce
1 Head (2 Pounds)



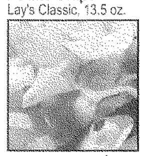
Retail: $1.79
Farmer: $0.42

Milk
1 Gallon, Fat Free



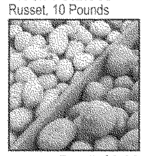
Retail: $4.48
Farmer: $1.44

Potato Chips
Lay's Classic, 13.5 oz.



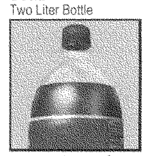
Retail: $3.29
Farmer: $0.08

Fresh Potatoes
Russet, 10 Pounds



Retail: $3.29
Farmer: $0.88

Soda
Two Liter Bottle



Retail: $1.49
Farmer: $0.09

Farmer's share derived from USDA, NASS "Agricultural Prices," 2008.
Retail based on Safeway (SE) brand except where noted.

Farmers Union

www.NFU.org

May 1, 2008

NATIONAL
RESTAURANT
ASSOCIATION®

REPRESENTING THE RESTAURANT INDUSTRY
The Cornerstone of the Economy, Career Opportunities and Community Involvement

Written Testimony

of

Geoffrey Tracy
Chef Geoff's Restaurants

for the hearing

Food Prices and Small Businesses

before the

U.S. House of Representatives
Committee on Small Business

on behalf of the

National Restaurant Association

Thursday, May 15, 2008

1200 SEVENTEENTH STREET, NW • WASHINGTON, DC 20036-3097
TEL: 202.331 5900 • FAX: 202 331.2429 • WWW.RESTAURANT ORG

Chairwoman Velázquez, Ranking Member Chabot and members of the Small Business Committee. Thank you for the opportunity to testify before you today on "Food Prices and Small Businesses." My name is Geoffrey Tracy, owner and operator of Chef Geoff's (2000), Chef Geoff's Downtown (2002), and LIA's (2006) here in the Washington, DC area. I oversee kitchen and dining room operations as well as managing the concept, menu development, marketing, finances, and growth of all three restaurants. The restaurants serve more than a half million guests each year. I am here today on behalf of the National Restaurant Association and as a member of the Board of Directors of the Restaurant Association of Metropolitan Washington.

The National Restaurant Association, founded in 1919, is the leading business association for the restaurant industry, which is comprised of 945,000 restaurant and foodservice outlets and a work force of 13.1 million employees, generating estimated sales of $558 billion in 2008 – an increase of 4.4 percent over 2007 – and a total economic impact of more than $1.5 trillion. Nationwide, the industry serves 133 million guests every day, and every dollar spent dining out generates $2.34 in business for other industries. Seven out of ten restaurants are single unit operators, with 91 percent of eating-and-drinking places having fewer than 50 employees – we are truly an industry of small businesses!

Not only are restaurants the cornerstone of the economy, they are also the cornerstone of career opportunities and community involvement. Nearly half of all American adults have worked in a restaurant and 32 percent of adults got their first job experience in a restaurant. Nine out of 10 salaried employees at table service restaurants — including owners, operators and managers — started as hourly employees. We are also a diverse industry, with eating-and-drinking places employing more minority managers than any other industry. Ownership opportunities for minorities are also growing with 25.2 percent of eating-and-drinking places being owned by women, 15.2 percent Asian-owned, 7.9 percent Hispanic owned, and 4.1 percent African-American owned. The restaurant industry is the nation's second largest employer outside the government, representing more than 9 percent of the job-base. And we project that the industry will add 2 million new jobs over the next decade.

Furthermore, restaurateurs are active in the lives of their communities with more than nine out of 10 restaurants involved in some type of charitable activity on a local, state or national level – from sponsoring a youth sports team, to raising money for charities, to providing meals to those in need. I contribute to more than 150 charities and organizations every year in the form of silent auctions, fundraising appearances, and even the Chef Geoff sponsored Little League team. In 2006, the National Restaurant Association awarded Chef Geoff's The Best Neighbor Award for its contributions to the community.

Restaurant operators participate in programs to fight hunger primarily by donating prepared food to shelters or food banks, participating in fundraisers for anti-hunger organizations or making cash donations. Last year, during the National Restaurant Association's Annual Restaurant, Hotel-Motel Show in Chicago, more than 112,000 pounds of food were donated, the equivalent of nearly 85,000 meals, to the Greater Chicago Food Depository - one of the food bank's largest single day collections of food for hungry people. The Show is one of the largest trade shows in the country, and just one example of how the industry gives to the community.

Economic Impact

Food-and-beverage costs are one of the most significant line items for a restaurant, accounting for approximately 33 cents of every dollar in sales. With average industry margins of roughly 4-6 percent, an increase in food costs can have a dramatic impact on a restaurateurs' bottom line. – especially for smaller restaurant companies who are already feeling the impact of increased costs in other parts of their business.

The wholesale food price inflation we currently see is the highest it has been in 27 years. Last year, wholesale food prices jumped 7.6 percent, and on a 2008 year-to-date basis through March, wholesale food prices continue to rise at 8.5 percent. Several individual commodities critical to the majority of restaurant operations are also posting dramatic gains this year, with flour (87%), eggs (73%), fats and oils (49%), cheese (27%), milled rice (25%) and milk (20%) rising most sharply – many coming on top of double-digit growth rates in 2007 for these commodities. The Wholesale Price Growth for Selected Food Commodities chart below illustrates how these and other key products have greatly increased. As we move into the summer months when chefs tend to shift their menus to take advantage of more fresh fruits and vegetables, those wholesale food prices have seen double-digit increases in the last year as well.

Wholesale Price Growth for Selected Food Commodities

Commodity	2007 Annual	2008 YTD	Commodity	2007 Annual	2008 YTD
Fruits & melons, fresh/dry vegetables & nuts	9%	3%	Processed poultry	13%	3%
Fresh fruits and melons	10%	4%	Eggs	61%	73%
Fresh vegetables (excluding potatoes)	11%	-6%	Unprocessed & packaged fish	2%	1%
Processed fruits and vegetables	6%	4%	Unprocessed fin fish	-5%	-28%
Cereal and bakery products	7%	16%	Fresh packaged fish & seafood	11%	8%
Bakery products	4%	7%	Frozen packaged fish & seafood	3%	6%
Flour	23%	87%	Canned and cured seafood	4%	-1%
Milled rice	14%	25%	Unprocessed shellfish	-1%	22%
Other cereals	8%	12%	Sugar and confectionary	1%	3%
Meats	3%	0%	Refined sugar	-12%	-10%
Beef and veal	3%	1%	Confectionary materials	13%	14%
Pork	4%	-6%	Alcoholic beverages	0%	3%
Other meats	1%	0%	Soft drinks	2%	4%
Dairy products	19%	18%	Coffee (whole bean, ground & instant)	7%	9%
Milk	20%	20%	Tea	3%	5%
Butter	10%	-2%	Fats and oils	18%	49%
Cheese	22%	27%			

Source: National Restaurant Association analysis of Bureau of Labor Statistics data

Note: 2008 figures represent year-to-date growth through March

The National Restaurant Association's Restaurant Performance Index (RPI) - a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry - declined again in March due to operator's outlook for sales growth and the economy deteriorating sharply. Restaurateurs reported that the economic slowdown, followed closely by increasing food costs, remain two of the top challenges for the industry. One-quarter of restaurateurs were most worried about the economy and one in five reported food costs as the top challenge. Some restaurateurs are noticing that both sales and customer traffic have softened compared to last year.

Flexible by nature, restaurateurs are trying to adapt quickly to what is happening in the economy and do what they can not to pass these increased costs onto consumers.

However, menu prices across the industry have increased over the last several years for a variety of reasons. The Bureau of Labor Statistics reports that menu prices are currently on pace to post their strongest increase since 1990. But despite the stronger increase, many restaurants will still not be able to defray the dramatic food cost increases, because we simply can not pass all of the cost back onto the consumer.

To avoid increasing prices, some restaurateurs are trying alternative ingredients, while others modify recipes and portion sizes. They are maintaining the balance of the cost-value relationship that more consumers seek during economic slumps. Marketing efforts are also being ramped up by offering value-specials or customer loyalty promotions for example. Menu price inflation is projected to remain elevated this year due in part to rising food costs. That said, restaurateurs are working hard to avoid further menu price increases and minimize the impact of these food cost increases on their customers.

Factors of Increasing Food Prices

Several factors have contributed to the dramatic rise in food prices in recent years, including higher oil and energy prices; the growing global demand from rapidly developing economies such as China and India; poor weather in grain-producing countries; a weak U.S. dollar; and a larger share of the grain market being diverted into ethanol and biodiesel production.

While there are many factors out of our control impacting key food products, there are U.S. Government policies in place that are contributing to food price inflation and within our control. The mandates and subsidies that encourage the use of grains for fuel instead of food should be revisited. These policies pit American's food needs against our fuel and energy needs. Both are obviously important to the nation. The restaurant industry supports the development of efficient renewable fuels - including the promotion of the use of recyclable restaurant oil - while safeguarding against price distortions in the food supply. These prices distortions have impacted our customers and businesses.

We urge Congress to examine the impact these food-to-fuel mandates and subsidies have on food prices. The increased Renewable Fuel Standard (RFS) as part of the Energy Independence and Security Act of 2007 rapidly increases the use of food crops to produce fuel. The RFS requires 36 billion gallons of biofuels by 2022. Corn-based ethanol is currently the most advanced and commercially viable renewable fuel, and for the foreseeable future corn will likely be the source for much of the mandate under the RFS. Twenty-five percent of corn production is now being diverted into ethanol production, and 40 percent predicted by 2015 to meet the made if policies remain in place. This is a concern for restaurateurs. The ethanol excise tax credit and ethanol import tariff are also creating incentives and subsidies for increasing domestic corn-ethanol production. Corn-based ethanol is clearly a first generation biofuel and the nation must move to renewable fuel production from non-food sources as quickly as possible.

Demand for corn for fuel has also had an impact on other food crops as farmers divert acres previously devoted to crops such as soybeans to corn. At a time when restaurants are working to reduce the use of trans and saturated fats used for cooking and baking, an increase in the number of acres diverted from soybeans and other crops used to produce healthy oils is driving up the prices of these oils and negatively impacting the ability to provide the public with those alternatives. Wholesale prices for fats and oils continue to increase 49% just in the first three months of the year compared to the same period in 2007. Current incentives to use virgin vegetable oil for biodiesel have contributed to this dislocation, just as overall biofuels incentives continue to drive competition for ingredients used in a whole host of food and consumer household products, creating higher costs for consumers and contributing to national price inflation. Increased pressure on the supply of these oils drives up the cost of food unnecessarily.

The restaurant industry wants to do its part in recycling and producing renewable fuels. According to a 2006 National Restaurant Association survey, approximately 75 percent of restaurant companies stated that they recycle cooking oils for use outside the restaurant. A portion of this recycled cooking oil is refined and blended to produce biodiesel. Fuel blenders receive the tax credit, and it creates an increased incentive for alternate uses and disposal options for recycled restaurant cooking oil.

The American Jobs Creation Act provided for an "agri-biodiesel" tax credit of $1.00/gallon for biodiesel from virgin agricultural products and a $.50/gall tax credit for biodiesel produced from recycled cooking oil. These tax credits have been extended, yet restaurant cooking oil remains at a $.50/gallon disadvantage to virgin agricultural products. Congressman Michael Burgess (TX-26th) introduced legislation in this Congress, the Biodiesel Production Tax Credit Parity Act (H.R. 927), which would grant tax credit parity for recycled cooking oils with virgin agricultural products. This parity will encourage further use and production of biodiesel from recycled cooking oils, as long as the virgin vegetable oil tax credit remains in place at a $.50/gallon advantage over recycled restaurant oils.

The RFS also requires that 0.5 billion gallons of biomass-based biodiesel be produced in 2009, increasing to 1.0 billion by 2012. If there continues to be a competitive disadvantage for recyclable restaurant oils and other waste products versus virgin vegetable oils, most of this requirements will come from virgin vegetable oils as that enjoys incentives by the government. Like the corn-ethanol mandate, this biodiesel standard requires production of biomass-based biodiesel, produced from various inputs including vegetable oils, animal fats and recycled restaurant oils. However, because favorable incentives exist, virgin vegetable oils are used over the other inputs.

Cellulosic biofuel was given a mandate in the RFS starting in 2010 of 0.1 billion gallons and increasing to 16 billion gallons by 2022. These biofuels are promising as they are not produced from food. Congress should foster development of commercial grade second generation biofuels not from food sources or produced on land that otherwise would be used for food production. We need to make the transition to fuels from non-food sources as quickly as possible.

Rice and Wheat wholesale prices have also seen a dramatic increase. Much of this is due in large part to weather impacts and the resulting shortages in supply. In addition, there has been some diversion of wheat acres to corn that also have an impact. These prices increases should not be ignored simply because we can not control their causes. Simply because there are significant concerns with corn and other inputs, the uncontrollable causes of wheat and rice price increases should not be dismissed or set aside.

Conclusion

In conclusion, the National Restaurant Association urges Congress to examine the impact of these mandates and subsidies in the context of national and global priorities. There are certainly many factors contributing to the sharp increase in wholesale food prices – the largest in 27 years – and very few within our control. However, what we can control are the policies put in place and we must ensure that we are not forcing our needs on food and fuel to compete against each other. Congress should foster the development and transition to renewable fuels from non-food sources as quickly as possible. Energy independence is a laudable goal, but we should not do it at the expense of adequately feeding ourselves, the hungry, nor with unacceptable costs to the environment.

