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

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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

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[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.

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[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 <u>less than half of a penny</u> 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.