

HOW COVID-19 IS IMPACTING SMALL BUSINESSES ACROSS THE FOOD SYSTEM

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CONTENTS

OPENING STATEMENTS

Hon. Nydia Velázquez	Page 1
Hon. Steve Chabot	3

WITNESSES

Mr. Jimmy Wright, President, Wright's Market, Opelika, AL, testifying on behalf of the National Grocers Association	4
Ms. Kimberly Gorton, President and CEO, Slade Gorton & Co., Inc., Boston, MA, testifying on behalf of the National Fisheries Institute	6
Mr. Rob Larew, President, National Farmers Union, Washington, DC	8
Mr. Collin Castore, Owner, Seventh Son Brewing, President, Ohio Craft Brewers Association (OCBA), Columbus, OH	9

APPENDIX

Prepared statements:	
Ms. Kimberly Gorton, President and CEO, Slade Gorton & Co., Inc., Boston, MA, testifying on behalf of the National Fisheries Institute	30
Mr. Jimmy Wright, President, Wright's Market, Opelika, AL, testifying on behalf of the National Grocers Association	36
Mr. Rob Larew, President, National Farmers Union, Washington, DC	45
Mr. Collin Castore, Owner, Seventh Son Brewing, President, Ohio Craft Brewers Association (OCBA), Columbus, OH	58
Questions and Answers for the Record:	
Question from Hon. Nydia Velázquez to Ms. Kimberly Gorton and Responses from Ms. Kimberly Gorton	64
Additional Material for the Record:	
Food Report	66
COVID Fact Sheet	84
Statement of Jerry Scott	91
Tyson's Foods - A Home Grown U.S. Company	93
Tyson's Foods Fact Sheet	94
Testing Procedures Fact Sheet	95
Tyson Team Members Health and Safety - May 2020	96
Craft Beverage Coalition Submission	98

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WEDNESDAY, SEPTEMBER 30, 2020

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The Committee met, pursuant to call, at 10:03 a.m., via Webex, and in 2360 Rayburn House Office Building. Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Finkenauer, Golden, Kim, Davids, Evans, Schneider, Delgado, Houlahan, Craig, Chabot, Balderson, Hern, Burchett, and Bishop.

Chairwoman VELAZQUEZ. Good morning. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at any time.

I want to thank everyone, especially our witnesses for joining us today for our Committee's hybrid hearing. I want to make sure to note some important requirements.

Let me begin by saying that standing House and Committee rules and practice will continue to apply during hybrid proceedings. All members are reminded that they are expected to adhere to these standing rules including decorum.

During the covered period as designated by the speaker, the Committee will operate in accordance with House Resolution 965 and the subsequent guidance from the Rules Committee in a manner that respects the rights of all members to participate. House regulations require members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, if you have to participate in another proceeding, please exit this one and log back in later.

In the event a member encounters technical issues that prevent them from being recognized for questioning, I will move to the next available member of the same party and we will recognize that member at the next appropriate time slot provided they have returned to the proceeding.

In the event a witness loses connectivity during testimony or questioning, I will preserve their time as staff address the technical issue. I may need to recess the proceedings to provide time for the witness to reconnect.

Finally, remember to remain muted until you are recognized to minimize background noise.

Over the last few months, the outbreak of COVID-19 has led to an unprecedented public health crisis and created a dire economic

crisis for small firms. Three out of four businesses are experiencing a decrease in revenue since March, and over half of small businesses are concerned about being forced to close. Small businesses across the food supply chain system have been impacted.

As social distancing and stay-at-home orders became commonplace, the closing of commercial kitchens put restaurants and workers at the frontlines of the pandemic and the ripple effects hurt small firms across food production, processing, distribution, and retail chains.

Companies that process and deliver food to commercial businesses faced abrupt order cancellations across their entire customer base. Farmers who planted crops and tended livestock for months based on pre-pandemic demands and markets were unable to find processors to sell their products. Fishing boats stayed in port, processors were backlogged, and stopped bringing in materials. Grocery stores struggled to maintain inventory as consumers rushed to buy food for at-home consumption.

Many of the issues facing our food system and society existed pre-pandemic. Now, because of the inability to control the spread of the virus they are made worse. Our nation's food banks were already under pressure—where millions of unemployed Americans turn to feed their families. Sweeping consolidation has left us with far fewer small farms, processors, distributors, and retailers. Large multi-national corporations have received millions in federal support while small businesses continue to struggle to survive.

Essential farm and food system workers on the frontlines, many of whom are immigrants and people of color, still lack basic worker protections despite experiencing high rates of coronavirus cases.

Congress, especially members of this Committee have worked to secure funds to help America's small businesses survive this crisis. The Economic Injury Disaster Loan Program and Paycheck Protection Program (PPP) has helped millions of small businesses and farmers to stay afloat. Along the way we have tried to improve those programs ensuring that minority business owners and rural business owners, who often do not have relationships with national banks, are being served by the PPP program and amending the EIDL program so that small American farm businesses could access the program.

More needs to be done and that is why we are here today. Yes, the PPP program greatly assisted five million businesses but there are approximately 30 million small businesses in the U.S. and they continue to face an uncertain future. In fact, the SBA reports that in May 2020, employment in leisure, hospitality, and foodservice was down 41 percent compared to May 2019. We are still hearing reports of more and more farmers facing bankruptcy.

This pandemic is further highlighting an economy that was not working for everyone. Prior to the pandemic, 40 percent of Americans did not have \$400 in the bank for an emergency, and more than 20 percent of households experienced food insecurity.

In the past 6 months, as millions of Americans are unemployed, Amazon, Facebook, Target, and Walmart stock prices are near all-time highs. This is a tale of two economies. One that is working for Wall Street while main street businesses are left behind. Many small businesses across the food system are still in the difficult po-

sition of figuring out how to pay rent and survive while many have shut down forever. As we work to help assist the American people and America's small businesses, I look forward to hearing from our panelists today about how Congress can address the ongoing challenges facing our food system and how we can further assist in their recovery.

Again, I want to thank the panelists for joining us here today, and I now yield to the Ranking Member, Mr. Chabot, for his opening statement.

Mr. CHABOT. Thank you, Madam Chair.

Since March, our Nation's way of life has been disrupted due to COVID-19. America's food system has been hit particularly hard. Our favorite restaurants were closed. Meat options were low at grocery stores and many essentials were sold out.

Today's hearing will provide much needed context to these experiences because if we better understand the why, we can better prepare for the future.