STATEMENT OF
FRANK FORMICA, OWNER,
FORMICA BROTHER'S BAKERY,
BEFORE THE
HOUSE COMMITTEE ON
SMALL BUSINESS

May 15, 2008

"Food Prices and Small Businesses"

American Bakers Association
1300 I Street, NW Suite 700
Washington, D.C. 20005
(202) 789-0300
www.americanbakers.org

I would like to thank the House Committee on Small Business, Chairwoman Velazquez and Ranking Member Chabot for holding this critically important hearing on the impact of high food prices on small businesses. The current food and commodity crisis has greatly impacted my business, and I appreciate the opportunity today to present ways to move towards realistic solutions to this situation.

My name is Frank D. Formica and I am an Italian-American businessman who proudly represents over a century of family tradition in the baking industry. I am the owner of Formica Brother's Bakery in Atlantic City, New Jersey, and I am here today speaking on behalf of bakers across the country who are represented by the American Bakers Association.

The Formica legacy began over 100 years ago when my grandfather Francesco and Grandmother Rosa emigrated from Sicily and built Formica's, realizing the American dream. I grew up with flour between my fingers, baking Italian breads alongside my grandfather and my uncles. Today we produce over 40,000 pieces of bread a day, creating roughly 200 different varieties of hand-crafted European breads which are sold to the wholesale and retail markets in the greater Atlantic City area.

Our daily retail base of over 500 customers and the roughly fifty-five families who work for the bakery depend on Formica's staying in business, a responsibility that I do not take lightly, and one that keeps me up at night thinking about what the future will hold.

Establishments like my bakery are quite literally the backbone that supports our nation's economy. In my case, it represents over a century of long hours, hard work and proud family tradition which quickly has become at risk of extinction.

Let me share with you some examples of how the current economic conditions in our country are impacting Formica's Brothers Bakery and our customer base. On a weekly basis, Formica's uses over 50,000 pounds of flour. The price of baker's flour had been fairly stable for well over 20 years at $.14 cents a pound. As of September 2007, the price of flour began to steadily increase until it reached a peak of over $.60 cents a pound in March. Today the price of flour is $.40 cents. What does this mean to Formica's? A year ago we paid $7,000 a week (or $364,000 a year) for flour, but today that number has escalated to $20,000 per week ($1,040,000 a year).

Unfortunately, wheat flour is not the only increased commodity cost that threatens my business. On a weekly basis, Formica's uses over 600 gallons of fuel to deliver product to our wholesale customers. Last year on average, the cost to the business was $1,200 a week (equating to approximately $62,400 a year); today the cost to my business is $2,000 a week ($104,000 a year).

In another example, last year Formica's successfully marketed our products to distributors and school food program manufacturers representing over 267 school districts on the East Coast. Formica's invested over $500,000 in capital investment improvements, including equipment and facilities, to support the increased volume in business. As the price of commodities escalated, especially for flour, the price point necessary to produce the products became unacceptable to school budgets and subsequently the schools cancelled the program. As a result, I had to lay-off many employees and try to re-coup costs associated with this lost contract which I and my employees had counted on.

In addition, we've seen prices increase for the entire inventory of products and services that we depend on to run our business. While we have been able to pass on some of these increases to our customers in the form of higher prices for our products, the majority of the impact is being absorbed in my bakery's profit margin. It is of grave concern to me that what used to be my profit margin has now become a fight to keep my business's head above water for the first time in over 92 years; today we are facing more challenges than we did during the lean times of the Great Depression.

To respond to these record high prices, I, along with many other bakers from across the U.S. came to Washington D.C. in March of this year to participate in the Band of Bakers March. ABA, in conjunction with many other food industry associations and their members, met with members of Congress, the USDA and the White House to discuss what can be done in light of the current commodity crisis.

The perfect storm has been brewing right under our noses - high commodity and food prices have been caused in part by many factors, including increased worldwide demand, a weakened dollar and adverse weather events such as last year's drought in Australia. But the ethanol program, which continues to subsidize food for fuel, and other government programs that pay farmers not to farm their land but let acres sit idle, have also led to the current food crisis. On behalf of my customers, my employees, my family, the community I represent and the baking industry, I urge you take the following actions in order to help alleviate this crisis.

First, I urge Congress to waive the ethanol mandate. Recent studies have demonstrated that a biofuels mandate will increase overall food prices by 7 percent in 2008 and 8 percent in 2009. Prices for grocery store products have already risen by 5.3% in the first quarter of 2008, surpassing total inflation for food products for the entire year of 2007. Baked goods, including cereals and breads, have increased by over 15%.

Consumer prices will continue to increase at record rates unless action is taken to alleviate the food for fuel dilemma. At this time of growing worldwide food shortages, I have to ask why the government continues to incentivize farmers through subsidies to grow corn for ethanol and not corn or other grains for food uses? The U.S. has a finite number of acres to use for farming, and fuel crops have taken over many acres that were previously used to grow food crops. Where will the land come from to grow more food crops as well as to meet new ethanol mandates? U.S. cropland is already stretched to its limit.

Under the energy bill passed by Congress last year, waiving the Renewable Fuel Standard (RFS) is possible when domestic supplies are not sufficient to meet demand or when implementing the RFS may severely harm the economy – we are now in the midst of insufficient demand and the RFS will only exacerbate the current food crisis.

In conjunction with waiving the RFS, it is also imperative to eliminate both the ethanol import tariff and domestic blender's credit. A recent study conducted by Purdue University found that the current ethanol program raised U.S. food costs by $15 billion in 2007. Other statistics show that while a fourth of the U.S. corn crop was burned as fuel in 2007, it only cut oil consumption by less than one percent. The corn-based ethanol program clearly is not working. Consumers cannot continue to pay for increased food costs due to the ethanol program. I encourage members of this committee to revisit the damaging food for fuel ethanol program, and ask the committee to take necessary actions in order to ensure that the current food crisis is alleviated.

Next, I urge members of Congress to address the increasing pressure on arable farm land in the US, as Congress and the government encourage production of biofuels. Currently, 34.6 million acres of US cropland idled through the Conservation Reserve Program. A significant portion of CRP acreage located in large wheat producing states. We believe that as much as one-third of acres under contract in the CRP could be returned to production without sacrificing environmental goals.

Wheat plantings have tumbled in the last 10 years, and the US now harvests fewer wheat acres than it did in 1898. In most years, US production of wheat for bread is insufficient to meet total usage. Today, wheat stocks are dangerously low. Current estimates peg wheat stocks at twenty-four days, two-thirds lower than average supplies. Low commodity stocks in the U.S. leave too much to chance, as even a slight weather or transportation problem could lead to even more serious worldwide food shortages and could create homeland food security issues.

Recently published USDA reports project that wheat plantings for the 2008 crop year have dramatically increased for this next crop cycle – these reports forecast that wheat plantings will increase by over 4 million acres. While this sounds like good news, even the USDA recognizes that any increase will be "more than offset by increased use and trade prospects", meaning that even with additional wheat entering the food chain, it will not be in sufficient quantity to improve the current supply situation.

Even though projected plantings are estimated to increase over this next year, Bakers and consumers are more concerned with what is actually harvested and entered into the market for use, not what is planted. It should be noted that USDA projected a similar positive outlook in April 2007, but over Easter weekend last year a heavy freeze hit the wheat belt, devastating much of the anticipated crop. So far this year there has not been a spring frost, but an early freeze last fall which impacted the plantings and recent torrential rains coupled with possible future adverse weather conditions could greatly diminish the anticipated harvest this summer.

Because of the current commodity and food crisis, bakers and other industries in the food sector are being forced to make tough business decisions. As I speak to you today, my business is faced with consolidating our distribution, laying off employees and/or asking current staff to take on more responsibilities in order to stay afloat. Each of these scenarios has one thing in common - none are good news for the economy, my community and our nation.

The commodity crisis greatly impacts American families, making it more difficult for consumers to put food on the table and for businesses, especially small businesses like Formica's, to keep their doors open. I believe that implementing the changes to our current energy and agricultural policies as outlined in this statement will not only allow the market to correct itself, but more importantly, will ease concerns regarding the threat of food shortages. Thank you again for the opportunity to address this important issue with each of you today.

Frank Formica

Testimony of Daryl Thomas

Senior Vice President, Sales and Marketing

for Herr Foods, Inc.

on behalf of the Snack Food Association and the Grocery Manufacturers Association

Before the U.S. House of Representatives Committee on Small Business

Food Price Impacts on Small Business

May 15, 2008

Thank you Chairwoman Velazquez and Ranking Member Chabot for holding this important hearing on the impact of rising commodity costs on small business. My name is Daryl Thomas and I am Senior Vice President of Sales and Marketing for Herr Foods, Inc. I am testifying today on behalf of the Snack Food Association, of which I am the Chairman of the Board of Directors, as well as the Grocery Manufacturers Association.

Herr Foods is a family owned company that was founded by James S. Herr sixty-two years ago and headquartered in south eastern Pennsylvania. Our company employs 1,250 people in facilities across 10 states. We make some of America's favorite snack foods, including potato chips, pretzels and tortilla chips.

In the past year, skyrocketing commodity costs have created new challenges for our industry and the consumers we serve. Since the 2005 and 2006 crop years, farm-level corn prices have increased more than 150 percent, and farm-level soybean prices have increased more than 100 percent. Although other factors are affecting domestic food prices, growing demand for corn and soybeans has also contributed to tightening supplies of other major commodities, creating a ripple effect that has driven up the costs of food production. As a result, snack food manufacturers like Herr's have seen production costs rise by at least 15 percent. In an effort to keep our prices low, Herr's has responded by deferring capital management and expense and improving efficiency.

Despite our efforts to keep prices low, consumers are facing the fastest rising food prices in 17 years, roughly five percent, according to the Bureau of Labor Statistics. The domestic price of basic staples such as eggs, milk and meat have increased even more dramatically in the last three years. Egg prices have increased 69 percent, milk prices have increased 22 percent, and chicken prices have increased 12 percent.[1]

The Underlying Causes of Food Price Inflation

There are many reasons for these increases. Weather events worldwide, rising demand in Asia, a weak dollar, speculation and energy costs are all certainly important factors. However, due to food to fuel mandates and subsidies, the U.S. will divert nearly 30 percent of its corn into ethanol production this year, up from 24 percent last year, and we will eventually divert nearly 30 percent of our vegetable oil supply to produce enough biodiesel to meet the mandate set out in the Energy Independence and Security Act of 2007. Not only is this having a clear impact, but it is the only underlying factor that government has the ability to control. I urge you to revisit the food to fuel mandates and retool them to accelerate the research, development, and deployment of advanced biofuels which do not pit our energy needs against the needs of the hungry or the environment.

The Impacts of Food Price Inflation

Soaring food prices pose significant challenges for the poorest 20 percent of Americans, who spend roughly one-third of their after-tax income on food, and have contributed to a rising demand at food banks and a record number of Americans seeking food stamps. At a time when thousands of Americans are losing their homes and jobs, it makes no sense to artificially increase the price of food with policies that will divert food into our fuel supplies.

Rising food prices also pose significant challenges to the hungry in developing countries, where roughly 800 million[2] people are hungry and consumers spend as much as 70 percent of their

[1] Consumer Price Index data, Bureau of Labor Statistics

[2] C. Forde Runge and Benjamin Senauer. How Biofuels Could Starve the Poor. Foreign Affairs, May/June 2007.

income on food. Rising commodity prices have pushed global food prices up 83 percent over the last three years[3] -- and by 57 percent in the last year alone – pushing millions of people into poverty.

Food prices will continue to rise as more and more corn and soy oils are diverted to our fuel supplies. In particular, we estimate that food inflation will rise by seven to eight percent[4] over the next few years, as up to 40 percent of our corn and 30 percent of our vegetable oils are diverted from our food supplies to our fuel supplies.[5] The Producer Price Index for food has risen at an annualized rate of 10 percent over the past three months. Rising demand for basic commodities is also reducing fruit and vegetable production.

Furthermore, the USDA reported on May 1st that yields are growing at a slower rate than in years past, from a 2 percent annual increase between 1970-1990 to 1.1 percent from 1990-2007. USDA projects that increases will continue at only .8% from 2009-2017. Furthermore, farmers planted 8 percent less corn this year than last, and due to the wet spring, we are seeing the 4th lowest planting pace in 30 years. Historically, this has led to a drop in yields. World grains stocks are already at their lowest levels in over 30 years and because stocks of basic commodities have fallen to low levels, a poor corn or soybean harvest in 2008 could result in even more dramatic increases in food prices.

The Rationale for Mandates

The purported reasons for passing these mandates were that they would help combat climate change and extricate us from our dependence on foreign oil. Both are laudable goals that our industry fully supports. However, diverting food crops to our fuel supplies has artificially increased the price of commodities, accelerating the conversion of pasture and forest lands to crop production at home and around the globe.

[3] Bob Davis and Douglas Belkin, Food Inflation, Riots Spark Worries for World Leaders," Wall Street Journal, April 14, 2008. A1.
[4] Lapp, Bill, "Back To The '70s? How Higher Commodity Prices Are Leading to the Return of Food Price Inflation," Advanced Economic Solutions, December 2007.
[5] Derived from USDA and EIA data

I would also like to take a moment to address the energy issue. According to USDA, increased feed costs born by farmers in 2007 were over twice that of fuel costs. Furthermore, assertions that long distance trucking adds significant costs to food are misinformed. In actuality, trucking one pound of food 1500 miles costs roughly only two cents, which is less than half of a penny more than last year when diesel prices were lower. While there is a small impact, it is not as big of a cost driver as some would have you believe.

