



**AMERICAN BAKERS
ASSOCIATION**

Testimony of:

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On behalf of the American Bakers Association

Submitted to the U.S. House Agriculture Committee

Hearing On:

“The Immediate Challenges to our Nation’s Food Supply Chain”

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Chairman Scott, Ranking Member Thompson, and members of the House Agriculture Committee:

Thank you for holding this hearing on “the immediate challenges to our nation’s food supply chain” and for the opportunity to testify today on the unique supply chain challenges that are facing the baking industry. My name is Ed Cinco, and I am the director of purchasing for the Schwebel’s Baking Company.

Schwebel’s Baking Company has been a household name in Youngstown, Ohio since 1906. The Company was founded by Dora Schwebel and has been owned by the family since its inception. Currently, Schwebel’s has a workforce of 800 employees spanning two bakeries along with a dedicated delivery team. Schwebel’s product line includes Hearth breads, traditional white pan bread and buns, as well as variety breads spanning from wheat breads to breakfast breads.

I am testifying today on behalf of the American Bakers Association (ABA), of which Schwebel’s Baking Company is an active member. ABA is the Washington D.C.-based voice of the wholesale baking industry. Since 1897, ABA has worked to increase protection from costly government actions, build the talent pool of skilled workers with specialized training programs, and forge industry alignment by establishing a more receptive environment to grow the baking industry. ABA's membership has grown to represent more than 300 companies with a combined 1600+ facilities. The baking industry employs almost 800,000 skilled individuals, generates over \$44 billion in direct wages, and has an overall economic impact of over \$154 billion.

Today, I will provide an overview of the multi-faceted supply chain disruptions that the baking industry is experiencing currently and what we will be facing in the

future. ABA members want to ensure a continuity for a reliable and steady production and supply of delicious, nutritious, baked goods throughout the country for American families, food service and the USDA's federal feeding programs to ensure food security for all.

Workforce Shortage

Workforce shortages are a critical supply chain barrier the baking industry is facing. The baking industry was designated as essential critical infrastructure by the Department of Homeland Security at the outset of the COVID-19 pandemic. Our workers are essential and when the industry faces a worker shortage, it poses a major threat to the baking industry's supply chain.

Schwebel's baking Co. has not been immune to workforce shortages, we have experienced high levels of turnover due to a need to run 24/7 in order to produce a fresh quality product. In addition to the lack of new employees the aging and experienced workforce are leaving at an alarming rate due to the new issues facing the world. This lack of new trained employees and the loss of experience has put a strain on the current workforce the likes not seen by Schwebel's in its 115-year existence.

The shortage of workers in our sector; means that if we don't have enough workers for our shifts, we are forced to shut down production lines. This results in fewer products being delivered to retail stores and food service including restaurants and institutions. Additionally, many wholesale bakers provide baked goods for the federal feeding programs that include the School Breakfast and Lunch Programs, SNAP and WIC. In the current supply chain hurdle climate, many bakers are turning down additional business as they only have the workforce to run limited production lines – forcing difficult choices on which products to make, and when.

The baking industry is also facing a shortage of drivers. This issue is being felt by many manufacturing sectors, which makes it even more difficult to find and retain talent. The baking industry has one of the largest trucking fleets in the U.S. and is reliant upon drivers to transport our products to the end customer. Further, these workforce challenges are impacting our suppliers. For example, we depend upon specific ingredients and supplies to make and package our products. Some ingredient suppliers are hesitant to take on new business for fear of being unable to deliver their product to the manufacturer, forcing bakers to consider other methods of sourcing thus further increasing the prices of ingredients.

Lastly, the industry is already struggling with retaining and recruiting workforce. ABA members have real concern that the President's COVID-19 Action Plan will only make the workforce situation worse. The baking industry supports the President's goal of getting Americans vaccinated, but we have real concerns on how such a rulemaking will negatively impact our industry's fragile workforce.