Our Nation's food system is typically geared to meet commercial demand—restaurants, buffets, and cafeterias, for example—more than retail demand, grocery stores. When our food demand flipped from eating out to cooking at home, businesses along the supply chain had to pivot to survive. Unfortunately, the system did not adjust quickly enough to repackage and distribute fresh produce, milk, and meat originally prepared for commercial use.

We have all made dramatic changes to our everyday lives. Producers along the food supply chain have quickly adopted new direct-to-customer business models. New strategies and services such as online retail or local delivery require significant investments of time and money.

Recently, I had the opportunity to spend some time in Wayneville back home in my district to meet with small business owners impacted by the COVID-19 pandemic. One business owner, Lacie Sims, the owner of Village Family Restaurant, spoke with me about how she utilized the Paycheck Protection Program to keep her 25 workers employed so she could continue to serve the community, and most importantly, those folks who worked for her could continue to support their families. She has quickly adapted her business to accommodate pickup, delivery, and indoor dining.

At this Committee, we understand the power of our Nation's innovative spirit. Now, the rest of the country can see it firsthand. Investments being made by small businesses across the supply chain are creating a more resilient food system for all of us.

I want to thank each of our witnesses who will be sharing their experiences and for being part of our national recovery.

Madam Chair, thanks for holding this hearing, and I yield back.

Chairwoman VELAZQUEZ. Thank you, Mr. Chabot.

I would like to take a moment to explain how this hearing will proceed.

Each witness will have 5 minutes to provide a statement, and each Committee member will have 5 minutes for questions. Please ensure that your microphone is on when you begin speaking and that you return to mute when finished.

With that, I would like to thank our witnesses for taking time out of their busy schedules to join us.

Our first witness is Ms. Kimberly Gorton, the president and CEO of Slade Gorton and Co. She is the third generation of Slade Gorton, a manufacturer and primary distributor of fresh and frozen seafood products.

Our second witness is Mr. Jimmy Wright, the president of Wright's Market, a family-owned independent grocery store that has been innovative in online and mobile shopping.

Our third witness is Mr. Rob Larew, the president of National Farmers Union, which represents family farmers and ranchers across the country.

Finally, I would like to turn it over to the Ranking Member, Mr. Chabot, to introduce our last witness.

Mr. CHABOT. Thank you, Madam Chair.

Mr. Collin Castore is cofounder of Seventh Son Brewing which opened in April of 2013 and its sister brewery, Antiques on High which opened in November of 2018. He developed a passion for American craft beer, especially Ohio craft beer while working in restaurants and bars across Columbus. For the past 6 years, Mr. Castore has served as the president of the Ohio Craft Brewers Association which represents more than 300 craft breweries across the state. I had the pleasure of meeting Mr. Castore during the Brewers Association Virtual Hill Climb in July. I want to thank him for taking time away from his business to be with us here in D.C. today. It is nice to see him and we definitely appreciate it, especially being here in person. So thank you.

I yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot. Thank you all for being here.

I would now like to begin by recognizing Ms. Gorton for 5 minutes.

Ms. Gorton, you might need to unmute.

Ms. Gorton apparently is having some technical difficulties, so we are going to recognize Mr. Wright for 5 minutes.

STATEMENTS OF JIMMY WRIGHT, PRESIDENT, WRIGHT'S MARKET; KIMBERLY GORTON, PRESIDENT AND CEO, SLADE GORTON AND CO., INC.; ROB LAREW, PRESIDENT, NATIONAL FARMERS UNION; COLLIN CASTORE, OWNER, SEVENTH SON BREWING, PRESIDENT, OHIO CRAFT BREWERS ASSOCIATION (OCBA)

STATEMENT OF JIMMY WRIGHT

Mr. WRIGHT. Good morning, Chairwoman Velázquez, Ranking Member Chabot, and Committee members. I am Jimmy Wright, the owner of Wright's Market, an independent grocery store located in Opelika, Alabama. It is an honor to share my experience as a single store food retailer serving on the frontlines of the COVID-19 pandemic.

I am testifying on behalf of the National Grocers Association, the trade association representing the independent supermarket industry.

Wright's Market is a family-owned business. It started as a small convenience store in 1973 and evolved to a 22,000 square foot full-service grocery store.

Independent grocers like me are deeply rooted in the communities we serve. Our Mayor Gary Fuller has allowed me the opportunity to join you virtually from city hall, a testament to the strong support we receive from our community leaders.

To say 2020 has been a challenging year would be an understatement. Since mid-March, independent grocers have experienced sustained and historic levels of demand for grocery and household products. We have had to adapt to large volumes of customers stocking up weeks' worth of food, straining the supply of key product categories like paper, cleaning supplies, and shelf-stable products. Seven months into the pandemic, the supply chain continues to cope with major product shortages.

Throughout the pandemic, we have dealt with significant operational challenges to keep up with demand while working to provide the best environment for customers and employees, including adapting enhanced cleaning measures and using protective equipment.

It has not been easy. I would like to say independent grocers are flying a plane and building it at the same time.

But I want to pause and say thank you to all our dedicated employees who know the importance of our work to the community. We call them our supermarket superheroes.

Although independents are resilient in overcoming operational challenges, we have seen the competitive playing field tilted against us and our largest competitors in the pandemic in several ways.

The first is due to economic discrimination. Inconsistent distribution and apparent shortages of high-demand products is not just a symptom of the current crisis; it is a direct result of a lack of anti-trust enforcement and the dominance of power buyers in the marketplace. Dominant retailers use their size and scale to impose discriminatory conditions on manufacturers and suppliers in a way that disadvantages smaller independents which impedes our ability to compete.

For decades, independent grocers have not had access to pricing, promotions, and packaging deals that are provided to larger firms. Since March, these problems have worsened as power buyers use their market power to demand prioritization to distribution of high-demand products. I have lost access to both popular products and promotional pricing as I have watched my big box competitors continue to sell all products unavailable to me. This has made us much less attractive to customers seeking one-stop shopping in the pandemic.

The effect of buyer power is not only felt by small grocers but it harms consumers that live in rural areas serviced by independents with a strong enforcement of U.S. anti-trust laws ensure our ability to compete for the benefit of all Americans.

The second competitive issue is our limited ability to sell products to SNAP customers online. The pandemic has accelerated ecommerce, a trend we saw coming. Wright's Market lost our ecommerce service in 2016. We were fortunate to have been selected for the USDA SNAP online purchasing pilot which allows customers to use their benefits online and launched in March, just days before national emergency declaration. Unfortunately, the

technical barriers and cost to participate in SNAP online make it difficult for small retailers and has also worked through an extensive application and testing process. Our store remains the only single-store operator to launch.