Recommendations

Congress should revisit food-to-fuel mandate schedules and subsidies and accelerate the development of other bio-fuels. High crude oil prices are providing sufficient market incentives to produce corn ethanol, making government intervention unwarranted. We believe Congress should revisit and reform food-to-fuel mandate schedules and subsidies to gradually reduce our reliance on food as an energy feedstock and to accelerate the development of bio-fuels that do not pit our energy needs against the needs of the hungry or the environment. In particular, we believe that Congress should accelerate the development of cellulosic ethanol derived from crop wastes, grasses and other materials that do not increase food prices, hold significantly greater promise to displace traditional sources of gasoline, and could have less impact on the environment.

In conclusion, we urge the Committee to revisit the food-to-fuel mandates in light of dramatic increases in food prices and new questions about the environmental costs of fuels derived from food crops. Although there are many factors contributing to record food inflation – including increasing global demand, export restrictions, changing weather patterns, commodity speculation, and higher energy prices – a significant new factor and the *only* factor affecting food and feed prices that is *under the control of Congress* is food to fuel mandates and subsidies diverting food into our fuel supplies.

Thank you for the opportunity to share my views.

RFA
Renewable Fuels Association

Committee on Small Business
United States House of Representatives

Hearing on

Food Prices and Small Businesses

Testimony of

Bob Dinneen
President & CEO, Renewable Fuels Association

May 15, 2008

Good morning Chairwoman Velazquez, Ranking Member Chabot, and Members of the Committee. My name is Bob Dinneen and I am president and CEO of the Renewable Fuels Association (RFA), the national trade association representing the U.S. ethanol industry. I am pleased to be here this morning to discuss the positive impacts ethanol and other renewable fuels are having on our economy -- food prices specifically, the environment, and the role of the Renewable Fuels Standard (RFS) in realizing those benefits.

This is an important and timely hearing, and I am pleased to be here to discuss the growth in the domestic ethanol industry, and the important role of small businesses and farmers in our nation's biofuels industry.

The RFS was first established by the Energy Policy Act of 2005. The passage of this bill was an important step towards this country's energy independence, as well as providing economic and environmental benefits. By expanding the RFS, the Energy Independence and Security Act of 2007 ("2007 Energy Act") capitalizes on the substantial benefits that renewable fuels offer to reduce foreign oil dependence and greenhouse gas emissions and to provide meaningful economic opportunity across this country.

Background

Today's ethanol industry consists of 147 ethanol plants nationwide that have the capacity to turn more than 2 billion bushels of grain into 8.5 billion gallons of high octane, clean burning motor fuel, and more than 14 million metric tons of livestock and poultry feed. There are currently 55 ethanol plants under construction and 6 plants undergoing expansions. It is a dynamic and growing industry that is revitalizing rural America, reducing emissions in our nation's cities, and lowering our dependence on imported petroleum. America's domestic ethanol producers are providing significant economic, environmental and energy security benefits today.

In an overall environment of slowing economic growth, the U.S. ethanol industry stands out in sharp contrast. According to a report by economist John Urbanchuk of LECG, LLC, dated February 20, 2008, the American ethanol industry is a job creating engine. The increase in economic activity resulting from ongoing production and construction of new ethanol capacity supported the creation of 238,541 jobs in all sectors of the economy during 2007. These include more than 46,000 additional jobs in America's manufacturing sector -- American jobs making ethanol from grain produced by American farmers. Ethanol production is providing a dramatic economic stimulus across the country, particularly in rural America. It is helping to raise the price for which farmers sell their corn, provide good paying jobs where few existed before, and generate the kind of economic activity that is returning vitality to Main Streets across America.

U.S. agriculture is evolving in very important ways, and rural America is primed to take advantage of these opportunities. Ethanol today is the single most important value-added market for farmers. The increased demand for grain used in ethanol processing has increased farm income, created jobs in the agricultural sector, and revitalized numerous rural communities where ethanol biorefineries have been located. The House Small Business Committee will have a critical role to play to ensure that investment opportunities for small, rural communities continue.

Renewable Fuels Standard – Promoting Investment in Cleaner Alternatives to Fossil Fuels

Ethanol is also helping to stem the tide of global warming, today. The use of low carbon fuels like ethanol is reducing greenhouse gas emissions from the more than 200 million cars on American roads. The 9 billion gallons of ethanol we will produce in 2008 will reduce greenhouse gas emissions by more than 14 million tons, or the equivalent of taking 2.5 million vehicles off the road.[2] These benefits will only increase as new technologies, new feedstocks and new markets for renewable fuels are created.

The RFS provides meaningful incentives for investment in the production and infrastructure for biofuels in the U.S. to reduce this country's use of fossil fuels. By expanding the RFS, requiring that 36 billion gallons of renewable fuel be used annually by 2022, the 2007 Energy Act represents a significant moment in history when America chose a new energy policy path. The path includes reducing this country's dependence on fossil fuels in favor of renewable fuels that are better for the environment. An analysis conducted for the RFA using the U.S. Department of Energy's (DOE) existing GREET model shows that increasing the use of ethanol and other renewable fuels to 36 billion gallons annually by 2022 could reduce greenhouse gas emissions by some 176 million metric tons, equal to removing the annual emissions of more than 27 million cars from the road.[3]

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[2] Air Improvement Resources, Inc., Feb. 2008.
[3] *Id.*

Although some critics recently attempted to discount the benefits regarding greenhouse gas emission reduction that can be achieved through increased use of renewable fuels, the support for these claims are based on a questionable analysis of alleged international land use changes. Michael Wang with the Argonne National Laboratory and Zia Haq with the DOE, among others, have explained some of the many problems with this analysis, noting that they had found no indication that U.S. corn ethanol production has so far caused indirect land use changes in other countries.[4] While more work needs to be done to understand the varying factors that may play a role in international land use changes, "conclusions regarding the GHG emissions effects of biofuels based on speculative, limited land use change modeling may misguide biofuel policy development."[5] Moreover, ethanol production has significant benefits over fossil fuel use. For example, it was recently reported that greenhouse gas emissions from oil refineries in the Midwest are expected to increase by as much as 40 percent in the next decade because of the extra energy required to process heavy crude extracted from the tar-soaked clay and sand lying under the swampy forests of northern Alberta.[6]

Domestic agricultural and ethanol production continues to develop very effective conservation measures that assure that biofuels are being produced in the most efficient and sustainable way. The ethanol industry itself is moving toward cleaner energy use and is reducing its water consumption.[7] The expanded RFS and the 2007 Energy Act includes additional measures to promote conservation and provide protections for the environment.

In particular, the RFS will greatly enhance the climate change benefits attributable to today's renewable fuels industry by encouraging more sustainable technologies and reducing the carbon footprint of future energy production. The expanded program requires that 21 billion gallons out of the 36 billion gallons come from advanced biofuels. Advanced biofuels, such as cellulosic ethanol, must have more than 50 percent reduction in lifecycle greenhouse gas emissions over gasoline. As such, Congress has provided the necessary assurance for ethanol producers and investors that a market for their product will exist. As a result, the commercialization of these important next generation ethanol technologies will develop far sooner than conventional wisdom suggests.

For example, last November, Range Fuels, Inc. broke ground on a commercial cellulosic ethanol plant located in Treutlen County, Georgia. The facility will use wood and wood waste from Georgia's pine forests and mills as its feedstock. Verenium is operating a cellulosic ethanol pilot plant and research and development facility in Jennings, Louisiana, and expects to complete later this year a demonstration-scale facility using plant matter and farm scraps like sugarcane bagasse and wood chips as feedstock to produce cellulosic ethanol at the same site. Abengoa Bioenergy operates a cellulosic biomass-to-ethanol pilot plant in York, Nebraska that will research and test proprietary technology for use in commercial-scale conversion of biomass into

[4] Michael Wang, Argonne's Transportation Technology R&D Center, and Zia Haq, Department of Energy's Office of Biomass, Response to February 7, 2008 Sciencexpress Article.

[5] *Id.*

[6] Michael Hawthorne, "Refinery pollution may soar Midwest projects would increase emission up to 40%," Chicago Tribune, Feb. 12, 2008.

[7] May Wu, Argonne National Laboratory, Analysis of the Efficiency of the U.S. Ethanol Industry 2007, Mar. 27, 2008, at 1.

ethanol. POET Energy with expand an existing corn-based ethanol facility in Emmetsburg, Iowa into a bio-refinery that will include production of cellulosic ethanol from corn cobs and stover. And Iogen plans to build a cellulosic ethanol facility utilizing wheat and barley straw. These are just some examples of projects in the works to develop cellulosic ethanol.

In addition to the RFS, many of the other biofuels programs authorized by the 2007 Energy Act make the expanded RFS absolutely achievable. The 2007 Energy Act moves ethanol and renewable fuels beyond being just a blending component in gasoline, and guarantees that sufficient volumes of ethanol will be available to support the meaningful expansion of E-85 and flexible fuel vehicle technology.

Renewable Fuels Standard – Promoting the U.S. Economy and Energy Independence

Expansion of the domestic biofuels industry will provide significant economic benefits in terms of a larger and more robust economy, increased income, new job creation in all sectors of the economy, and enhanced tax revenues at both the Federal and State levels. Increased biofuels production and use stimulated by the expanded RFS will also enhance America's energy security by displacing imported crude oil. Specifically, expansion of the U.S. biofuels industry will[8]:

- Add more than $1.7 trillion (2008 dollars) to the U.S. economy between 2008 and 2022;
- Generate an additional $366 billion (2008 dollars) of household income for all Americans over the next 15 years;
- Support the creation of as many as 987,000 new jobs in all sectors of the economy by 2022;
- Generate $353 billion (2008 dollars) in new Federal tax receipts; and,
- Improve America's energy security by displacing 11.2 billion barrels of crude oil over the next 15 years and reduce the outflow of dollars to foreign oil producers by $1.1 trillion (2008 dollars).

A recent report by the U.S. Department of Commerce's Bureau of Manufacturing and Services, *Energy in 2020: Assessing the Economic Effects of Commercialization of Cellulosic Ethanol,* noted the commercial viability of cellulosic ethanol will strengthen the competitiveness of many domestic industries and have a positive effect on the U.S. economy. In fact, the report found that annual benefits for American consumers would total $12.6 billion if cellulosic ethanol production increased; U.S. crude oil imports would fall 4.1 percent if 20 billion gallons of cellulosic ethanol were produced in 2020, which is approximately 40 percent of current crude oil imports from Venezuela; and, the global price of oil and the domestic U.S. fuel price would be 1.2 percent and 2.0 percent, respectively, lower than projected.

[8] John M. Urbanchuk, LECG LLC, "Economic Impact of the Renewable Fuel Standard Provisions of the Energy Independence and Security Act of 2007," Apr. 18, 2008, at 1-2.

Renewable Fuels Standards - Benefits to the Consumer

With the ever-increasing price of oil, ethanol is helping to give consumers some relief. Using ethanol in the U.S. transportation fuel market helps lower gasoline prices by expanding gasoline supplies and reducing the need for importing expensive, high-octane, petroleum-based gasoline components or more crude oil from unstable parts of the world.

The Consumer Federation of America noted last fall in an analysis of the energy bill that at $3.00 per gallon of gasoline, the 36 billion gallon RFS would save consumers approximately $180 billion.[9] In response to calls to scale back the Missouri E10 mandate, which began this year, a study for the Missouri Corn Merchandising Council also found that the mandate will result in substantial savings to the consumer: "The price for an E-10 blend is projected to be 7.2 cents per gallon below that of conventional gasoline over the next ten years resulting in annual savings of nearly $214 million, or $54 per driver per year, at the consumer level with no loss in revenue for the state from gasoline taxes."[10] A Merrill Lynch analyst recently told the Wall Street Journal that world oil prices would be 15 percent higher without the expansion of biofuel production.[11] Another recent study by the Center for Agriculture and Rural Development at Iowa State University estimates that ethanol production and use has caused gasoline prices to be $.029 to $0.40 lower than they otherwise would have been.[12]

Recently, ethanol has received harsh criticism for allegedly driving up the price of corn and contributing to a rise in food prices. However, the evidence does not support that conclusion. A host of reasons play a role in driving food prices higher, including, for example, record oil prices, soaring global demand for commodities from oil to grains, poor weather conditions, a collapsing dollar, and restrictive agricultural policies around the world.

A report by Informa Economics, Inc. found the "marketing bill" -- the portion of final food costs that excludes grains or other raw materials -- is a key driver of the consumer price index (CPI) for food, largely due to rising energy and transportation costs.[13] There has been a sharp rise in marketing costs, which account for approximately 80 percent of food prices today.[14] This is up from 67 percent in the 1970s. Labor costs are the biggest component of the retail food dollar and are expected to continue to fuel food price increases. The farm commodity share of food prices, on the other hand, has diminished. The share has reduced from approximately 33 percent in the 1970s to approximately 20 percent today.[15] As the Informa Economics report concludes, "the statistical evidence does not support a conclusion that the growth in the ethanol

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[9] Consumer Federation of America, "No Time to Waste: America's Energy Situation is Dangerous, but Congress Can Adopt New Policies to Secure Our Future," Oct. 2007, at 4.

