



Statement of the
National Council of Chain Restaurants

submitted to the
**U.S. House Committee on
Energy and Commerce, Subcommittee on Energy and Power**
for its hearing on
“The Renewal Fuel Standard – Implementation Issues”
held on

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Robert J. Green
Executive Director

On behalf of:
National Council of Chain Restaurants
1101 New York Avenue, N.W., Suite 1200
Washington, D.C. 20005
(202) 783 –7971
www.nrf.com/nccr

On behalf of the National Council of Chain Restaurants (NCCR), I submit this statement for the record for today's hearing, "The Renewable Fuel Standard – Implementation Issues." NCCR's interest in the RFS stems from the well-documented correlation between the statute's conventional biofuel mandate, which is met largely through corn-derived ethanol, and the associated increase in volatility of food commodity prices since the law's inception in 2005. We are pleased that the Subcommittee is holding its first hearing on this important subject in the 114th Congress. However, since the witness panel does not include stakeholders representing American's food chain, the following information is intended to provide helpful information about the RFS' dramatic impact on food commodity costs.

NCCR's member companies, which include the country's most well-known brands representing tens of thousands of individual small business franchisees, began observing consistently higher costs for beef, chicken, pork, dairy products and soy oil soon after the RFS was first implemented in 2006. The resulting higher prices posed a severe and sustained economic burden for chain restaurant franchisees - small business men and women across the U.S. who employ millions of Americans and who contribute to the economies and social fabric of their local communities.

NCCR commissioned a study from PricewaterhouseCoopers which examined whether the RFS contributes to higher prices across a range of food commodities and, if so, the magnitude of those higher prices. PwC found that the RFS's conventional biofuel mandate would raise commodity costs for the chain restaurant industry, which is but one segment of the overall restaurant sector, by \$3.2 billion per year, every year the RFS remains in effect. As you know, the statute includes a schedule of pre-established biofuel volumes, which the Environmental Protection Agency (EPA) is charged with implementing, subject to its discretion within narrow bounds, through the year 2022. After that year the EPA is authorized to administer the RFS program at its own discretion and without the direction of Congress and may continue to do so indefinitely.

For an individual chain restaurant franchisee, PwC concluded the RFS imposes an annual cost of approximately \$18,000, per restaurant location. So, for example, if a franchisee owns more than one restaurant location, as is sometimes the case, the RFS' cost in higher food commodity prices can multiply very quickly. Moreover, the PwC study's estimates were conservative in nature, and NCCR member companies have conducted their own analyses based on their own menus and purchasing patterns and have concluded the annual cost is typically much higher. Finally, the PwC estimates were prospective only, from 2015 onward, and did not factor in the cumulative higher costs that resulted between the years when the RFS was first implemented in 2006 and 2015. This nine-year span likely encompassed a cumulative \$30 billion in excess food commodity expenditures that would not have occurred in the absence of the RFS mandate.

NCCR collaborated with other food industry stakeholders, including dairy, poultry, and livestock producers, distributors and other interests in the food supply chain which also experience severe feed and food cost volatility from the RFS to form a coalition, RFS Off the Menu, which seeks legislative repeal or significant reform to this flawed statute.

Moreover, knowing that the negative consequences of the RFS extend well beyond food cost considerations and include concerns about the RFS' impact on the environment, land use, boat, car and motorcycle engines, economic competition and a host of other considerations, NCCR is part of a broad-based and diverse coalition of "strange bedfellows" representing all those who are harmed by this damaging mandate.

At some point in the future, alternative forms of biofuel which are not derived from human and animal feedstocks might be produced on a commercially-viable scale. However, those days have not yet arrived. Until then, the extreme volatility and general upward trend in food commodity costs caused by the RFS will continue. The increased costs to the food chain will have to be paid as long as the policy remains in place.

In exchange for alleged benefits which the events of past decade have disproven, the RFS ethanol mandate effectively requires American consumers, and everyone who operates a business in the food supply chain, to pay a tax on the food they purchase. However laudable the mandate's intended goals, its downsides outweigh any possible benefits.

The chain restaurant industry isn't anti-ethanol. We simply believe it is time for the ethanol industry to stand on its own, as restaurant owners and operators do every day. In fact, we recognize that if the RFS were repealed tomorrow, there would still be a robust market for ethanol as an oxygenate and octane booster in gasoline fuel. But the existence of the mandate prevents the market from being able to adjust to supply and demand forces during supply shocks in the corn market, such as droughts, floods or other adverse weather events. Congress should pass legislation to repeal the misguided Renewable Fuel Standard corn ethanol mandate and allow the free market to allocate corn to its most highly valued use at all times. The RFS is a government-imposed mandate which distorts the free market and results in negative consequences for the food supply chain.