Meanwhile, Amazon and Walmart have expanded their SNAP online program almost nationwide. Independents need a quicker approval process, less technical barriers, and lower implementation costs to compete. A level playing field is critical to preserving a thriving and vibrant independent grocery sector.

I appreciate your attention to my concerns. Thank you for the privilege to testify today. I look forward to answering your questions.

Chairwoman VELÁZQUEZ. Thank you, Mr. Wright.

Now we recognize Ms. Gorton for 5 minutes.

Ms. Gorton, you need to unmute.

STATEMENT OF KIMBERLY GORTON

Ms. GORTON. Thank you, Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Small Business Committee.

I am president and CEO of Slade Gorton and Company. I am pleased to have the opportunity to appear before the Committee today to discuss how the seafood supply chain has been impacted by the COVID-19 pandemic.

Slade Gorton is a third-generation family business based in Boston. We are one of America's largest seafood processors and distributors and are proud of our record of supplying hundreds of millions of healthy and safe seafood meals to American families for over 90 years.

More than 1.7 million Americans work in the U.S. seafood industry, half a million of whom work in the middle of the supply chain, many for small family-run companies like mine. Without us, the fishermen's bounty would never make it off the docks. We are the vital link that gets seafood from our oceans to your table.

Over two-thirds of our industry's \$150 billion in annual sales come from restaurants and other food service establishments, such as university dining halls, hospital cafeterias, and cruise ships. With capacity limits in place at many restaurants and the closure of many other public eating venues, seafood companies all across the supply chain are at serious risk of failing.

This has left our industry in uncharted waters. We have had to deal not only with billings and lost sales, but also with the job losses that go with such an unexpected downturn. My company alone lost over 70 percent of its business in the immediate weeks following the nationwide shutdown. Many struggling companies rushed to freeze and store product. Some even began selling directly to consumers. Even with that effort, millions of dollars' worth of fresh product that could not be sold or stored had to be destroyed.

And when restaurants moved to curbside pickup and delivery service, seafood did not get its fair share. Fish simply does not travel as well as other meal options.

Even with partial reopenings, restaurant operators are faced with increased costs at a time when many are operating at below

breakeven capacity. All have had to find ways to simplify service and menus and cut food costs, so it is only through ingenuity, resilience, grit, and determination that companies like Slade Gorton have been able to survive thus far.

One of the biggest issues currently affecting the seafood supply chain is related to the large unpaid debts owed to distributors for food that restaurants could not sell during the mandated shutdown.

Now that foodservice establishments are open and working to reopen, they will need to rely on their suppliers to continue to provide credit so they can restock their kitchens. We are now faced with choosing to extend further credit at some risk or abandoning what are in many cases decades-long customer relationships. My company has chosen to stick by our customers because without them we have no future.

We estimate that the seafood industry has about \$2.2 billion in outstanding bad debt in addition to the estimated \$10 billion of bad debt for the larger foodservice community. This is not something that can be absorbed by small business. We need help to fix this.

While my company was fortunate enough to receive a PPP loan which has certainly helped us to rehire our furloughed employees and keep them onboard thus far, I am afraid these funds will not be enough to sustain small businesses through what is a much longer economic recovery than we imagined early on.

If we are going to help the economy get back on track, we need to help small businesses survive this pandemic. Current figures suggest that 25 percent of all restaurants in the United States have closed forever. It is imperative that Congress pass another stimulus bill to include expanding the scope of expenditures that qualify for forgiveness. Allowing restaurants to use funds to pay off their current debt so they can afford to purchase new food and supplies and rehire staff will go a long way toward preventing additional business failures.

Additionally, restaurants, retailers, and all businesses seafood value chain are now faced with increased costs associated with frequent sanitizing, new employee training regimens, retrofitting processing lines, retail spaces, and restaurant dining rooms and providing PPE for employees. These increased yet necessary operational costs are prohibitive as we struggle to adapt.

I urge Congress to consider Federal grants or tax credits to help pay for these critical safety measures. Ultimately, jumpstarting the economy requires continued support for those businesses who drive 80 percent of our GDP, small businesses.

The seafood supply chain is a complex one but one that helps ensure every American has access to this healthy and sustainable protein. We need our government to recognize the seafood community as the broad and diverse system we are. I implore you to act now in support of small business, seafood businesses, and our industry's lifeblood, restaurants. Food is the foundation of health and well-being and is at the center of happiness, human connection, and a vibrant Nation. Our families have fed your families for generations. Our families now need you.

Thank you for allowing me to discuss the impact of COVID-19. Chairwoman VELAZQUEZ. Thank you, Ms. Gordon.

Now we recognize Mr. Larew for 5 minutes.

STATEMENT OF ROB LAREW

Mr. LAREW. Good morning. Thank you, Chairwoman Velázquez, Ranking Member Chabot, and members of the Committee. And thank you for the opportunity to speak today.

As mentioned, I am Rob Larew, and I serve as president of the National Farmers Union. We work to ensure that farm families and their communities are respected, valued, and enjoy economic prosperity and social justice. Thank you for addressing the challenges that farmer and the food system face during this time of crisis and public health in the economy and in our society.

In recent decades, our members have been hard hit by corporate consolidation among companies who sell inputs to farmers and among companies who purchase what farmers produce. This mounting market concentration has been compounded by low crop prices, a global trade war, and increasingly frequent severe weather events.

Since 2012, annual net returns for farmers have trended downward for major row crops due to rising product costs and declining prices for commodities. As the pandemic took hold, consumer demand shifted dramatically with the closure of restaurants, schools, and other institutions. Processing facilities, particularly in the meat sector, were shut down due to outbreaks among workers. At least 370 meat packing plants or one-third of the national total experienced COVID-19 outbreaks as of last week. There were nearly 43,000 cases in the meat packing sector alone.

Supply chains were interrupted and many farmers suffered financial struggles while the price of food for consumers increased.

The U.S. Department of Agriculture prices received by farmers index showed a 6 percent decrease from April through July 2020 as compared to the same period in 2019. Farmers losses have not been passed on to consumers who instead are paying more for food. So far in 2020, the consumer price index for food is 3 percent higher than 2019.

As supply chains adjusted to new consumer demand patterns and processing facilities have largely reopened, problems linger for the farm and food system. The price of corn has been severely affected following demand for ethanol as 40 percent of corn grown in the U.S. is used for biofuel production.

Stay-at-home orders kept Americans off the road and fuel consumption dropped sharply costing the ethanol industry \$10 million in sales. To make matters worse, EPA's broad allowance of small refinery exemptions and an unwillingness to permit higher blends of ethanol have further eroded corn prices.