[10] John M. Urbanchuk, Director, LECG LLC, "Impact of Ethanol on Retail Gasoline Prices in Missouri," Apr. 2, 2008, at 3.

[11] Patrick Barta, "As Biofuels Catch On, Next Task is to Deal with Environmental, Economic Impact," The Wall Street Journal, Mar. 24, 2008, at A2.

[12] Xiaodong Du and Dermot J. Hayes, "The Impact of Ethanol Production on U.S. and Regional Gasoline Prices and on the Profitability of the U.S. Oil Refinery Industry," Working Paper 08-WP 467, Apr. 2008, at 13.

[13] Informa Economics, "Analysis of Potential Causes of Consumer Food Price Inflation," Nov. 2007, at 4.

[14] Federal Reserve Bank of Kansas City, *What is Driving Food Price Inflation?* The Main Street Economist: Regional and Rural Analysis, 2008, Vol. III, Issue I, at 2.

[15] *Id.*

industry is driving consumer food prices higher."[16] Informa Chairman and Chief Executive Officer Bruce Scherr stated: "The statistical analysis plainly details that energy-intensive activities such as processing, packaging and transporting, as well as the cost of labor, have a far greater impact on consumer food bills than the price of grain. It may be politically convenient to blame ethanol for rising food prices but it doesn't make it factually accurate. As far as Informa is concerned, this debate is settled."[17]

In fact, energy prices are a large component of the retail food dollar: "Surging energy costs will also translate into higher food prices in 2008."[18] The U.S. Department of Agriculture's Economic Research Service estimates direct energy and transportation costs account for 7.5 percent of the overall average retail food dollar; "This suggests that for every 10 percent increase in energy costs, the retail food prices could increase by as much as 0.75 percent if fully passed on to consumers."[19] In fact, oil prices have twice the impact on rising consumer food prices than does the price of corn.[20]

Dr. Mark Cooper, of the Consumer Federation of America, in testimony before the U.S. House of Representatives Judiciary Committee's Antitrust Task Force on the consumer effects of retail gas prices on May 7th, stated, "The production, processing and distribution of food consumes about 8 percent of all the energy used in the nation, the costs of which turns up in the price of food. In a sense, netting out exports, energy related food costs that are passed on to consumers are over half as large as the direct gasoline costs at the pump."[21]

Ethanol production also provides highly valuable feed co-products, keeping food production costs down. A modern dry-mill ethanol refinery produces approximately 2.8 gallons of ethanol and 17 pounds of distillers grains from one bushel of corn. The distillers grains are a protein-rich animal feed that can be supplemented by low-cost bulk foods like alfalfa, keeping the farmer's costs down.

Critics of the ethanol industry have also failed to recognize the advances that the agricultural and ethanol industries have made to meet demand in the most efficient and environmentally sensitive manner. Technological advances have enabled farmers to boost agricultural productivity to meet demands, including rising global demands with continuing increases in population around the world. "[W]hile corn ethanol production increased almost 30-fold between 1980 and 2006, the number of corn farming acres held steady—at around 80 million acres."[22] "[A]s in the past, stronger agricultural productivity could help keep higher food

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[16] Informa Economics, *supra* note 12, at 5.
[17] Informa Economics, Inc., "Marketing Costs and Surging Global Demand for Commodities are Key Drivers of Food Price Inflation," News Release Dec. 10, 2007, http://www.informaecon.com/NewsReleaseDec10.pdf.
[18] Federal Reserve Bank of Kansas City, *supra* note 13, at 3.
[19] Statement of Joseph Glauber, Chief Economist, USDA, Testimony Before the Joint Economic Committee, U.S. Congress, May 1, 2008.
[20] *See, e.g.,* John M. Urbanchuk, LECG LLC, "The Relative Impact of Corn and Energy Prices in the Grocery Aisle," June 14, 2007, at 1.
[21] Dr. Mark Cooper, Consumer Federation of America, Testimony Before the U.S. House of Representatives Judiciary Committee Antitrust Task Force, May 7, 2008, at 3.
[22] Michael Wang, et al., Life-cycle energy and greenhouse gas emission impacts of different corn ethanol plant types, Environ. Res. Lett. 2 (April–June 2007), available at http://www.iop.org/EJ/article/1748-9326/2/2/024001/erl7_2_024001.html.

price inflation at bay."[23] In addition, a recent analysis provided to RFA by May Wu with the Argonne National Laboratory found that from 2001 to 2007, ethanol yield per bushel of corn increased 6.4 percent for dry mills and 2.4 percent for wet mills; total energy use (fossil and electricity) decreased 21.8 percent in dry mills and 7.2 percent in wet mills; and grid electricity use decreased 15.7 percent in dry mills.[24]

As summarized by the former Secretary of Agriculture John Block at an April 30, 2008 press conference: "A complex set of factors are at work helping to drive food prices higher around the world. ... Singling out biofuels like ethanol for all or even the majority of the blame misses the boat. Ethanol production and use is helping to keep oil and gasoline prices lower than they might otherwise be and preventing the situation from getting worse."[25]

Renewable Fuels Standards – Implications to Consumers of a Waiver

On April 25, 2008, Governor Rick Perry of Texas requested that EPA issue a waiver of 50 percent of the RFS for 2008, citing alleged economic impacts on Texas and food price increases. Governor Perry's request is based on data purportedly demonstrating that implementation of the RFS is having a negative impact on Texas' economy due to increased price of corn, an economy that the Governor also claims to be "the strongest in the nation." The Governor also references the costs at the grocery store, but in the Texas A&M study the Governor himself cites as support, it was concluded that relaxing the standard would not affect food prices.

Further, in testimony before the U.S. Senate Homeland Security and Government Affairs Committee last week, Bruce Babcock with the Iowa State University Center for Agricultural and Rural Development, noted that the elimination of the Federal biofuels mandate would only lower the price of corn by less than 1% in the short term[26]. Babcock went on to point out that a 30 percent change in the price of corn, with corresponding changes in the prices of other crops, would change home food expenditures by only about 1.3 percent[27].

Governor Perry's request acknowledges that reducing the mandate will result in increased gasoline prices. Indeed it will. Removing 4.5 billion gallons of ethanol from the market, as envisioned by Governor Perry's waiver request, would increase gasoline prices in the short term (up to one year) by up to 31 percent.[28] This means that the current average retail price of $3.65 per gallon would increase to $4.79 per gallon! Such an increase in gasoline prices across the

[23] Federal Reserve Bank of Kansas City, *supra* note 13, at 5.
[24] May Wu, *supra* note 6, at 1.
[25] *See* National Corn Growers Association, "Increasing Food Prices: It's All About Oil, Speculation, Drought and Worldwide Demand (4-30-08)," http://www.ncga.com/news/notd/2008/April/043008a.asp.
[26] Dr. Bruce A. Babcock, Iowa State University, Center for Agricultural and Rural Development, Testimony before the U.S. Senate Committee on Homeland Security and Government Affairs, Hearing on Fuel Subsidies and Impact on Food Prices, May 6, 2008, at 2-3.
[27] Dr. Bruce A. Babcock, Iowa State University, Center for Agricultural and Rural Development, Testimony before the U.S. Senate Committee on Homeland Security and Government Affairs, Hearing on Fuel Subsidies and Impact on Food Prices, May 6, 2008, at 4.
[28] Dr. John Urbanchuk, LECG, LLC. May 1, 2008.

country would be devastating to all Americans. The longer-term response would be smaller, approximately 13 percent, but still a crippling impact on the U.S. economy.

Conclusion

The RFS is a testament to what we can do when we work together toward a shared vision of the future. By increasingly relying on domestically produced renewable fuels, including next generation technologies such as cellulosic ethanol, we can begin the hard work necessary to mitigate the impact of global climate change, reduce our dependence on foreign oil, and leave a more stable and sustainable future for generations that follow.

The U.S. ethanol industry stands ready to work with you to assure the journey you embarked upon with passage of the 2007 Energy Act is realized. By continuing progressively down the path the 2007 Energy Act set forth, Congress will provide a tremendous economic stimulus to small business across rural America, and take a major step toward a more sustainable energy future for all Americans.

Thank you.

BEEF USA

NATIONAL CATTLEMEN'S BEEF ASSOCIATION

1301 Pennsylvania Ave., NW, Suite #300 • Washington, DC 20004 • 202-347-0228 • Fax 202-638-0607

May 15, 2008

The Honorable Nydia M. Velázquez	The Honorable Steve Chabot
Chair	Ranking Member
U.S. House Small Business Committee	U.S. House Small Business Committee
2361 Rayburn House Office Building	B-363 Rayburn House Office Building
Washington, DC 20510	Washington, DC 20510

Dear Chairwoman Velázquez and Ranking Member Chabot:

The National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our thoughts with regard to your hearing on "Food Prices and Small Businesses." Producer-directed and consumer-focused, NCBA is the largest and oldest organization representing America's cattle industry, and it is dedicated to preserving the beef industry's heritage and future profitability through leadership in education, marketing and public policy.

Cattle operations are an important contributor to small towns and rural economies across the United States. Taken in aggregate, cattle production plays a significant role in our nation with $50 billion in farm-gate receipts, which represents 20 percent of all U.S. on-farm income. As farmers and ranchers seek to continue providing the safest, most affordable beef in the world, however, they are facing an increasing number of challenges ranging from environmental issues to international trade barriers and, most recently, a growing anxiety about the impact of renewable fuels policy on the prices of feed grains and livestock. This is not surprising given the incredible expansion that has taken place with regards to corn-based ethanol production.

Cattle producers are very concerned about the increasingly tight supply of key commodities. U.S. wheat stocks are at 60 year lows and soybean stocks at their lowest levels since 2003. Corn ending stocks relative to expected use, even with last year's record crop, are well below the established 25 year average. Given these tense supply and demand conditions, wheat, corn and soybean prices have all climbed steadily higher. But, even with these price incentives, USDA's recent Prospective Plantings report indicated that U.S. corn acreage is expected to decline 8 percent from last year. This decline in corn production will coincide with continued increases in the mandated diversion of corn to meet the Renewable Fuels Standard (RFS).

Ethanol and the RFS are not solely to blame for this precarious situation. Other factors including the value of the dollar, elevated energy costs, increased international demand for grain and meat products, and the weather certainly play a role in determining food and feed costs. But, demand pressure from the RFS is also an important contributor, and it is the only factor that Congress can control. In light of the commodity supply and price issues we are now facing, NCBA urges you to reevaluate the mandate schedule established in the Energy Independence & Security Act of 2007 (EISA).

Ethanol Industry Development and Production

While elimination of the oxygenate methyl tertiary butyl ether (MTBE) along with high crude oil and gasoline prices have played a role in the development of ethanol production, a number of government policies have rapidly accelerated the investment, including: the Volumetric Ethanol Excise Tax Credit (VEETC) of $0.51/gallon provided to blenders of ethanol, a $0.54/gallon tariff on imported ethanol, and the RFS which was amended and dramatically increased as part of EISA to mandate the production and use of 9 billion gallons of feed-grain based ethanol this year and 15 billion gallons by 2015.

As of May 14th the Renewable Fuels Association (RFA), the national trade association for the U.S. ethanol industry, reported that the United States has 147 operational ethanol plants with the capacity to produce 8.5 billion gallons of ethanol per year. Additionally, RFA reported 55 new plants under construction, bringing total expected ethanol production capacity to over 13.6 billion gallons of ethanol per year. Once operational, these 202 ethanol facilities will require over 5 billion bushels of corn. This is not an inconsequential amount. Based upon current expectations for corn plantings and yield, that will be over 40 percent of the domestic corn supply in 2008 - compared to the 13 percent of domestic corn supply that was devoted to fuel ethanol production in 2005.

Overall growth in the corn ethanol industry has been impressive, but it is important to recognize that it comes at a cost to livestock producers. Corn is the primary feed stock utilized to feed cattle for market, accounting for approximately 85 of every 100 pounds of cattle feed. In total, of the nearly six billion bushels of corn fed to livestock this year, roughly two billion will be fed to cattle. With the Omaha cash corn price last week at $5.90/bushel compared to $3.46/bushel one year earlier – an increase of over 70 percent in just one year – the impacts of corn-based ethanol development are being felt throughout the beef production chain.

Ethanol Co-product Opportunities and Challenges

Cattle producers have not stood idle on the sidelines as these market developments have occurred. As corn is being diverted to supply the increasing demand of renewable fuels they are doing their best to adapt by utilizing alternative feedstuffs, such as co-products of the ethanol process like distillers grains, in rations. Distillers grains can be used in their wet (35 % dry matter), modified wet (50%), or dried (90%) form. Each bushel of corn used for ethanol production returns about 18 pounds of dried distiller grains, and as ethanol production continues to climb it will be increasingly important for our industry to utilize this product.

When a feedlot can obtain them, some producers are attempting to incorporate ethanol co-products at rates of up to 40 percent in the feed ration. However, these co-products cannot entirely replace corn in the ration, and there are other concerns with including them at high levels. First, there are concerns about diminished cattle performance due to increased sulphur content in the ration. Sulphur, which tends to suppress appetite and tie up micronutrients that are essential to cattle health, is often found at higher levels in distillers grains. Producers are also concerned about the variability of the co-products from ethanol production. It has proven difficult to get a consistent product which, in turn, makes it hard to formulate a balanced ration. Furthermore, we're keeping a close eye on any impact that distillers grains might have on the quality of our end product. The beef industry has worked hard for many years to improve beef quality, and any changes to that quality could jeopardize a consumer's willingness to purchase beef. Finally, because distiller's grains are often priced at their energy equivalent to corn, they are not necessarily a "cheap" replacement for corn.