Chairman Bob Goodlatte (VA) is the primary sponsor of two bills which attempt to address the problems created by the RFS. H.R. 703 would repeal the RFS entirely and it is cosponsored by over 80 members of Congress. H.R. 704 would excise the RFS' most onerous and damaging provision, the conventional, corn ethanol mandate, while leaving in place the mandate for advanced biofuels which are not derived from edible feedstocks. The latter bill is cosponsored by a bipartisan list of over 50 members of Congress. The Committee should consider one or both of these bills in the coming weeks.

Attached are several documents which illustrate the RFS' impact on chain restaurant small business franchisees, the food supply chain broadly, and the diverse collection of stakeholders calling for legislative action on the RFS.

Thank you for this opportunity to submit this statement for the record.

Support H.R. 703, H.R. 704,

THE GOVERNMENT CORN ETHANOL MANDATE RAISES FOOD COSTS FOR SMALL BUSINESSES.

ANNUAL WHOLESALE PRICE INCREASES FOR BEEF, PORK AND CHICKEN¹



Because of the Federal Renewable Fuel Standard (RFS), the rate of wholesale food inflation in beef, pork and chicken has skyrocketed. Due to fierce competition, challenging economic conditions and consumer demand, small business chain restaurants are hesitant to pass on these higher wholesale costs to the retail consumer.

HOWEVER, THE CORN ETHANOL MANDATE COSTS CHAIN RESTAURANTS

\$3.2 BILLION EVERY YEAR²

This means fewer restaurants, lost jobs and higher menu prices. Visit RFSOfftheMenu.org.

TELL CONGRESS:

Repeal the RFS Corn Ethanol Mandate!

Support H.R. 703, H.R. 704, S. 577 and S. 1584.

¹U.S. Bureau of Labor Statistics Beef & Veal PPI, Pork Products, and Processed Poultry PPI (Dec-Dec not seasonally adjusted); 2001-2007; 2008-2014

²PWC 2012 Federal Ethanol Policies and Chain Restaurant Food Costs

What Diverse Stakeholders Say About the RFS

From ActionAid USA

- Food-based biofuel mandates undermine food security and increase hunger globally by contributing to increased food prices.
- Ensuring access to food means having the ability to pay for it. Since poor people in developing countries already spend a large amount of their income on food – in some places as high as 80 percent – even small changes in price can make a big difference in their ability to feed their families.
- Secure land tenure or ownership is critical to small family farmers' ability to feed themselves and their families. Demand for food-based biofuels also drives up demand for agricultural land, which leads to these farmers being kicked off their land.

From the American Highway Users Alliance

- Many drivers are concerned about the damage to vehicle engines from fuels with ethanol blends higher than 10%. For some vehicles, higher blends could void warranties and require consumers to pay out of pocket for engine replacements.
- Exceeding the "blend wall" could sharply inflate the cost of Renewable Identification Numbers, which could lead to higher prices for both gasoline and diesel. Drivers should not have to pay for a RIN scheme that few understand and benefit speculators and the ethanol industry at the expense of the public.
- Ethanol reduces fuel efficiency. Drivers should not be forced to put fuel in their vehicles with higher ethanol content that will further reduce their vehicles' fuel economy -- forcing drivers to fill-up their tanks more frequently.

From the American Motorcyclist Association

- The AMA opposes the further distribution of E15 in the marketplace, because it can damage motorcycle engines and fuel systems and may void manufacturers' warranties. In November, the U.S. Environmental Protection Agency issued Renewable Fuel Standard volume requirements that require more high-ethanol blended gasoline in the marketplace. That move increases the risk of inadvertent misfueling for motorcyclists and all-terrain-vehicle owners.
- The practical effect of the EPA's action is that more E15 and less E10 on the market. And, there will be a substantial reduction of E0, which is crucial to the safe operation of popular older and vintage motorcycles.

From the American Sportfishing Association

- The American Sportfishing Association, which represents sportfishing manufacturers, retailers, wholesalers, and angler advocacy groups, urges Congress to reform the Renewable Fuel Standard (RFS) as soon as possible.
- About half of all anglers (~23 million people annually) use a boat while salt or freshwater fishing. Motorboats are essential equipment to anglers because they provide access to fishable waters that they would not have otherwise. At the same time, safety while operating a motorboat is of utmost importance, and the ethanol mandate in the RFS has compromised that protection for consumers.