While the disruptions caused by the pandemic are unprecedented, many of the problems we face are nothing new. The pandemic revealed the fragility underneath our food and farm systems. As farmers, we are optimists and urge policymakers to apply lessons learned this year to address the long-term issues.

In order to be more resilient, we need to build a robust regional food infrastructure. A good start would be stronger anti-trust enforcement from Federal agencies, like the Department of Justice, the Federal Trade Commission, and the U.S. Department of Agri-

culture. Farmers and ranchers need more choices for marketing their crops and livestock. To do this, we need to spur development of small and mid-size processing plants. In the meat industry, an important step in that direction would be the RAMP-UP Act, which was included in the recently revised HEROES Act.

Earlier this year, this Committee helped farm businesses gain access to Small Business Administration Programs. A lingering barrier to access PPP is the requirement to show positive net income because more than half of farms have negative income in recent years. And if you would support H.R. 7175, the Paycheck Protection for Producers Act which would allow farmers with net negative income in 2019 to qualify for the program using gross income instead.

Lastly, pandemic aid efforts have helped farmers withstand the current crisis but future efforts should focus on policy changes to address the causes rather than simply the symptoms of a broken farm economy. One way to do this is through a cost-effective supply management system for farm commodities that would balance production with consumer demand.

Thank you for this opportunity to address the Committee and I welcome your questions.

Chairwoman VELAZQUEZ. Thank you, Mr. Larew.

Now we recognize Mr. Castore for 5 minutes.

STATEMENT OF COLLIN CASTORE

Mr. CASTORE. Chairwoman Velázquez, Ranking Member Chabot, and members of the Committee, thank you for your statements to begin this, and thank you for asking me here to testify today.

My name is Collin Castore, and I am founder of Seventh Son Brewing Company and Antiques on High located in Columbus, Ohio. I also serve as board president of the Ohio Craft Brewers Association, representing 351 breweries in the Buckeye state.

Seventh Son has been producing beer since 2013. In the past 7 years, we have watched our business grow to two locations, around \$5 million in sales, and around 70 employees.

I have always been proud of the fact that for every new job created in beer there are 24 jobs generated in the industries that help us to brew and sell our beer.

Unfortunately, this goes both ways. According to a recent report by the economic firm John Dunham and Associates, 651,000 jobs supported by the U.S. beer industry will be lost by the end of the year due to COVID-19.

Prior to the coronavirus changing our world, Seventh Son sold our beer through taprooms, restaurants, bars, and retailers throughout Ohio. The uncertainty over the past 6 months has made it extremely difficult to continue to run this business. Summer is the busiest time for most breweries and in Ohio we are limited to around 40 percent of our normal capacity and have had a 10 p.m. curfew imposed since May on alcohol sales. Some states have guidelines that have actually made it impossible to operate on-premise tasting rooms and many would welcome Federal guidance and consistency to help with these issues.

The majority of breweries in the United States make the majority of their revenue from taprooms and tasting room sales. Estimates by the Brewers Association suggest that small brewers have seen on-premise sales revenues go down 30 percent since March.

Most breweries get their wholesale revenue from on-premise sales to restaurants, bars, and concern venues which have been severely restricted over the past 6 months. These outlets sold nearly 20 percent of the total U.S. beer volume annually. Their closures resulted in an estimated \$900 million worth of beer that will need to be destroyed.

Data from September shows draft sales still around one-third lower than this point last year.

At Seventh Son, we have our own canning line and some existing relationships that helped us to absorb most of this on-premise volume loss. On March 16th, we began a home delivery business and carryout sales model out of our shuttered tap rooms. These measures were a lifeline but our head is very much still barely above water.

We completed a \$5 million expansion in 2018 and have a wonderful facility but also the debt to go with it. When we sell a can of beer to our distributor, we get \$5 less than when we sell that same can of beer out of our taproom. We built our expansion for future wholesale growth but taproom revenue is absolutely essential to support it.

I am sure you have seen the headlines referencing increased alcohol sales. Those increases must be offset against the massive decline in sales at on-premise channels. The size of the overall pie has not shifted even as the individual slices appear different.

Even with those increases that we have seen in off-premise, the brewing industry is expected to lose \$22 billion in 2020. In addition, the increased demand for cans, both in and outside of our industry, has caused an aluminum can shortage in the U.S.

Another issue that we have seen during the pandemic is that many ethanol plants that captured commercial CO₂ were taken offline. The production partially has ramped back up. Our industry still sees signs of a shortage caused by natural disasters and unexpected closures. For our industry to survive, breweries need certainty and we need financial assistance.

Please pass the bipartisan Craft Beverage Modernization Tax Reform Act and make the current Federal excise tax rates permanent. If the current tax rates expire, my Federal excise tax rates will go up 100 percent starting in January. This would cost me \$25,000 which essentially costs me an employee.

We appreciate Congress's swift action at the beginning of the pandemic with the CARES Act. It resulted in thousands of breweries receiving money from the Payroll Protection Program. I would very likely not be here had it not been for the \$359,000 that we received. The program was not perfect but we can ensure its success by forgiving all of the PPP loans of less than \$150,000 to small business. Adding additional funds to this program and allowing businesses that can show revenue losses to apply for another loan. Give us the ability to write off the funds that were used as business expenses as well, and allow 501(c)6s, like the Ohio Craft Brewers Association, the ability to apply for PPP loans. Our guild

has helped us more than double the number of breweries in Ohio in the past 5 years helping to create more than 21,000 jobs.

In conclusion, I feel strongly that Seventh Son needs another round of PPP to survive the impacts of COVID-19, but please also consider passing the Restaurants Act and Restart Act, both of which would provide small breweries with grants rather than debt and allow us more flexibility in how we use those funds.

We also encourage Congress to consider a credit for unmerchandise goods that had to be destroyed due to supply chain interruptions caused by the virus.

For the past decade, the United States brewing industry has been a success story in American manufacturing and job creation. We need your help to weather this pandemic and continue to grow and thrive.

Thank you very much for your time.

Chairwoman VELAZQUEZ. Thank you, Mr. Castore. We appreciate all you have shared with us.

Let me begin by recognizing myself for 5 minutes.

I would like to start off with my first question to Mr. Wright.

The Census just reported that one in 10 adults do not have enough food to eat, and 27 percent of households with children are food insecure. As we strive to ensure that hungry people have access to food during this pandemic, why are there so few small retailers approved by the administration for online SNAP purchases?