Summary

The U.S. cattle industry is currently experiencing significant and unsustainable losses; many cattle feeders are losing $150 to $200 per animal. With 525,000 head of steers and heifers going to market each week, that amounts to an average weekly industry loss of approximately $79-105 million. Cattle feeders are margin operators and these losses will be passed on to the foundation of our industry, the cow/calf producer. For every $1 per bushel increase in the price of corn, a cattle feeder must pay $22 per hundred-weight *less* for a 550 lb. feeder steer in order to have a chance at maintaining the same income.

NCBA does not believe that freezing the RFS will immediately reverse commodity price escalation, nor do cattle producers claim that it will single handedly address the difficult marketing environment that currently exists for our industry. But, the RFS is one factor contributing to higher feed prices and Congress should revisit this policy in order to bring about some relief for beef producers and consumers.

It should be made clear that NCBA supports the nation's commitment to reducing dependence on foreign energy by developing forms of renewable energy like ethanol. Our interest in encouraging a reevaluation of the RFS is not intended to undermine this objective; rather it is meant to ensure that our nation's energy policy is sustainable and consistent with the dynamics of today's marketplace.

While producers continue to manage the costs associated with increased ethanol production, NCBA would urge policymakers to support a diverse array of fuels, technologies and feedstocks. NCBA believes that the use of cellulosic feedstocks for ethanol holds great promise. In addition, other means of producing biofuels could open the door to utilizing waste products (i.e. manure, animal fats, greases, etc.) as an energy source. This would alleviate many of the environmental concerns faced by the cattle industry. For example, NCBA continues to support the use of animal fats and oils in the production of bio and renewable-diesel. Production of this biofuel offers a significant, new opportunity for U.S. animal agriculture to participate in the renewable energy business.

NCBA appreciates the Small Business Committee holding a hearing regarding "Food Prices and Small Businesses." Cattle producer's share a desire to diversify our energy supply, and feel strongly that we must work together to meet this goal in a manner that will not pit our food, feed and fuel needs against each other. To that end, and in light of the current food and commodity price issues we are facing, it is clear that Congress should reevaluate the RFS enacted as part of EISA. NCBA feels that it is time to level the playing field and allow market forces rather than government intervention to guide the production and use of ethanol.

Sincerely,

Terry Stokes
Chief Executive Officer, NCBA

25x'25
AMERICA'S
ENERGY FUTURE

For information, please, contact Ernie Shea at (410) 252-7079.

Written Statement of the 25x'25 National Steering Committee[i]

House Small Business Committee Hearing

"Food Prices and Small Businesses"

May 15, 2008

America is looking for a new energy future; one that is cleaner; improves national security; and strengthens the economy and contributes positively to the quality of life of all. Renewable forms of energy address all of these objectives. Contributing to the urgency of developing this new energy future is the prediction from the Energy Information Agency that U.S. energy consumption will grow nearly 20 percent by 2030. Global energy consumption, says the EIA, is expected to grow nearly 60 percent. Meeting those demands for energy will require a wide array of resources, including renewable sources like biofuels. Liquid fuels derived from a wide variety of plant feedstocks, along with wind energy, solar power, geothermal energy, hydropower, biomass and biofuels, make up a key component to a new energy future.

Below we outline some of the key benefits of biofuels to American economy:

A recent University of Tennessee study commissioned by 25x'25 concluded that the United States has adequate land resources to secure 25 percent of its energy needs from renewable sources by the year 2025 **without compromising** the ability of the agricultural and forestry sectors to reliably produce safe and abundant food, feed and fiber at reasonable prices.

Reaching the 25x'25 goal would have an extremely favorable impact on rural America and the nation as a whole. Including multiplier effects through the economy, the projected annual impact on the nation from producing and converting feedstocks into energy would be in excess of $700 billion in new economic activity and creation of 5.1 million jobs in 2025, most of that in rural areas.

Higher crop prices do not result in a one-to-one increase in feed expenses for the livestock industry. Increases in ethanol and biodiesel production result in more distillers dried grains (DDGs) and soybean meal, which partially compensate for increased corn prices. Moreover, the integrated nature of the industry allows for the adjustment of animal inventories as a way to adjust to the environment and increase net returns. In addition, the production of energy from manure and tallow could provide additional value for the industry.

Furthermore, biofuels contribute to a lower price of transportation fuels for consumers. According to recent price reports by Axxis Petroleum and the Oil Price Information Service, ethanol for blending is selling for as much as 10 to 35 cents lower than gasoline, depending on the market. Francisco Blanch, an analyst at Merrill Lynch, recently reported that oil prices would be 15% higher without biofuels production.

Biofuels improve health and air quality. In fact, San Francisco Fire Department switched their entire fleet to biodiesel last year, because of health benefits to the employees, cleaner air, and decreased greenhouse gas emissions. As Mike Ferry of San Francisco Fire Department states in a National Biodiesel Board press release: "Using biodiesel gives us a glimpse of what I hope is a better future for everyone. Not only does it offer health benefits to the 1600 members on our department… but I am very proud of the role I've played in bettering our local environment through biodiesel's decreased emissions… Biodiesel offers an alternative that so many people are seeking right now: a clean, safe, renewable fuel."

Biofuels can and will provide significant opportunity in carbon sequestration. Conservation tillage and other agriculture and forestry residue management techniques used to produce biofuel feedstocks can provide a constant buildup of soil organic carbon leading to improvements in soil and water quality. Ohio State University researchers have concluded that the total potential of carbon sequestration in U.S. soils, counting croplands, grazing lands and woodlands, is nearly 600 million metric tons of carbon, or the equivalent of more than 2,200 million metric tons of carbon dioxide emissions - about 33 percent of total U.S. emissions!

Finally, we must also remember the importance of renewable energy sources such as biomass, wind, and solar. The production of 12.83 quads of energy from biomass and wind sources could replace the growing demand for natural gas and coal-generated electricity. These renewable energy resources could significantly decrease the nation's reliance on foreign oil and fossil fuels, and enhance the national security of all Americans.

Addressing Negative Press:

Biofuels and their production have been the subject of recent media reports and studies that raise serious and complex questions about the merits of these home-grown alternative fuels and the viability of methods used to generate them. These issues are crucial, given that the Energy Information Agency predicts global energy consumption will grow nearly 60 percent by 2030. However, the alarmist tone of some of these reports suggest that we should retreat from plans to use sustainably produced biofuels to aid the transition to cleaner and more dependable energy solutions to meet our ever-growing demand for electricity and transportation fuels. In our view this would be a tragic mistake.

These claims only serve to entrench a fossil-fuel-based energy system that is not only finite, but as a look at gas prices will attest, failing. The real question is not whether current biofuel production will solve our transportation fuel needs, but rather: Will these first-generation supplements, and in some cases alternatives to fossil fuels, move us in the right direction? Will they take us to newer home-grown fuels that are cleaner, more sustainable, more secure, and of greater benefit to the global economy? A look beyond the alarmist claims shows evidence that biofuels produced the right way can provide long-lasting economic and environmental advantages over fossil fuels. And they can be produced without compromising our ability to meet food, feed and fiber needs.

Recent reports and media coverage suggest that biofuel production is a major contributor to recent increases in food prices. Facts prove otherwise. Skyrocketing transportation fuel and energy costs, along with erratic weather, increased demand and low stocks, and speculator investments in grain commodity markets, are the more significant contributors to the higher food costs around the globe.

Recent USDA studies have shown that for every dollar consumers spend on food, only 20 cents is attributable to the actual cost of the food product itself. The remaining 80 percent is tied to increases in labor, energy, transportation, advertising, packaging and other costs. These findings were affirmed by a recent Texas A&M study which concluded that energy prices have been the largest single driver of higher food prices.

While the current food crisis is global in scope and requires immediate action, it is inaccurate and misleading to assign primary responsibly to biofuel production. At the same time that U.S. ethanol production was dramatically expanding, U.S. food and feed grain exports actually were increasing. Another key fact to remember is that the current global shortages of wheat and rice are not the result of biofuel production, as neither of these commodities is used to produce biofuels.

With continued advancements in technology and significant shifts in cropping patterns, U.S. farmers, ranchers and foresters can meet the 25x'25 energy goal. Continued yield increases in major crops, strong contributions from the forestry sector, utilization of food processing wastes, as well as the growth of over one hundred million acres of a dedicated energy crop, like switchgrass, will all contribute toward meeting this goal.

In our view there is little danger, especially over the long run, that biofuel production will impinge on food crop production. Feedstocks for the current generation of biofuels consist primarily of varieties of corn and oilseeds that are not grown directly for human consumption. American agriculture's problem historically has been one of overproduction, which is why the United States has had perennial crop surpluses.

Looking to the future, non-food crops and materials now considered waste will become the primary feedstocks for biofuel production. Ongoing and growing research will optimize cellulosic feedstocks, including energy crops such as switchgrass, hybrid poplars and other prairie grasses, and residues such as corn stalks, wheat straw, forest trimmings, sawdust, wood chips, yard waste, municipal solid waste and even animal wastes. In addition, many experts believe new demand for biofuels can ease world hunger by attracting investment that supports agricultural improvements, which will benefit food production and reduce poverty conditions around the world.

Arguments that using land to grow biofuel feedstocks leads to the destruction of forests, wetlands and grasslands that store enormous amounts of carbon, leading to greater greenhouse gas emissions, ignore the reality that ever increasing worldwide demand for food and fiber by a growing and increasingly affluent population is the primary cause of land-use change in these regions. Simply eliminating biofuels will not stop land use changes from occurring, and in countries like Haiti that have already lost their forests, biofuel feedstock production could help reestablish forests and offer more affordable and sustainable energy options.

Produced the right way, biofuels provide a much-needed and environmentally sound alternative to petroleum fuels. As demand for liquid fuels continues to grow, petroleum resources continue to diminish. Efforts to develop new sources of oil from the Alberta tar sands in Canada is producing what environmentalists say is three times the level of greenhouse gas emissions when compared to conventional extraction. Meanwhile, University of Nebraska researchers say a five-year study shows switchgrass can produce 540 percent more energy than that required to grow, harvest and turn it into cellulosic ethanol.

In considering the role biofuels will play in America's energy future, one must remember that our current corn ethanol platform is the foundation for a second generation of viable and affordable biofuels—one that will provide significant economic and environmental returns. Are today's biofuels the perfect solution to our transportation fuel challenges? Certainly not. What they do represent is a pathway to ever-improving feedstocks and conversion technologies that will bring about increased income and employment for all economies, an improved environment and greater national security.

Meeting our nation's growing demand for energy will require a wide array of resources including renewable sources like wind energy, solar power, geothermal energy, hydropower, biomass and biofuels. Increasing the percentage of our energy that comes from renewable sources is a distinctly better course for national security, the environment and our health. Biofuels are currently our only option for renewable liquid transportation fuel. It's time for policymakers and those who attempt to influence them to look at biofuels in a measured and comprehensive manner, recognizing that while not perfect, they provide a critical pathway to a sustainable, cleaner and more secure energy future.

[i] 25x'25 is a diverse alliance of agricultural, forestry, environmental, conservation and other organizations and businesses that are working collaboratively to advance the goal of securing 25 percent of the nation's energy needs from renewable sources by the year 2025. 25x'25 is led by a national steering committee composed of volunteer leaders. The 25x'25 goal has been endorsed by nearly 700 partners, 29 Governors, 15 state legislatures and the U.S. Congress through HR6 which was signed into law by President Bush on December 19, 2007.

Statement of the
American Farm Bureau Federation

FOR THE RECORD TO:

HOUSE COMMITTEE ON SMALL BUSINESS

Re: FOOD PRICES AND SMALL BUSINESS

May 15, 2008

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600 Maryland Ave SW | Suite 1000W | Washington DC 20024 | p 202 406 3600 | f 202 406 3606 | www fb org

The American Farm Bureau Federation (AFBF) submits this statement to the House Committee on Small Business of the U.S. Congress on the subject of the U.S. and global food situation. The United States has been and continues to be the world largest agricultural producer and food exporter. Large and fertile land resources, available water, technologically advanced producers, academic and commercial research coupled with advanced seeds, fertilizers and machinery will all continue to provide food for the U.S. and for growing demands around the world. A positive environment for the business of agriculture with the support of local, state and federal government policy has contributed and will continue to contribute to an efficient and growing agricultural production sector in the United States.

Changing world economics are affecting the production and pricing of agricultural commodities. The Food and Agriculture Organization of the United Nations, in a February 2008 report, identifies the rising cost of energy, increased worldwide demand, weather impacts on crop production, lower stocks levels, and the production of biofuels and the operation of financial markets as part of the current global food situation. This has resulted in world price increases of 80 percent for some products from 2005 to 2008.

The following factors are influencing global food production and pricing:

Energy Prices. The global food system is heavily dependent on petroleum for production, processing, packaging and shipping. As the price of oil rises so do the costs of growing, processing and delivering food to consumers. As an example, freight rates have doubled during a one-year period beginning February 2006. Additionally, farmers in the United States have seen their fertilizer expenses increase by about 90 percent over the past five years, while diesel prices have increased by about 135 percent over the same period.