- The RFS has catalyzed the expansion of ethanol in fuel to a dangerous level. Known as E15, this significant increase in ethanol is destroying marine engine durability, performance and emissions, voiding warranties and leaving anglers and boaters stranded on the water.

From the Association of Kentucky Fried Chicken Franchisees

- Since the RFS was implemented in 2005 and expanded in 2007, the restaurant industry has faced unprecedented food cost volatility and escalating inflation as more land has been diverted away from producing food to produce biofuels.
- Last fall the EPA was expected to provide businesses impacted by the RFS with some relief. However the EPA failed to act so now Congress must show leadership and put an end to subsidizing corn prices through the misguided RFS.
- These higher ingredient costs have led to substantial impacts to the restaurant operator as PWC estimates, quick serve restaurant operator costs have risen by \$18,000 per store annually due to the RFS.

From the Competitive Enterprise Institute

- The RFS is a textbook study in unintended consequences, as my colleagues from other organizations amply document. But even if it worked exactly as advertised, Congress should still repeal it. The RFS literally compels one industry to purchase, process, and create a market for another industry's products. That is not the American way.
- To see the anomaly, imagine the shoe were on the other foot. Suppose Congress proposed to enact WVOs (wheat volume obligations) requiring corn farmers to buy, blend, and sell annually increasing quantities of wheat, or IVOs (input volume obligations) requiring them to purchase annually increasing quantities of specific seeds, fertilizers, and farm machinery. The howls from RFS supporters would be loud and furious. And justifiably so.
- The implication is obvious. The RFS is a system of special privilege. It is an affront to our constitutional principle of equality under law.

From the National Association of Egg Farmers

- Ethanol costs 3.5 times as much as gasoline to produce, but contains only 65% as much energy per gallon as gasoline.
- Ethanol burns hotter than gasoline. It collects water and corrodes plastic, rubber and soft metal parts. Older engines and systems may not be able to handle E15 (15% ethanol) or even E12 (12% ethanol) which could also increase emissions and adversely affect engine, fuel pump and sensor durability.
- Corn growers will benefit from a higher ethanol use, however government mandates mean higher prices for corn. Thus, eggs, beef, pork, poultry farmers must pay more for corn-based feed; grocery manufacturers face higher prices for eggs, meat and corn syrup and overall grocery bills go up.

From the National Chicken Council

- Ethanol producers have a market guaranteed by law: the fuel companies are required to buy corn-based ethanol whether they want it or not, or whether motorists want it or not. Food producers have to compete for the corn that's left.

- The RFS imposes biofuel blending requirements that greatly impact the chicken industry, as well as all poultry and livestock production. The impact of the food versus fuel pressure on feedstock has been severe. Since the RFS was enacted, chicken companies have faced \$53 billion in higher actual feed costs due to the RFS.
- During the RFS era, at least a dozen chicken companies have ceased operations – filing for bankruptcy or having been acquired by another company. Today, our industry remains only one drought or flood away from another economic crisis.

From the National Council of Chain Restaurants

- The RFS causes tremendous volatility in food commodity markets, resulting in periodic spikes in wholesale food costs for food retailers like small business chain restaurant franchisees.
- For example, between 2001 and 2007, before implementation of RFS2, the annual wholesale price inflation for beef, pork and chicken was 2.9%, 2.1% and 1.9%, respectively.
- Between 2008 and 2014, however, after full implementation of RFS2, annual wholesale price inflation for these food commodities skyrocketed to 9.3%, 5.5% and 4.1%. These dramatic increases put enormous strain on small business chain restaurant owners who, due to competitive pressures, can't always simply pass on the costs to their customers.

From the National Marine Manufacturers Association

- Introduction of E15 into the marketplace poses one of the greatest threats to recreational boating. E15 is proven to damage marine engines and pose serious human safety, environmental, and technology concerns.

From the National Restaurant Association

- Since its inception, the Renewable Fuel Standard (RFS) has caused food costs to rise, which has severely challenged our nation's restaurant operators and the millions of customers they serve each day. Food costs are a chief concern for the foodservice industry, representing about a third of every dollar in restaurant sales. Repealing this mandate would help to lower these costs throughout the supply chain benefiting small businesses, consumers, and the economy overall. The National Restaurant Association has joined with industry groups in urging Congress to repeal the RFS.
- The Renewable Fuel Standard (RFS) is broken and is failing to achieve its stated goals. By shifting more corn crops to ethanol production and away from food or livestock feed, the RFS is a major driver of increased food prices. Since its inception, food prices have risen dramatically, causing real financial harm to restaurants and foodservice operators across the nation. In fact, a PricewaterhouseCoopers study that examined the effects of the RFS on the chain restaurant industry concluded that the mandate increases costs for chain restaurants on a variety of food commodities by \$3.2 billion annually.
- The National Restaurant Association urges Congress to repeal the RFS to help protect consumers and businesses from food price volatility. We specifically urge members of Congress to support and pass legislation to repeal this harmful policy including H.R. 703, H.R. 704, S. 577, and S. 1584.