Mr. WRIGHT. We appreciate the opportunity to be included in that pilot. I think there are several things that make that a challenge for smaller retailers. Certainly, one is the technical aspect of navigating that to be able to get set up. From a small retailer standpoint there are costs with setting the system up. There are costs to processing part of that overall assistance that are needed from a rate cutter to understand a program. We have already experienced in our launch, and we launched one week before the pandemic buying started, we recognize in our launch already that there is an education process we need to go through to be able to inform the customers of how to use the program. We would advocate for the SNAP Online Options Act. I believe it is H.R. 7535, to be able to allow retailers to expand online options. In our own area what we would have is the ability to deliver to rural areas around us. So it is a technical process to work through, an application process to work through. We were very fortunate to have a—

Chairwoman VELAZQUEZ. Okay. Mr. Wright, time is running out and I need to ask another question. Thank you so much for your answer.

Mr. LAREW, I recently introduced the Mobilizing Restaurants in America Act so that SNAP recipients can gain access to food and while also supporting struggling restaurants. How important is updating and funding SNAP and other nutrition programs like the Double Up Bucks Program to farmers, farm workers, and small businesses across rural America?

Mr. LAREW. Oh, it is absolutely essential, and we appreciate your leadership in this area. SNAP remains the most efficient way to address food insecurity out there. So as we look at ways to further bring resilience in that delivery, we have certainly seen a lot of hiccups with the pandemic, ways to pivot, if you will, to make

sure that SNAP and ultimately good quality food is available from farmers and connect that to consumers including and especially those in food insecurity. So, it is vital. And all of the programs along with it, you have mentioned the Double Up Bucks, et cetera, and USDA programs to connect farmers to the consumers, all of those issues are critically important.

Chairwoman VELAZQUEZ. Thank you.

Ms. Gorton, restaurants and small firms across the supply chain are continuing to struggle and that has resulted in issues for food processors and distributors. PPP assisted many in your industry, including yourself. What other steps do you recommend that Congress and the Small Business Administration take so that we could address the challenges that you are still facing?

Ms. Gorton, you need to unmute yourself.

Ms. GORTON. Thank you, Chairwoman.

So I think there are several things that we would ask respectfully that Congress address. I think, first and foremost, that USDA must allow seafood in their programs. Thus far, seafood has not been included in all of their programs. It is an important protein and we would ask for it to be included.

Chairwoman VELAZQUEZ. Ms. Gorton, we are having difficulties hearing what you are saying, so I will ask that maybe you could submit an answer to the Committee on that question.

Ms. GORTON. Certainly. Certainly.

Chairwoman VELAZQUEZ. Thank you.

Mr. Wright, since the outbreak of the pandemic, stores around the country have struggled to stay stocked with in-demand products. What role has increased corporate consolidation and market control played in your ability to source and sell products?

Mr. WRIGHT. We have seen an increase in the larger players being able to access products that we are not able to get, especially some of the key products such as comfort food items such as pasta and rice and beans and some of those things. Paper products, cleaning supplies. All those things have been very difficult for us to source due to such power from the larger retailers. I can walk in those stores and see those products on the shelf that I am not able to source.

Chairwoman VELÁZQUEZ. Do you feel that there is any role or impact that corporate consolidation and market control has to do with that?

Mr. WRIGHT. Yes, ma'am. As retail consolidation continues on the retail side, we continue to see larger big box retailers have more and more power and being able to put pressure on all the manufacturers that they will get product to the point of actually penalizing some of these suppliers if they do not get the bill rate that they are looking for. Again, that is taking product away from the smaller retailers, including grocers.

Chairwoman VELAZQUEZ. Thank you. My time has expired.

Now we recognize the Ranking Member, Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chair.

Mr. Castore, I will begin with you.

You had mentioned that it is much more profitable in the tap-room than what you sell, you make per unit a lot more there, obviously. And then you mentioned the 10 p.m. curfew that we have

in Ohio, that you have to cut off at 10 p.m. has had a pretty dramatic impact on your sales. My district, we are down at the bottom of the state. You are Columbus, I think, and I am Cincinnati, so we have Kentucky right across the Ohio River there. And so the 10 o'clock, what we have heard and it has been on the news and written about, and I know the businesses are feeling this, you know, they can just leave Ohio and go over into Kentucky and take their business over there.

How have you been affected up in Columbus on the 10 p.m. curfew, and do you have any recommendations on that perhaps? Not that we can do that here but the states obviously make that on a state-by-state basis, that determination.

Mr. CASTORE. Sure. My own experience with the curfew, it is definitely hurting our sales. Definitely not helping our sales. We do not have Kentucky across the river but we do have Ohio State University, and we are a relatively large city, a million and a half people. So what we are seeing is people go out until 10 p.m. and then they just go to house parties, gatherings where they might not be socially distanced whereas at responsible restaurants and bars across Ohio we are actually practicing social distancing, passing out masks, doing all these things. And ironically, I feel like people are a lot safer going out sometimes than going to these more like private gatherings.

Mr. CHABOT. Okay. Thank you very much. I appreciate it.

Ms. Gorton, I am going to go to you next, although I think you and I purchased our wi-fi at the same place because when we are at my home doing these things I had that breaking up a lot apparently but I am going to try it.

You mentioned, you indicated that you lost over 70 percent of your business in the weeks following the nationwide shutdowns. How did you adjust your business operations to try to survive during that time?

Ms. GORTON. Thank you. Hopefully, you can hear me now.

So, well, as with any businesses, you know, the first week really affects the supply by slowing down the flow of goods in our supply chain. Us and other companies, we had to freeze some of our fresh product. We had to put product in cold storage. Which affected the cash flow. We worked very hard with customers to make sure that we could continue to support their operational demands, working closely with our suppliers to be able to help them.

And first and foremost, our primary focus was keeping our employees safe, and that really required in our plans making sure that we implemented additional measures. We invested in new technology. We have invested in a tremendous amount in PPE and in training to make sure that our workers are safe, we could continue to process seafood. We are very fortunate in that we have had no disruption in our supply chain during this time.

I do understand though that a number of other seafood processors have had disruption in their business. I think particularly some of the processors in Alaska who have a tremendous amount of seasonal workers and had to put them up in hotels for 14 quarantine days.

Mr. CHABOT. Thank you. Thank you.

I am going to try to get one more question in. I have a little over a minute to go.

Mr. Wright, I will go to you next.

How have you adjusted your inventory as we continue to deal with the coronavirus restrictions? Has that changed over time? You know, how have you handled that to try to stay maybe not profitable but, you know, to survive?