Demand. Economic development and income growth in important emerging countries have been gradually changing the structure of demand for food commodities. China and India have millions of people now benefiting from rising incomes and improving diets. Increases in meat consumption translate directly into increased demands for feed grains for livestock production. In China, per capita meat consumption has increased from 20kg (44lbs.) in 1980 to 50kg (110lbs.) today. Also, China's soy meal use has increased 1500 percent.

Weather Related Shortfalls. Output in the eight major exporting countries dropped by 4 percent and 7 percent in 2005 and 2006, respectively. As an example, Australia has experienced a protracted drought resulting in reduced wheat production directly impacting world wheat markets and prices. Production there plummeted from 25 million tons in 2005 to 10 million tons in 2006 and to 13 million tons in 2007.

Stocks levels. World cereal stocks are at their lowest level since 1982. Since 1995 stock levels have on average declined by 3.4 percent per year. At the close of the 2008 season, world cereal stocks are expected to decline a further 5 percent. Rice availability is always an issue. More than 90 percent of rice is consumed in the country where it is grown. As consumption has outpaced production, world rice reserves have been reduced. To deal with inflationary pressures, some countries have enacted export restrictions. Consequently, nations that depend on rice imports, such as the Philippines, are experiencing price increases due to restricted supply.

Biofuels. The emerging biofuels market is a new source of demand for agricultural commodities. Corn production increased in the U.S. from 10.5 billion bushels in 2006 to 13.1 billion bushels in 2007. Use of corn for ethanol production increased from 2.1 billion bushels in 2006/07 to 3.1 billion bushels in 2007/08. The by-product of ethanol production is also used as livestock feed. Exports of corn increased from 2.1 billion bushels in 2006/07 to 2.5 billion bushels in 2007/08.

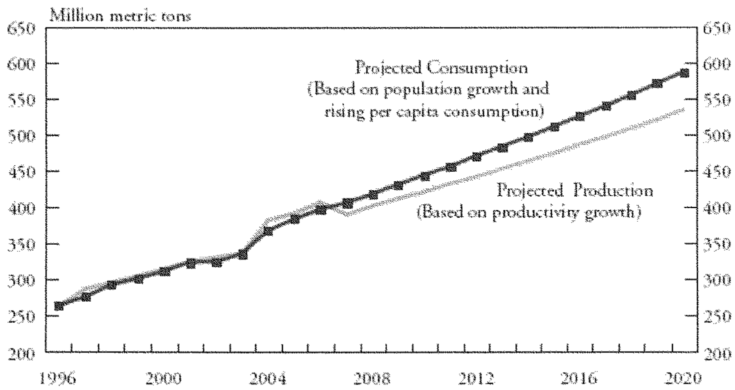
Financial markets. Investments in financial instruments for agricultural commodities are having a role in pricing. These outside investments have put upward pressure on domestic and world grain and oilseed prices.

As noted previously, nations are increasingly restricting exports of agricultural commodities or taking other measures in order to maintain or lower domestic food prices. Of the 58 countries tracked by the World Bank, 48 have imposed price controls, consumer subsidies, export restrictions or lower tariffs. China, Russia, Cambodia, Kazakhstan, Argentina, Brazil, Ukraine and Indonesia have instituted export bans on a variety of commodities. India and Vietnam have restricted the outward flow of rice. Striking farmers in Argentina are another example of supply disruptions affecting world commodity availability. Once a hoarding mentality sets in, it can create irrational behavior.

Long-term, the answer has to be more productive approaches to agriculture around the world. Deciding to forgo technologies that can significantly improve yields, reduce pesticide needs and provide for greater output (as Europe, Japan and some other countries have elected to do) places a major cost on developing and other economies.

This was a warning issued over 10 years ago that was ignored or even scoffed at at the time. The chart below from the Kansas City Federal Reserve Board The Main Street Economist – Regional and Rural Analysis, May 2008 publication, *What's Driving Food Price Inflation?* http://www.kc.frb.org/RegionalAffairs/MainStreet/MSE_0108.pdf illustrates the growing issue of consumption and production as related to oilseeds. The situation however is not unique to oilseeds.

PROJECTED WORLD OILSEED CONSUMPTION AND PRODUCTION



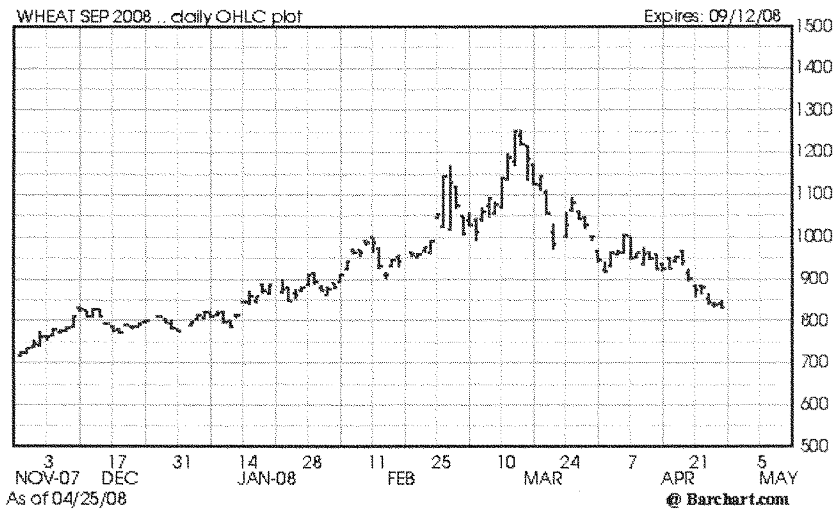
Sources: Calculations based on USDA and U.S. Census Bureau data.
Notes: Agricultural productivity and per capita consumption growth from 1994 to 2007 are expected to hold through 2020.

Wheat Markets

Wheat is one commodity that has drawn attention in stories regarding food prices. After three consecutive years of weather-related production problems, world wheat production appears to be poised to set a new record, up 7 percent from last year and 3 percent above the 2004/05 record according to the International Grain Council. Production is expected to exceed consumption for the first time in four years.

U.S. wheat production is expected to increase about 13 percent in 2008.

Wheat futures prices topped out in late-February/early March and have subsequently declined $4-5 per bushel.

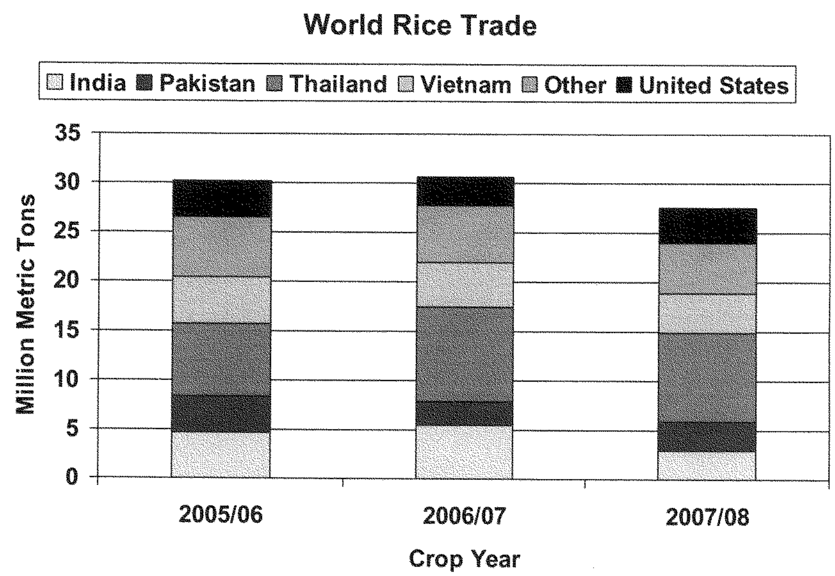


Rice Markets

Rice is referred to as a 'thin' market because the amount that actually shows up in world trade is small compared to the amount that gets consumed in the countries where it is produced. With global rice consumption at 424 million metric tons (MMT) this year, roughly 93 percent of rice is consumed in the country in which it is produced, leaving only 6 percent to 7 percent (27 MMT) to actually trade in global markets. Yet, it is this traded quantity that determines the world price for rice. It takes only small disruptions in this 6 percent to 7percent of the world's rice trade for prices to move sharply.

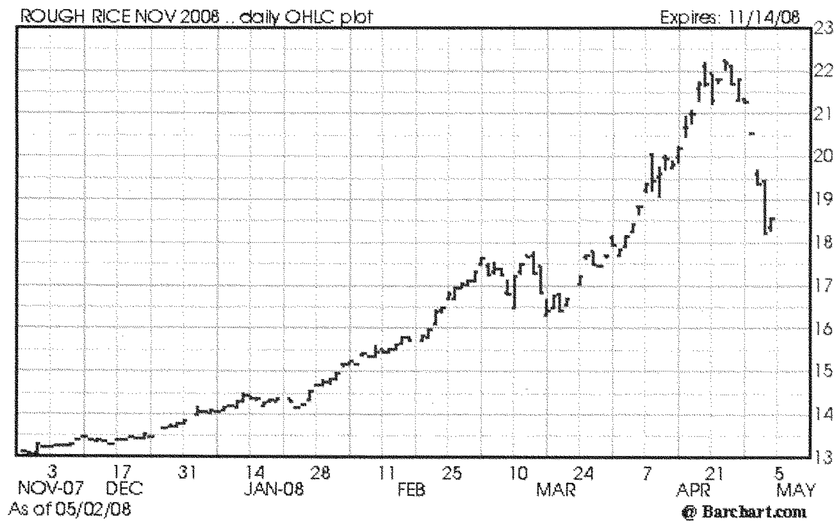
Reports of rice shortages come in the face of three consecutive years of slowly growing world rice production. Production for the coming year is expected to rise by 1.8 percent. Also estimated world ending stocks of rice have been essentially unchanged over that period of time.

To the extent there are actual rice shortages in some areas of the world, they have been caused by countries hoarding supplies and withholding traditional exports in order to try to mitigate domestic inflationary pressures. Among the major rice exporters restricting exports are countries like India and Vietnam. But the effects on the overall trade numbers for rice have been relatively small, as shown in the attached graphic:



This small decline in trade, coming at the same time as these announcements regarding trade restrictions, has caused considerable distress in specific markets, sufficient to drive prices sharply higher.

As in wheat markets, rice prices have also moved sharply lower in the last few days. Driven by announcements from Thailand, the expectations of larger crops this year, rice priced in Chicago has had a number of limit down days in the last week, only showing some signs of stabilizing at the end of last week with a large tender from the Philippines.



Responding to food emergencies
AFBF has been supportive of the arsenal of food aid programs administered by USDA and USAID. These programs provide relief to millions of hungry through out the world by allowing the United States to provide fundamental resources for food security, development and humanitarian relief in developing countries. American farmers take pride in the fact that the products they produce can help so many in need. Farm Bureau has been supportive of increased funding and reauthorization of all farm bill food aid programs. These programs include Public Law 480 Titles I and II, the McGovern-Dole International Food for Education and Child Nutrition Program, and Food For Progress.

The **Food for Progress** program, authorized by the Food for Progress Act of 1985, provides for the donation or credit sale of U.S. commodities to developing countries and emerging democracies to support democracy and an expansion of private enterprise. The implementing organizations request commodities, and USDA purchases those commodities from the U.S. market. USDA donates the commodities to the implementing organizations and pays for the freight to move the commodity to the recipient country. Depending on the agreement, the commodities donated through Food for Progress may be sold in the recipient country, and the proceeds used to support agricultural, economic, or infrastructure development programs. Assistance is provided through foreign governments, Private Voluntary Organizations (PVOs), non-profit organizations, cooperatives, and intergovernmental organizations. The program is limited by a statutory requirement that freight costs do not exceed $40 million. USDA supports about 15-20 projects each year that impact more than a million people.

P.L. 480, Title I–Trade and Development Assistance, provides for government-to-government sales of U.S. agricultural commodities to developing countries on credit or grant terms. Depending on the agreement, commodities provided under the program may be sold in the recipient country and the proceeds used to support agricultural, economic, or infrastructure development projects. Agreements under the Title I credit program may provide for repayment terms of up to 30 years with a grace period of up to 5 years. The authority also allows for grant programs, which have outnumbered loans in recent years.

P.L. 480, Title II–Emergency and Private Assistance, provides for the donation of U.S. agricultural commodities to meet emergency and nonemergency food needs in other countries, including support for food security goals. Agricultural commodities donated by the U.S. government to meet emergency needs are traditionally provided through the World Food Program or PVOs, though they may also be provided under government-to-government agreements. Nonemergency assistance may only be provided through PVOs, cooperatives and intergovernmental organizations.

The **McGovern-Dole International Food for Education Program** helps support education, child development and food security for some of the world's poorest children. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income, food-deficit countries that are committed to universal education. The commodities are made available for donation through agreements with PVOs, cooperatives, intergovernmental organizations, and foreign governments. Commodities may be donated for direct feeding or for local sale to generate proceeds to support school feeding and nutrition projects.