From the National Taxpayers Union

- The corn ethanol mandate is a hidden tax on consumers raising the cost of food and transportation, while at the same time harming their boats, motorcycles, and other personal property.
- The Renewable Fuel Standard's mandates distort energy markets, limit consumer choice, discourage innovation and are fundamentally at odds with free market principles.
- The Renewable Fuel Standard is a broken, unworkable policy founded on faulty assumptions about future technologies, consumer behavior, and the economy.
- Until a long-term legislative solution is found, the Environmental Protection Agency and elected officials should bring the ethanol mandate in line with consumer demand and avoid increasing ethanol content in the fuel supply.

From Smithfield Foods

- Smithfield Foods does not support the Renewable Fuel Standard (RFS) program, which requires corn to be processed into ethanol at ever-increasing volumes irrespective of market conditions.
- The RFS diverts grain from food into fuel, artificially driving demand and reducing supply. Over 40% of the corn crop is used to make ethanol – no other industry uses as much corn as ethanol producers.
- Corn is the most important crop for American food producers and consumers. It is the predominant grain in animal feed and constitutes roughly 70 percent of the cost of bringing a hog to market weight.
- An increased cost in corn prices translates to higher feed prices. These higher feed prices not only hurt our livestock farmers, but also the American people, who are paying more for their food as a result.

From the Snack Food Association

- The Snack Food Association supports efforts to reduce the impact biofuels have on food costs, including reforms to the Renewable Fuel Standard. SFA participates in several coalition efforts that push back against the negative impact of the RFS and supports legislation to reform biofuels policy.
- Commodity price increases are caused by an array of factors, from general inflation, to the international value of the U.S. dollar and export demand, to farm production issues related to the severe drought in the Corn Belt in 2012. The U.S. domestic biofuels policy has been another contributor to tight supplies and increased prices. Despite the increase in corn production since 2006, other uses for corn have declined as more corn has been diverted for use in ethanol production. An additional concern exists that because currently there is not enough cellulosic production to meet the advanced RFS mandate, biodiesel could be more heavily relied on to make up the difference.
- It has been more than five years since the RFS was last revised. In November 2014, the Environmental Protection Agency (EPA) proposed to slightly lower the ethanol volume mandate for 2014. This is the first time the agency has recommended decreasing the prescribed volume set by the RFS. While this action was an appreciated first step, additional reforms are needed to fully address the negative impacts the RFS has on the food industry.

Everyone Knows

The RFS is Broken.

It's time for Congress to ACT!

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ActionAid USA



American Bakers Association



American Beverage Association



American Frozen Food Institute



American Sportfishing Association



Associated Builders and Contractors—Florida



Association of Kentucky Fried Chicken Franchisees



California Dairy Campaign



Center for Coastal Conservation



Clean Air Task Force



Competitive Enterprise Institute



Council for Citizens Against Government Waste



Dairy Producers of New Mexico

DAIRY PRODUCERS OF UTAH

Dairy Producers of Utah



Environmental Working Group



Florida Cattlemen's Association



Florida Concrete and Products Association



Florida State Hispanic Chamber of Commerce



Florida Petroleum Marketers and Convenience Store Association



Franchise Management Advisory Council



FreedomWorks



Friends of the Earth



Idaho Dairymen's Association



International Dairy Foods Association



International Foodservice Distributors Association



International Pizza Hut Franchise Holder's Association



Marine Retailers Association of the Americas



Milk Producers Council



National Association of Egg Farmers



National Chicken Council



National Council of Chain Restaurants



National Franchise Association



National Frozen Pizza Institute



National Grocers Association



National Marine Manufacturers Association



National Restaurant Association



National Taxpayers Union



National Turkey Federation



Nevada State Dairy Commission



North American Meat Institute



Northwest Dairy Association/Darigold



Oregon Dairy Farmers Association



Oxfam America



Pennsylvania Food Merchants Association



R Street Institute



Snack Food Association



South East Dairy Farmers Association



Southeast Milk, Inc.



Southeastern Meat Association



Specialty Equipment Market Association



Taxpayers for Common Sense



Taxpayers Protection Alliance



Washington State Dairy Federation



Western United Dairymen

#RFSbroken