Mr. WRIGHT. From the supply side we have just had to expand on the items that we could source and our suppliers have had to look for sources we traditionally would not, you know, be buying product from. In our own case, we actually, with all the toilet paper shortages that were there, we actually ended up sourcing some toilet paper from a factory in Mexico in order to be able to have some product to sell. A lot of brands and major selling items we cannot get back to the large power buyers but if there is a reasonable item or something we were able to supply was fresh meat. That was the one that really was critical to us because it is such a large portion of our business. And again, that is evident if consolidation in that industry and the challenges that were made on the retailers side when the pandemic hit and so many of those places closed.

Mr. CHABOT. Thank you very much.

Madam Chair, my time has expired. I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentlelady from Iowa, Ms. Finkenauer, Chairwoman of the Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship.

Ms. FINKENAUER. Thank you, Madam Chair. And thank you for holding this hearing today. Obviously, this is a huge issue that we are still dealing with in the middle of this pandemic, and it is something that has hit close to home in my district in particular.

So my question is to Mr. Larew. So in Iowa, workers in my state and in my district lost their lives as a result of COVID-19 outbreaks in large meat processing plants. Not only obviously was this devastating for the communities and the families where these processors are among the biggest employers, it created disastrous consequences for our food supply chain, especially for our livestock and poultry producers.

I recently actually cosponsored something you talked about, the RAMP-UP Act, which would obviously create more competition into the processing sector. So how do you think, and can you expand upon this, these types of investments in our small plants could help us prevent some of the issues we saw with worker safety and then depopulation in Iowa?

Mr. LAREW. Yes, absolutely. And it is an important issue that you bring up because really what we are talking about here is taking ourselves from what is a very concentrated, arguably very efficient to some, but one that really has no resilience built into it. And the RAMP-UP Act that you mentioned is an important step in shifting ourselves from a very concentrated marketplace to one that is much more local and regional based, building in more systems for options for producers help take a lot of the stress out. It also would ensure much more focus on worker safety and support. So again, taking ourselves away from a very efficient-driven system that is so concentrated and has so many workers at all once into

something that creates much more opportunity for rural communities I think is a huge step forward.

Ms. FINKENAUER. Great. And you know, I obviously agree but I also want to touch even further here on the issue of competition. I have heard real issues with price transparency from our cattlemen and also helped introduce legislation to require packers to buy at least half their slaughter on the spot market. Thinking back to the high prices, obviously, of beef and what we have seen during this pandemic, at least in the grocery stores but does not always come back to our producers, how could more transparency help our cattlemen and make our supply chain more resilient?

Mr. LAREW. You touch on another key piece of this. Right? Not only do we have a huge concentration, we have four beef companies controlling over 80 percent of the beef market. We have just 50 meat plants out there that manage 98 percent of the processing. It is an incredible concentration.

But the other piece of this is that we do not have a true cash market price out there. And so for these small business owners, these independent family farmers and ranchers, they have no way to truly understand where the market is. There are a slew of lawsuits going on right now related to price manipulation in the meat industry, and I think this is another key component of that. So measures such as the one you referenced and that our members are actively advocating for up on Capitol Hill would be an important piece of reestablishing a true operating market and certainly a key piece of that is price discovery. And so more information will be better.

Ms. FINKENAUER. Well, thank you, Mr. Larew. And I know, you know, obviously, these issues have always been important; right? But now going through this pandemic, and I have seen this now through many different issues, whether it is access to broadband and needs for that, going through a pandemic these issues are really heightened and under scored in a number of ways and these are just things we have got to get right and we have got to get right fast because especially when it comes to our supply chain, when it comes to making sure of the flow, we just cannot take for granted anything and thank you for your testimony today as well.

Mr. LAREW. Thank you.

Ms. FINKENAUER. And with that I yield back, Madam Chair.

Chairwoman VELAZQUEZ. The gentlelady yields back.

Now we recognize Mr. Balderson from Ohio, Ranking Member of the Subcommittee on Innovation and Workforce Development for 5 minutes.

Mr. BALDERSON. Thank you, Madam Chair, and Mr. Castore, thank you for being here. I am one of the three representatives along with Congressman Stivers and Congresswoman Beatty that represent Central Ohio, so it is great to see you here, and I know your establishment. So thank you.

In your testimony you mentioned three major efforts Congress needs to undertake in order to help small business brewers such as yourself. These three issues being passage of H.R. 1175, the Craft Beverage Modernization and Tax Reform Act; specific adjustments to PPP and other SBA loan programs; and a tax credit for

perishable goods that had to be destroyed due to supply chain disruptions.

As a cosponsor of H.R. 1175, the Craft Beverage Modernization and Tax Reform Act, I am hopeful we can pass this bill and provide you with this tax relief.

I would like to ask you about your comment about a tax credit for perishable goods. How did your business account for the loss of perishable goods prior to COVID?

Mr. CASTORE. Thank you. Prior to COVID, we did not have a lot of loss from perishable goods. We would, of course, we have made a lot of different styles of beer every now and again. Something would not work quite right. It is still a commodity. It is a perishable good in general. But we did not run into the kind of volume and the kind of circumstance that precipitated just having to immediately cut off sales. And then in our case we were able to repackage some as cans but we still just dumped beer. I have never seen anything like it. And it is not just us. It is restaurants dumping beer. It is wholesalers dumping beer. It is the actual breweries dumping beer. But this is good, when people mistreat beer and put it in their car or something, you know, think of it like milk. It actually has an expiration date. It goes bad. And a lot of beer went bad.

Mr. BALDERSON. I agree. I talked to a couple friends of mine in my home county that also do the same thing and we talked about that.

I would like to ask you about your comment about a tax credit for perishables. How would this tax credit differ from existing practice?

Mr. CASTORE. I would probably not be the best person to comment on the mechanics of it. But it seems more like this was a one-time circumstance. This was a once in a lifetime kind of experience that we have been through, so some type of tax credit, some type of structure, not a permanent structure like the Craft Beverage Modernization. We would like that to be permanent. In terms of practice, we would just like this to be a one time help us out with what we need.

Mr. BALDERSON. Agree. Thank you very much, and again, thank you for being here today.

Mr. CASTORE. Thank you.

Mr. BALDERSON. My next question is for Mr. Wright. I would be interested to hear your perspective on this matter. How did your independent grocery store account for food loss prior to the virus?

Mr. WRIGHT. Prior to the virus we worked very hard every day to control the amount of waste and shrink that we have. Anything that we have that we can donate to food banks and such as that we do those things. So we just try to manage that supply chain very well and make sure we offer the freshest product and do not have a tremendous amount of loss that we end up having to pass on through our pricing somewhere.

Mr. BALDERSON. Thank you.

Would you be able to quantify the financial cost your business has had to incur because of disruptions in the food supply chain?