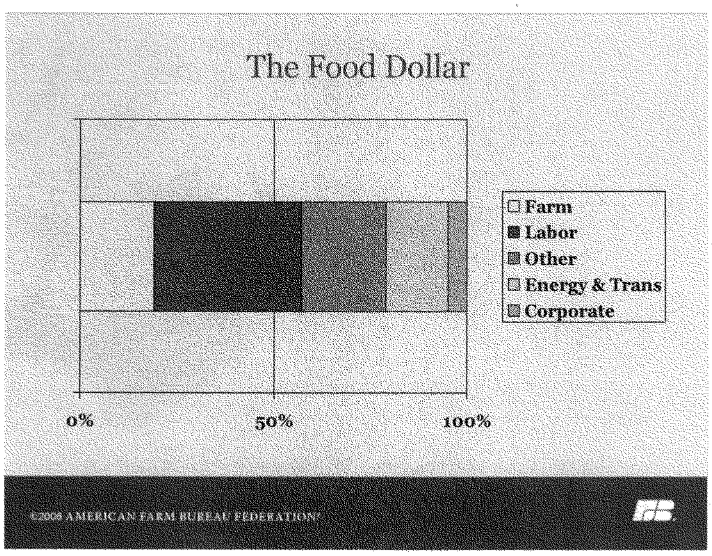
The **Bill Emerson Humanitarian Trust (BEHT)** is another important resource to ensure that the U.S. government can respond to emergency food aid needs. The Emerson Trust is not a food aid program, but a food reserve administered under the authority of the secretary of agriculture. U.S. commodities from this reserve for P.L. 480 can be used to respond to humanitarian food crises in developing countries, particularly those that emerge unexpectedly. Up to 4 million metric tons of U.S. wheat, corn, sorghum and rice can be kept in the reserve. The secretary of agriculture is authorized to release commodities from the Emerson Trust to provide food aid for emergency needs that cannot otherwise be met through P.L. 480.

These programs represent more than $2 billion in food aid support from the U.S. government and U.S. farmers and help millions of people in developing countries with food needs. While current funding for these programs may not always be enough, Farm Bureau has been supportive of congressional action for supplemental funding to meet these needs. Farm Bureau is currently requesting that Congress fund an additional $550 million for PL 480 Title II to address recent concerns with food shortages. Farm Bureau also supported the recent release of $200 million from the BEHT.

Biofuels

Some in the media and other interested parties have wrongly focused on biofuels like ethanol for all or even a majority of the increase in food prices. In fact, there are many factors behind increasing food costs.

The chart below from the Kansas City Federal Reserve Board illustrates these factors http://www.kc.frb.org/RegionalAffairs/MainStreet/MSE_0108.pdf



Focusing on one factor is dangerous, especially if a true and comprehensive analysis of the numbers indicate otherwise. Such is the case for renewable fuels. While ethanol has certainly become the target, there are many causes lifting commodity prices this spring. Several independent think tanks place biofuels' contribution to the food cost increase on a global basis at somewhere between 10 and 30 percent. A study completed at University of Wisconsin by Fortenbery and Park suggests ethanol demand has increased corn prices by only 41 cents per bushel over levels that would have otherwise existed. As it is, corn prices have actually increased by $1.22 over the same period studied by the Wisconsin researchers, suggesting other factors are contributing to higher commodity prices. Exports also have increased corn prices, but the Wisconsin researchers suggest a significant effect coming from speculative trading by outside investors.

Ethanol production and use is helping keep oil and gasoline prices lower than they might be. According to Merrill Lynch commodity strategist Francisco Blanch, without biofuels, which can be refined to produce fuels much like the ones made from petroleum, oil prices would be 10 percent to 15 percent higher. Without expansion of biofuel production and use in the U.S., Brazil and elsewhere, world oil demand would increase and so would the price. Taking the 10 percent figure as a conservative estimate and a national average gasoline price of $3.50 per gallon on the roughly 145 billion gallons of gasoline consumed in the United States every year, ethanol is saving the consumer more than $50 billion in lower fuel costs.

Summary

In summary, there is no short-term answer to this complex situation. Domestically, the spiraling cost of natural gas and crude oil are having a major impact on production costs for farmers, ranchers, and the entire food production chain. Action must be taken to reduce our reliance on foreign sources of fuel. Development of domestic oil and gas reserves, a continued commitment to biofuels and development of renewable resources must be part of the solution. On the broader front, while there are domestic ramifications, the overall food price problem is global and requires global solutions.

Countries must be discouraged from placing embargos on exports, which only result in escalating prices. Investments in agricultural research and infrastructure will play a critical role increasing agricultural production. Markets must be given time to adjust to growing demand and be allowed to stabilize.

In the short-term, food aid, agricultural assistance and market calm can help us through this difficult time. We are committed to assuring an adequate, safe and affordable food supply. AFBF will work with humanitarian groups to seek assistance for those in need. American producers will continue to provide food for the U.S. and for growing demands around the world. The situation we face today has been building over a long period – it will not be resolved by politically expedient solutions but must be addressed in a thoughtful and comprehensive manner.

Statement for the Record from
David Cleavinger, President, National Association of Wheat Growers
and
Ron Suppes, Chairman, U.S. Wheat Associates
to the
House Small Business Committee
Hearing to Examine "Food Prices and Small Businesses"
May 16, 2008

Madam Chairwoman and Members of the Committee, we appreciate the opportunity to submit these comments on the causes and effects of rising commodity and food prices. We are sensitive to the concerns from bakers and consumers that rising commodity prices have affected the prices they pay for raw goods and food in the grocery store, but we also think it's important to consider the issue from the perspective of the farmer who produces the commodity. This is especially salient for your Committee, since the vast majority of commodity producers are themselves part of small businesses.

What Has Caused Wheat Price Increases?

The historically high wheat prices we have seen recently are the result of a combination of factors including:

- Strong competition for acres among crops in an environment where wheat is losing competitiveness.
- Production problems including poor weather conditions in many wheat growing regions worldwide including the U.S., Australia and parts of Europe.
- Global consumption exceeding production seven of the last eight years.
- Increased world demand for food, especially high quality food including wheat products, from both larger world populations and a rising middle class in developing countries.
- Domestic stocks at 60-year lows and world stocks at 30-year lows.
- A weak dollar promoting increased exports from the U.S., which is the world's largest wheat exporter and sells about half of its wheat crop overseas in a typical year.
- Export restrictions by some countries, which have curtailed the world's access to wheat.

Wheat competitiveness, highlighted in the first bullet point above, has been a particular concern for the wheat industry for a number of years. The decline in wheat acres in the United States is not a recent phenomenon spurred on by biofuels, as many would suggest. On the contrary, wheat acres have been declining steadily for decades; plantings are about 30 percent lower than in the 1980s.

Perhaps the largest single reason for this change is that the availability of technology, including biotechnology, in competing crops like corn and oilseeds has raised the opportunity cost of growing wheat. From the perspective of a grower, this means that the wheat market has to pay more to encourage plantings. The wheat industry agrees with some in the milling and baking industries who have said that the entire wheat chain is paying a huge cost for our failure to adopt new technology, like biotech traits.

Starting in 2006, NAWG and the North American Millers' Association have led a series of "Wheat Summit" discussions with stakeholders throughout the wheat chain, including producers, millers and bakers, to discuss and find solutions to the competitiveness problem facing domestic wheat production. NAWG and U.S. Wheat Associates are actively working to create a market environment in which biotech traits in wheat are beneficial to producers, users and consumers.

What Impact Does This Have on Consumers and Food-Reliant Small Businesses?

Wheat, like any commodity, makes up a very small portion of a finished food product; the Department of Agriculture says that only 20 percent of food costs are achieved by the farmer, while the other 80 percent go to manufacturing, labor, packaging, transportation and marketing.

A couple of examples illustrate the impact of increased commodity wheat prices on the prices of common wheat-based products:

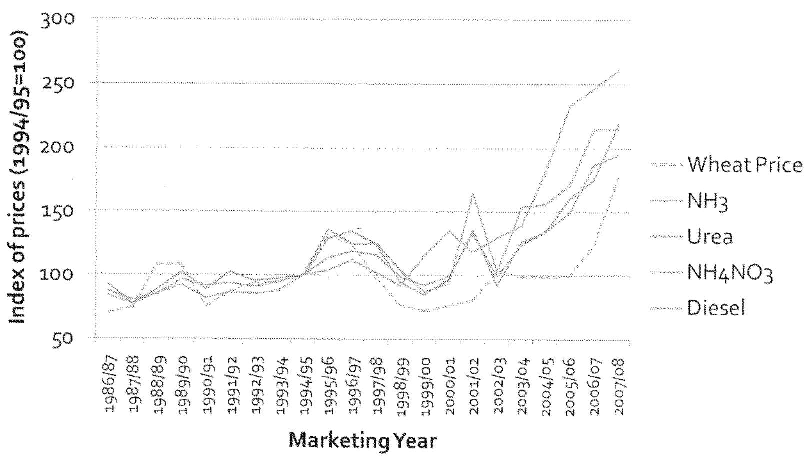
- Wheat consumption in the U.S. is around 200 lb./person/year, which is three and a third bushels. Even at $12, then, commodity wheat consumption costs each American, on average, less than $40 per year or about 10.8 cents a day. At $8 per bushel, which is the approximate range during the time this testimony was being written, commodity wheat consumption would cost each American an average of $26 per year or 7.2 cents per day.
- On average, a baker can make about 70 one-pound loaves of white bread out of a bushel of wheat. At $4 per bushel, that makes the commodity wheat portion of a loaf worth about six cents; at $8 per bushel, about 11 cents; and at $12 per bushel, about 17 cents.
- In the case of pasta, the numbers are roughly the same. The actual cost of durum in a one-pound package of pasta, even at today's higher prices, is still only 20 to 30 cents of the $1.50 per package cost paid by the consumer. About a year ago, this was roughly 12 to 15 cents.
- Raising the price of a cookie by 1 cent would cover a $9 per bushel increase in the price of wheat.

Though the numbers in these examples can vary slightly, they all point to the same reality – increased commodity prices, and specifically increased wheat prices, are not solely responsible for the prices increases we have seen in grocery stores.

What Impact Does This Have on Farmers?

While increased wheat prices are certainly a positive development for wheat farmers in general, the reality on the ground is not rosy for everyone. The vast majority of wheat producers didn't achieve sales at record highs because they had existing contracts that required delivery or had already sold to service debts. Though it's not being reported in the media, wheat futures are down a third from winter highs, with hard red spring wheat, a premium product of the Northern Plains, down by more than half. The decline in prices was not an unexpected market function; short supplies and continued demand typically does and has spurred increased plantings, bringing lower prices on the expectation of bigger crops.

At the same time, the cost of producing wheat continues to rise, with input prices in some cases double what they were just last year (see chart). USDA's Economic Research Service estimates that the total cost of producing an acre of wheat will be around \$230-\$250 in 2008 and 2009 (\$5.75 to \$6.25 per bushel at a 40 bushel yield), versus \$175.63 in 2002 (\$4.39 per bushel at a 40 bushel yield).



In addition to rapidly rising input costs, which necessarily increases risk as growers borrow more to put the crop in the ground, producers are also facing unprecedented market volatility. Trading limits for wheat have been modified a number of times in recent months to allow the wheat market to move as appropriate, but this also allows the wheat market to move within a much wider range than has been historically possible. Higher prices have increased margin calls for those trying to hedge risk in the commodity market, putting stress on local elevators and, thus, farmers, who may no longer have the ability to forward contract with a local facility. Additionally, massive influxes of money from investors who never plan to take possession of any commodity have affected market movements. NAWG detailed these concerns in comments to the Commodity Futures Trading Commission, available at:

http://www.wheatworld.org/pdf/Commodity%20Futures%20Testimony.pdf

What Should We Do?

As calls for action to counteract high commodity prices increase, the wheat industry has consistently emphasized the need to allow the market to work as intended. Previous cycles have proven that global wheat production will assuredly expand in response to higher prices, and evidence of that is already being seen; USDA has forecast U.S. wheat production will be up 16 percent from 2007/2008 and world wheat production will be up 8 percent from 2007/2008 to a record 656 million tons, assuming no serious weather or other production problems.

The fact is U.S. wheat production far exceeds domestic demand. Half of our annual production is purchased by countries that cannot grow enough for their own people, and many wheat producers depend almost entirely on overseas customers. Wheat growers believe we should allow the market to do its job and not attempt to interfere by managing or restricting access to supplies, which could have devastating consequences that ultimately lead to even shorter supplies in the future.

We would like to take this opportunity to address three specific proposals that have emerged in an effort to decrease pressure caused by increased commodity prices.

1) *Restricting exports.* Many in the baking industry have asked the government, specifically the Department of Agriculture, to intervene in the wheat market in a way that would curtail exports. The U.S. wheat industry publicly and wholeheartedly supports fair and open trade of wheat throughout the world and has unequivocally opposed this request for a number of key reasons:

- An ill-timed market disruption, even a temporary one, could dramatically undermine the economic incentive to produce more wheat, exactly the opposite of what the milling and baking industry needs to reduce costs.
- Any export curtailment would also unfairly penalize farmers who can only grow wheat or sell exclusively into export markets at a time when their production costs are rising dramatically.
- Some of the loyal overseas buyers of U.S. wheat – relationships that have taken decades in some cases to cultivate - would begin seeking alternatives to the supplier they have come to rely on, hurting the U.S. wheat producing industry for years to come.

2) *Allowing growers with land in the Conservation Reserve Program to be released from their contracts early without contractual penalties.* The wheat industry also opposes any release of acres from the Conservation Reserve Program without contractual penalties. When CRP contracts are up for renewal, landowners will be able to make a choice between renewing CRP contracts and bringing those acres back into production in a market environment that exists at that time. There is also no guarantee that any acres released from CRP at any time will go into wheat production.

