Written Testimony

of

Geoffrey Tracy
Chef Geoff's Restaurants

for the hearing

Food Prices and Small Businesses

before the

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Committee on Small Business

on behalf of the

National Restaurant Association

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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.