Mr. WRIGHT. For us it was a lot of overtime. Certainly as business ramped up we had a tremendous amount of overtime for employees. We did some additional bonuses. Investments that we

made in plexiglass dividers at the registers, PPP equipment and all those things. Also, for us it was a loss of margin in a lot of places as we tried our very best not to raise prices. And this goes back to the situation with meat. We held our prices down as low as we possibly could to cover our cost and be able to try to give the customer the best price we could. Even though things went up, we made very, very little margin on some of those items. So we had loss of margin, increased expense in operating the store, and investments also in the equipment in the facility to be able to provide a safe shopping environment for the customer.

Mr. BALDERSON. Okay, thank you.

I am going to try to get this in. I might run out of time so I will cut you off. But finally, I introduced legislation to provide small businesses with up to \$25,000 in tax credits for the purchase and replacement of PPE. How significantly would this help your business?

And I am sorry, sir, but we are out of time. We will follow up with you on that.

I yield back, Madam Chair.

Mr. WRIGHT. Thank you.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

The gentlelady, Ms. Davids, from Kansas is recognized for 5 minutes.

Ms. DAVIDS. Thank you, Chairwoman. And thank you to you and Ranking Member Chabot for holding this hearing today. I am really glad we are focusing on the massive impact we have seen from the pandemic, the devastating impact really on our food system and especially on our restaurants.

You know, one of the things I get to do as the 3rd District representative is talk up Kansas and the Kansas City metro area. For folks who do not know, we cannot talk about our KC region without talking about barbeque. And you know, this is everything from Joe's KC to John's Barbeque and Slaps and so many others that are really not just part of the culture of the place but are huge economic drivers. And they are often small businesses. And we know restaurants across the country are facing enormous challenges and we have seen so many inspiring examples of folks who are stepping up and doing everything they can.

I have been proud to be a cosponsor of the Restaurants Act which would create a new grant program for the restaurant industry, and right now we are seeing the far-reaching impacts. And that is on the restaurants and the suppliers.

Ms. Gorton, I wanted to ask you first, in your testimony you had mentioned the difficult situation that you are facing as a supplier as your customers try to reopen and need additional credit. Could you talk a little bit on that position that you are in, that your customers are in, and how you have been addressing it?

Ms. GORTON. Yes. I am going to try to speak on my phone. Hopefully this is more clear. We are having a bad storm here in Boston. I think it is affecting us.

I think it is really just a matter of we have had to extend credit terms, and the way we have worked it with our customers is that as they ramped back up they are now paying us for the products that they are buying now and what we are working with them on

is to put in place payment plans for them to help pay us back for the product that they purchased just prior to the shutdown. In some cases that is working well. In other cases it is not. I think that if Congress is not able to pass more relief and a stimulus for restaurants in particular, as the original PPP funds run out we are going to start to see a lot more failures which will have a domino effect on companies in the food industry and specifically the seafood industry. I think as I mentioned, 70 percent of seafood is consumed outside the home, and so as restaurants fail, we, as an industry, have a disproportionate effect to other industries.

Ms. DAVIDS. Yeah. So you started to get into legislation that we have passed. I am curious, what are your thoughts about how we as legislators can ensure that supply chains supporting restaurants are also supported during this time?

Ms. GORTON. That restaurants are supported? Well, I think that the legislature—

Ms. DAVIDS. And the suppliers.

Ms. GORTON. And the suppliers. Well, I think one of the key things that you could do is to ensure that the PPP funds that are available can be used for covering bad debts. That would go a long way towards helping people in our supply chain. Right now the funds are primarily used to keep people employed and to pay utility and rent costs. However, our biggest challenges come from the risk that we have associated with bad debt. So if the PPP funds could be extended to include restaurants' ability to use those funds to pay off their bad debt that would certainly help companies like mine immeasurably.

Ms. DAVIDS. Thank you. And thanks for taking the time to testify here today.

I was hoping to switch gears really quickly.

Mr. Wright and Mr. Larew, I wanted to know if you have some ideas about improving food assistance programs during this time. I am sure you all after seeing everything have some thoughts on that.

Mr. WRIGHT. In my case, just continuing to have a strong SNAP program would be a key to that. Also, being able for independents to offer online SNAP would be a tremendous asset for the customers that either cannot get to the store or choose not to come to the store during the pandemic. So a strong SNAP program and an ability to go online for everyone to be able to offer that. Right now, only Amazon and Walmart are able to offer that. Myself and one other operator, regional operator in New York/New Jersey. So we would appreciate the opportunity to be able to do that.

Mr. LAREW. And I would simply echo those thoughts. And from the farmer perspective, we need strong access to SNAP and food assistance that is critically important for all of us.

Ms. DAVIDS. Thank you. And thank you for your time, and I yield back.

Chairwoman VELÁZQUEZ. The gentlelady's time has expired.

The gentleman from Oklahoma, Mr. Hern, Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access is recognized.

Mr. HERN. Thank you, Madam Chairwoman Velázquez, Ranking Member Chabot, and our witnesses for testifying today.

As many of you know, I have been a small business owner in the restaurant industry for over 35 years. As a franchisee for the McDonald's Corporation, I built an extensive knowledge of supply chain operations. Through this experience, I have learned that restaurants rely heavily on their supply chain operations where success is extremely dependent on the efficiency of their wholesalers, distributors, and food supply.

Unfortunately, as our witnesses have duly noted in their written testimonies, COVID-19 has taken a severe toll on each of these services. Even with the SBA and USDA's government assistance programs, farmers and food suppliers were still facing excess supply issues where many of their perishable products were going to waste.

On this Committee, my colleagues often hear me discuss my business experiences with restaurants, but what many not know is that one of my first ventures was farming. I built and ran a successful hog farming operation and also formerly worked on numerous poultry farms for Tyson Foods. Because of a background within numerous aspects of the supply chain ranging from the farm to the storefront, I can attest to the obstacles our witnesses have brought forward.

As one of our witnesses mentioned in her testimony, farmers are having to dump produce and euthanize their livestock, which is devastating impacts on their bottom lines. These types of issues also have a trickle effect. When farmers struggle, our wholesalers, distributors, restaurants, and small businesses struggle. This burden is then passed on to the American consumer who might run into the issues of accessing the food supply and certainly will have an impact on their pricing.

Going forward, Congress must ensure that we take the appropriate actions to support the food supply system and thereby provide for our local communities during this unprecedented time.

As many of you know, at the brink of COVID-19, Congress worked swiftly to pass emergency relief legislation. One of those provisions of this relief expanded unemployment insurance giving people the ability to draw unemployment and receive an additional \$600 per week. While well intentioned, this policy created undue burdens for many businesses deemed essential. These payments were not adjusted for cost of living which caused employees to refrain from working as some made more from government benefits than they did their actual job.