ABA is a member of the U.S. Rapid Action Consortium (RAC) whose mission is to safely and effectively reopen the U.S. economy faster through a COVID-19 rapid action testing system to enable U.S. businesses to better create safer workplaces. The Consortium has already seen a significant supply chain strain on members' ability to access COVID-19 rapid tests through these efforts. The logistics of COVID-19 vaccines, booster shots and testing are challenging and with the ongoing workforce shortage, thoughtful and flexible compliance implementation with a vaccine and testing policy will be critical to keeping our bakeries operational.

I am incredibly proud of Schwebel's workforce and the entire baking industry. Throughout the pandemic, we have been hard working and resilient to ensure a steady supply of baked goods for communities across the Nation.

Operational Bottlenecks

The baking industry uses several transportation modes including ports, rails and roads to move supplies and end products to customers. The industry is reliant upon U.S. ports to move freight. The recent bottlenecks at the ports have negatively impacted the smooth flow of trade for both ingredient and supply imports and exports of American products.

ABA is supportive of the move to begin operating ports 24 hours a day, 7 days a week to begin to alleviate this congestion. In the baking industry, manufacturers are operating 24 hours a day. Logistical transport for bakery products is typically done overnight as there is less traffic and so that fresh products can be delivered to customers in the early morning hours.

Additionally, failure to alleviate the port bottlenecks could mean rancid ingredients, rendering these inputs unusable due to excessive delays in transit. For example, soybean oil, a crucial component in many baked goods, has a short shelf life. Recently, a U.S. soybean oil supply crisis has made the U.S. a net importer of this ingredient, forcing U.S. bakers to become increasingly dependent upon imports of this expirable product. If a vessel remains at port for an unforeseeable time, this could make the ingredient unusable. Such a situation could result in halting production of specific products in which the ingredients are essential.

Rail is another mode of transportation that is used by bakers to deliver large quantities of ingredients, such as flour. However, bakers are experiencing issues with

rail as the deliveries are often inconsistent and unreliable. Bakers are experiencing deliveries that are getting stuck at the rail yards. This has led many bakers to consider alternative modes of transportation to ensure delivery of supplies and ingredients.

Lastly, as mentioned previously, the driver shortage creates another barrier to delivering products by truck. Bulk transportation for tank or silo materials is especially short drivers due to the logistical issues associated with a time sensitive delivery. Timing is critical as not to run out or overload the tank or silo at time of delivery and can occur at any time on any day. It is important that these transportation and logistics issues be resolved to ensure the continued reliable and steady supply of baked goods throughout the U.S.

Supply Procurement

Successful baking operations require sourcing of a unique combination of inputs, including commodities, specialty ingredients, packaging, and baking equipment to keep producing merchantable, quality products. Reliable and consistent procurement of supplies under normal circumstances is a complex and difficult task, but when supply chains become unpredictable or slowed, bakeries become highly vulnerable.

Among all inputs, the sourcing of commodities and ingredients are often the largest challenge for baking manufacturers. Depending on the baked goods produced, companies will need a wide array of inputs, such as flour, oils, sugar, spices, gluten, vinegar, etc. Recently, we have seen supply shortages on critically important ingredients such as gluten, emulsifiers, soybean oil, packaging, and printing capabilities for the packaging. Upcoming issues are being projected for Honey Sesame Seeds and Durum Flour which is a main part of the school lunch program. Many of these challenges

directly result from the global disruption of the highly connected global supply chain further exacerbated by COVID-19.

The demand for soybean oil and other vegetable oils has exceeded the current domestic supply. There are several factors influencing the supply availability. The 2020 drought, lower than expected projected plantings in 2021 and the EPA's renewable biodiesel program play a large role in the soybean oil supply crisis bakers are experiencing today. Additionally, non-food use for biodiesel and renewable diesel has expanded greatly and this demand is anticipated to double in the next two years. As a result, economists report that vegetable oil prices have tripled in the past 12 months and that the food sector faces rationing and shortages for the third quarter of 2021 and into 2022. The increase in biodiesel has also reduced the processing capacity available for vegetable oils. Additional capacity is being created but is not projected to go on-line until 2023.