3) *Modify the renewable fuels standard (RFS) approved late last year.* The wheat industry was supportive of the increased renewable fuels standard as it moved through the legislative process last year and remains supportive of this mandate, which will help the continued development of a renewable fuels industry in the United States. While corn ethanol has received a lot of criticism as commodity and food prices have gone up, the commodity corn, like wheat, makes up a very small amount of the cost of any final food product. It is also important to note that field corn, used for ethanol and animal feed, is a different crop than sweet corn, a vegetable used for human consumption. Additionally, the ethanol production process yields byproducts that can be used for animal or human consumption; a 56-pound bushel of corn used in the dry mill ethanol process yields 18 pounds of distillers grains, a good source of energy and protein for livestock and poultry, while a bushel of corn in the wet mill ethanol process creates 13.5 pounds of corn gluten feed and 2.6 pounds of high-protein corn gluten meal in addition to corn oil used in food processing.

It is also important to take into consideration the extent to which soaring energy prices have affected all aspects of food production. Farmers, of course, are facing fertilizer prices that are doubling year-over-year and diesel now more than $4 per gallon. Increased energy costs have affected the cost of transportation of inputs to the farm and of the commodity away from the farm, of processing, marketing and transportation to the final market. Economic analysis shows that, without ethanol, oil and gasoline prices that affect players throughout the food chain as well as consumers could be as much as 15 percent higher; the Renewable Fuels Association told Congress recently that because ethanol is replacing gasoline in the marketplace, removing 4.5 billion gallons of ethanol would increase gasoline prices in the short term by up to 31 percent.

Though wheat grain is not typically used for ethanol purposes in the U.S., NAWG has been a strong advocate for policies that would spur commercialization of cellulosic ethanol, often referred to as second generation ethanol, which could be made from wheat straw and other agricultural residue. The wheat industry shares the concerns of many others in the renewable fuels community that removing or modifying the RFS at this point would decrease the incentive for the industry as a whole to grow and stall progress toward a full-fledged renewable fuels industry, proving detrimental to our national security and farm economy while not appreciably improving the food price situation.

Conclusion

Wheat growers understand the concerns of millers and bakers facing increased wheat costs and of consumers in the grocery stores facing increased food costs. However, the agricultural market is historically very cyclical and, with increased input costs that are outpacing increases in futures prices, wheat growers also have concerns related to commodity prices. Wheat growers believe that allowing farmers to respond to signals from the marketplace is the correct approach to dealing with rising commodity prices, a position that is supported by the decrease in wheat futures prices by one-third or more in recent months.

STATEMENT OF THE AMERICAN BAKERS ASSOCIATION

PREPARED FOR THE HOUSE COMMITTEE ON SMALL BUSINESS

May 15, 2008

"High Food Prices and Small Businesses?"

American Bakers Association
The Voice of the Baking Industry Since 1897

1300 I Street, NW Suite 700
Washington, D.C. 20005
(202) 789-0300
www.americanbakers.org

I. INTRODUCTION

The American Bakers Association (ABA) thanks the House Committee on Small Business, Chairwoman Velazquez and Ranking Member Chabot for holding this critically important hearing on the impact of high food prices on small businesses. ABA greatly appreciates the opportunity to present its views to the Committee.

The ABA is the national trade association that serves as the principal voice of the American wholesale baking industry. Its membership consists of more than 200 wholesale bakery and allied services firms. These companies are a variety of all sizes, ranging from family-owned enterprises to companies affiliated with Fortune 500 corporations. Together, these companies produce approximately 80 percent of the nation's baked goods. The members of the ABA collectively employ tens of thousands of Americans nationwide in their production, sales and distribution operations. The ABA, therefore, serves as the principal voice of the American wholesale baking industry.

II. COMMODITY CRISIS

ABA is extremely concerned about high food prices and low commodity stocks in the United States and around the world. Wheat availability has sharply decreased while prices have dramatically increased since the last quarter of 2007. This has happened for multiple reasons, including increases in the standard of living resulting in greater consumption of grains and meat, the devaluation of the dollar, adverse weather events (such as the 2007 Australian drought), programs that encourage farmers to take their land out of production and the increased demand of alternative fuels production. While there is little that can be done regarding adverse weather and the weak dollar, ABA believes

Congress and the Executive Branch can take action to help alleviate the current volatile situation.

The Conservation Reserve Program (CRP) takes viable acres out of production by offering farmers incentives not to produce crops on their land, while the ethanol program encourages farmers through special subsidies and incentives to grow food crops for alternative fuel purposes. This combination of tightening supplies of finite arable land, coupled with increased incentives for biofuels, has played a key role in igniting the current commodity crisis.

The USDA projects that U.S. wheat production is expected to increase, but any increase will be "more than offset by increased use and trade prospects" and that "global ending stocks of wheat are projected to be the lowest in 30 years." In past years, U.S. wheat surplus stocks have averaged a three-month supply. Today, these wheat stocks are dangerously low. Current estimates have wheat stocks at twenty-four days, over two-thirds lower than average supplies. For example, hard red winter (HRW) wheat stocks-to-use ratio (carryover stock for any given commodity as a percentage of the total demand or use) is estimated at 10% at the end of the 2007/08 crop year. This means that when the wheat marketing year ends, the U.S. will have roughly between twenty-four and twenty-five days worth of wheat supply, spread out in every stage of production, from the farm to the bakery. The last time levels were this low was in 1946, when the United States exported much of its wheat crop to war torn countries in Europe and Asia. Low commodity stocks in the U.S. leave too much to chance, as even a slight weather or transportation problem could lead to even more serious worldwide food shortages

Recently published USDA reports project that wheat plantings for the 2008 crop year have dramatically increased for this next crop cycle – these reports forecast that wheat plantings will increase by over 4 million acres. While wheat plantings are projected to increase over this next year, it should be noted that USDA projected a similar positive outlook in April 2007, but over Easter weekend last year a heavy freeze hit the wheat belt, devastating much of the anticipated crop. Just as with last year, ABA is more concerned with what is actually harvested and entered into the market for use, not what is planted. Thus far this year there has not been a spring frost, but an early freeze last fall which impacted timing of crop plantings and recent torrential rains coupled with possible future adverse weather conditions could greatly diminish the anticipated harvest this summer.

III. IMPACT ON FOOD

Food prices have dramatically increased during the first quarter of 2008. In 2007, food inflation rose 4.9 percent, two percent above average. From January to March 2008, grocery food prices rose 5.3 percent. Cereal and baked goods are part of this inflation, as prices for these products increased 15.7 percent during this same period.

Unfortunately, ABA has reason to believe this is not the end of high inflation for food products. The prices of many food products, including baked goods, do not yet reflect show the impact of increased ingredient and other input costs. For example, a bakery may enter into a contract to purchase wheat flour for $50 per 100-pound bag, but may not pay for the flour until it is delivered, which could be three to four months from the date of contract. This means that baked goods purchased today may reflect input prices from three months ago; higher wheat prices today will translate into higher bread prices three months from now. This is important to note as grocery food prices are rising due to high prices paid for input costs in January and February 2008. Input costs in February and March reached record highs, which may indicate that consumer prices for food will also continue to reach new records.

IV. CAUSES AND SOLUTIONS

ABA strongly believes that Congress and the Executive Branch should carefully consider the needs of consumers and the domestic food industry when supplies of wheat and other commodities drop to dangerously low levels. Not doing so places unnecessary risk on the U.S. food supply as well as undue burdens on consumers. Low commodity surplus stocks in the U.S. leave too much to chance, as even a slight weather or transportation problem could lead to possible serious global food shortages and could create homeland food security issues.

It is important to note that there is no one quick fix for the current commodity crisis. ABA believes, though, that steps can be taken to help stabilize commodity markets, give wheat users increased confidence about supply availability, and most importantly, provide some relief for consumer concerns about escalating food prices.

Food for Fuel: A Need for Balanced Policy

Ethanol as a gasoline additive is currently being used in the United States to increase gasoline's octane thereby improving vehicle efficiency and power. The nation's ethanol industry relies almost exclusively on corn-based ethanol to manufacture this "renewable fuel." Ethanol currently constitutes only a small fraction of the United States' fuel supply, but domestic production capacity has more than doubled since 2001. This trend is likely to continue as the 2007 *"Energy Independence and Security Act of 2007"* (Act) is implemented. The Act mandates new requirements for production of biofuels to 36 billion gallons in 2022 from 7.5 billion in 2012. By 2022, approximately 15 million gallons of the 36 billion will come from corn-based ethanol.

This has the potential to continue impacting the nation's commodity stocks and consumer food prices. USDA stated in January 2008 that the nation's 2007 corn crop was one for the record books, with 13.1 billion bushels of production eclipsing the previous high, set in 2004. Further, if projections are correct and there is an increased demand for corn-based ethanol, other grains, including wheat, may be in short supply.

Unfortunately, the baking industry is already experiencing adverse consequences from the ethanol program, as their ability to continue bringing cost-effective products to the marketplace has been dramatically hindered because of fuel crops taking land from food crops. Furthermore, recent studies show that biofuel mandates will increase overall food prices by 7 percent in 2008 and 8 percent in 2009. In contrast, if a moratorium on the corn-based ethanol program were to be implemented today, it may decrease corn prices by as much as twenty percent and wheat prices by as much as ten percent.

Concerns remain that the 2007 Energy Bill will do little to change the nation's immediate fuel and energy challenges in the next three to five years while exacerbating the current commodity crisis. For example, even if the entire U.S. corn crop were used to make ethanol, it would only replace 7 percent of national oil consumption. Taking food crops and turning them into fuel will not lead to U.S. independence from foreign fuels, but may lead to extremely tight food supplies, higher grocery store prices for all consumers, and dependence for food commodities from foreign countries – a position of concern with regard to food defense and national security.

Policy Solution:

There are two policy alternatives to the current ethanol program which will help alleviate the commodity crisis.

First, ABA and its members call on the Environmental Protection Agency, in consultation with the United States Department of Agriculture and the Department of Energy, to waive renewable fuel standards until domestic supplies are adequate to meet standards. As most agricultural food stocks are at or nearing record lows, it is imperative that the ethanol program be postponed until food stocks are adequate to provide nutritious, low cost products to consumers and allow for further exploration and creation of alternative fuels. This will also require that Congress re-evaluate the corn-based ethanol program and include a clear mechanism to periodically evaluate the nation's grain situation, allowing for future waivers in cases of projected food shortages or drastic consumer price increases, adverse weather conditions leading to low commodity stocks, environmental challenges, infrastructure bottlenecks or other adverse consequences stemming from the current ethanol program.

Second, ABA urges Congress to eliminate the domestic corn-based ethanol blender's credit as well as the ethanol import tariff. While it is important to work towards decreased U.S. dependence on foreign sources of oil, doing so at the cost of the food supply endangers consumers across the nation. Eliminating, or at the very least, temporarily waiving these credits and tariffs will send important market signals to commodity producers that more food crops must be grown to meet demand. Incentivizing ethanol production in order to meet current mandates does not allow the market to react accordingly to increased food demand

In summary, ABA supports increasing the use and development of non-food based alternative fuels to improve the nation's energy efficiency, but such policies should ensure a balance between alternative fuel production and the ability to provide consumers with reliable and affordable food products.

Availability of Agricultural Commodity Acreage

ABA is highly concerned over current and future wheat availability and the impact of high wheat prices on wheat users, including consumers. A major contributor to the dangerously tight wheat supplies is the increasing pressure on finite arable farm land in the US, as competition for land has increased due to ethanol mandates and general commodity demand.

Wheat plantings have tumbled by over 20 percent in the last 25 years, and the U.S. now harvests fewer wheat acres than it did in 1898, while corn acreage has increased by over 12 percent. In most years, US production of hard red spring wheat for bread is insufficient to meet total usage. Bakers and other food producers are experiencing critical difficulties in obtaining flour, the key ingredient in not only baked goods but other foods as well.

At the same time, the USDA allows up to 39.2 million acres of crop land to be enrolled in the Conservation Reserve Program (CRP), with 34.6 million acres of US cropland currently left idle within the program. A significant portion of CRP acreage is located in large wheat producing states. There is reason to believe that as much as one-third of acres under contract in the CRP could be returned to production without sacrificing environmental standards, since much of this land is not environmentally sensitive.

Policy Solution:

ABA has held numerous meetings over the last eight months with Congress, the USDA and the White House to express our mounting concerns regarding wheat availability.

ABA continues to call on the USDA Secretary to immediately use his authority to waive penalties for farmers wishing to follow market signals and return land retired through the CRP to production. In this regard, an Environmental Impact Statement (EIS) may be required prior to USDA action to grant early outs from CRP contracts. Since this step could take months to complete, ABA is urging USDA and the White House to begin work immediately on this project and to give it high priority status.

ABA also strongly supports decreasing the total acreage allowed within the program by one-third. This compromise will continue to protect environmentally sensitive lands, increasing the focus of the CRP to lands that should be protected, such as waterway filter strips and similar areas, while at the same time allowing farmers to return to production viable lands that can be used to meet current commodity demands.

V. CONCLUSION

ABA and its members applaud the House Committee on Small Business for holding this hearing regarding the impact of high food prices on small businesses. The current commodity crisis greatly impacts small businesses, including bakers, and makes it more difficult for American families to put food on the table. ABA believes implementing these changes to our current energy and agricultural policies as outlined in this statement above will not only allow the market to correct itself, but more importantly, will ease concerns regarding the potential growing threat of food shortages.