This means for some food companies, edible oil literally will not be available at any price due to diversion of edible oil from producing food to burning as fuel at the end of this calendar year. One solution is for the Environmental Protection Agency (EPA) to use its statutory authority under the federal Renewable Fuel Standard (RFS) program to consider food and commodity prices and impact to the supply chain when setting the 2021 and 2022 Renewable Volume Obligation (RVO) mandates for biodiesel and renewable diesel. Congress gave EPA flexibility in setting targets and intended that EPA transition the program away from burning food, and toward next-generation cellulosic technology using residuals and other non-food feedstocks. EPA has the authority to set the RVO targets at levels that do not disrupt agricultural markets and our food supply.

Another critical issue impacting bakers is the shortage of gluten. The domestic Gluten supply is currently depleted, which means the gluten needed for bread production must now rely on imports. However, the vessel and container shortages coupled with bottlenecks at the U.S. ports complicate the receipt of this critical ingredient. The result was a simple case of supply and demand which forced many suppliers to default on 2021 contract since they simply did not have the necessary volume. The lack of volume caused a bidding war where gluten price more than tripled from their budgeted prices.

The last ingredients I want to discuss are spices and seasonings. These ingredients are typically imported from India. India has been greatly impacted by the COVID-19 pandemic. Workers in India are retreating from crowded industrial areas to rural areas thus impacting the workforce and productivity. There are expected delays for spices, seasoning including, pepper, salt and cinnamon.

Other issues within the supply chain are the lack of available containers to put new product in. The aforementioned bottleneck at the ports is slowing the return of empty containers to the origination point of an ingredient such as the spices and seed coming from India.

The delay or lack of an ingredient could stop operations within a plant, resulting in store shelves going empty and workers being let go. Some bakers can order ingredients and supplies ahead of their normal schedule ensuring deliver of products to customers. Examples of current lead time increases are Emulsifiers (two weeks to eight weeks), Seeds (two weeks to five weeks), Gluten (six-eight weeks), all liquid deliveries (three weeks to assure a driver). Unfortunately, this comes at a cost to the manufacturer, as it takes significant planning, resources and additional onsite or offsite storage

capacity building and carrying costs. ABA Members are reporting that because of the lack of certain ingredients they will no longer be able to manufacture 10-15% of their product line. If the U.S. is unable to alleviate the pressure around the critical baking ingredients, bakers could anticipate less products on store shelves and in food service, as well as those dependent on USDA's feeding programs. Bakers will have to make tough decisions, and this will impact American families.

Food Labeling

The ongoing challenges the baking sector is facing in the supply chain are now creating concerns about our ability to meet regulatory labeling obligations. In January 2021 and as recently as August, ABA expressed concerns to the USDA's Agricultural Marketing Service (AMS) regarding its compliance date for the National Bioengineered Food Disclosure Standard (NBFDS or rule) of January 1, 2022. We recommended the USDA's AMS maintain the compliance date and exercise enforcement discretion for an additional year, January 1, 2023. This is an approach that has worked well for the FDA for food safety and nutrition regulations. However, to date USDA has determined that it does not have the authority to do so without conducting rulemaking.

The supply chain issues have also driven formula changes to specific products. In turn these changes are cause ingredient and nutritional changes adding expense in packaging design.

Additionally, FDA recently released its voluntary sodium reduction strategy guidance that only provides a two- and one-half-year compliance period. Even in stable times, the timeline that bakers had requested with the Agency to reformulate, test, label, market and bring to retail and food service, is four to five years. Bakers have strong

concerns that in the current stressed supply chain environment, it will be extremely difficult, if not impossible, to reach that short compliance goal.

Additional Effects

All the issues discussed above are causing double digit percent price increases that are being passed on to the customers (grocery store, fast food, entertainment venues, schools). The increases are necessary for companies to stay viable for their employees and shareholders. Unfortunately, the end user will see prices go up on the products they need. However, the real concern is access to the commodities, ingredients, and supplies, without that access we can't produce our products. Food security remains our top concern.

Conclusion

The baking industry is facing numerous challenges: workforce, transportation, supply procurement and regulatory requirements, all of which threaten to disrupt the fragile supply chain. The baking industry wants to ensure store shelves, restaurant menus and federal food programs continue to receive the nutritious and delicious baked goods American families depend on to feed their families.

Thank you for the opportunity to testify before the Committee on the supply chain challenges the baking industry is experiencing.