Mr. Wright, you touched on this issue in your written testimony. Could you please elaborate on the issues you face regarding staffing?

Mr. WRIGHT. Certainly. In the first wave of pandemic we had 2 weeks that were the largest volume weeks that we have ever had and also I think across the industry. As we began to reach out into the communities in looking for additional employees, that was a challenge. We were very fortunate in our area to have some college students that were essentially stuck at school with classes being canceled. They came in and kind of saved us so to speak. But as we reach through our traditional channels, we had very little success on finding people.

Certainly, I agree with your remarks, Congressman, that there was an incentive as a lot of people were making more off of unemployment than they were working. I also agree that there is some kind of cost of living analysis or metric put into the VAT to adjust that. That has changed now for us in the last few weeks. Just on Saturday this week I reached out through social media with an ad for employees and very quickly by the end of the day had 16 applicants. So it was a challenge in the beginning but we are seeing improvement on the back side. A real struggle on the supply side for people loading trucks and warehouse workers and all retailers across the country.

Mr. HERN. Thank you, Mr. Wright.

I want to move on to another question. There has been a lot of talk about lines of credit, grant program, forgiveness of loans. As many of you are very familiar because you have addressed this, alluded to it, on the floor we have an opportunity to vote on H.R. 8265 that the Ranking Member has put forward for us to try to get on the floor for helping our small businesses survive. It is \$138 billion of money left over from the PPP program. Just a simple yes or no, I will start with you, Mr. Wright, would you support that if you had the opportunity? Would you encourage your congressman or congresswoman to support that, the extension of the \$138 billion, very targeted 25 percent down in sales and also it would go through the end of the year? Would you have your congressman support that, yes or no?

Mr. WRIGHT. Certain would want to assist all small businesses out there. You know, we have seen a dramatic impact in our communities.

Mr. HERN. So Mr. Wright, I am going to take that as a yes. I have got 10 seconds left.

Mr. WRIGHT. Yes. Yes.

Mr. HERN. I want to get to Ms. Gorton.

Mr. WRIGHT. I am sorry.

Mr. HERN. Yeah, Ms.——

Ms. GORTON. Yes, hi, I am sorry. Could you repeat the question? We are having a bad storm here.

Mr. HERN. No, I am sorry. I do not have time.

Madam Chair, I yield back.

Ms. GORTON. Sorry.

Chairwoman VELAZQUEZ. The gentleman yields back.

The gentleman from Pennsylvania, Mr. Evans, is recognized for 5 minutes.

Mr. EVANS. Thank you, Madam Chair.

Ms. Gorton, there is a good business in Philadelphia that is similar to yours, Samuels and Son Seafood Company, which is a seafood supplier to hotels, restaurants, and casinos. Like yours, his business dropped 75 percent in the span of a few weeks leaving it with unused products and debt that would not be affordable. With nearly two-thirds of fish being consumed outside of the home that made businesses like yours adapt to survive. What assistance do you need from Congress to help your business adapt?

Ms. GORTON. Thank you. Hopefully you can hear me okay. And yes, Samuels and Son is a very well-run company. They are a customer of ours.

What needs to happen to make sure that we get the support, we need a few things. First, that Congress includes processors and distributors within the scope of any relief that you provide. And agencies also at USDA would do likewise in formulating relief programs for the food industry.

Second, despite the fact that you have allocated \$300 million to the seafood industry through NOAA, they have been very slow to get the money to the intended recipients. Congress passed the CARES Act at the end of March. It took till May for NOAA to even announce how they would distribute the funds, and funds are still trickling in. We expect to not maybe even be able to receive them until the end of the year.

And then finally, I think that additional funds being allotted to the seafood industry in a nonstimulus act, if you could establish a firm deadline for NOAA to do that and insist that the agency meet those deadlines for any additional funds, that would go a long way towards helping processors and distributors like Samuels and Son and my company.

Mr. EVANS. Mr. Wright, I was pleased to see that you mentioned the bill that I co-authored with GT Thompson, the CHAIN Act which would provide protection for frontline food workers. During this pandemic, food workers have been deemed essential, yet many of them have not been getting essential worker wages they deserve.

Tell me why you support this bill.

Mr. WRIGHT. Certainly, our employees that have stuck in there and assisted our customers and ran our stores during the pandemic, we have great respect for and we refer to them as supermarket superheroes. Anything that we can do to award those people for that commitment to our communities, to our customers in the most important part of our economy which is the food chain, especially during this difficult time would be greatly appreciated. I think it would be a great act, and I appreciate your leadership on that.

Mr. EVANS. Last question for Mr. Larew.

Mr. Larew, Philadelphia has over 24 percent poverty which means that a significant portion of the city residents experience food insecurity. Programs like the Farmer Food Box are instrumental in fighting hunger. You mentioned in your testimony that this program has been riddled with many problems. What can Congress do to fix these problems to make the program more effective?

Mr. LAREW. Yeah, I appreciate that. And it is an important issue, right, being able to connect those growers of good quality food like your Pennsylvania farmers to consumers and making those connections.

The program that USDA developed I think, you know, had good intentions. I think a big piece of this though is making better connections to those smaller scale, both distributors and farmers. I think that building those stronger connections which USDA currently does not have will be one step. But also recognizing as we stated before here, recognizing the efficiency and benefit of SNAP itself and ways to continue to improve not just with this program but also SNAP and other ways to continue to build these connec-

tions to those who are food insecure, it has been an important issue. Thank you.

Mr. EVANS. I yield back the balance of my time.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize Mr. Bishop, the gentleman from North Carolina, for 5 minutes.

Mr. BISHOP. Thank you, Madam Chairman. And one of the things about being so low on the seniority totem pole is that sometimes a lot of ground has been covered by the time it gets to me. So I would like to focus on just one topic, I think, and Mr. Castore, I would like to address a question to you.

I was minded in your exchange with Mr. Balderson and your testimony—or reminded of a fellow named Spiro Kartsonis who runs a great little family restaurant in Monroe, North Carolina called Hilltop. And he told me shortly after he was required by order of the governor of North Carolina to shut down, that he had a dead loss of \$75,000 of perishable goods in his inventory. And you made reference to that in your exchange with Mr. Balderson and in your testimony. So it is a working capital loss that is irreplaceable for very small businesses in a lot of cases. Would you not agree that fixing that through the Paycheck Protection Program or a grant or something is critical to lots of small businesses being able to survive?

Mr. CASTORE. Thank you, sir. Yes. I would agree wholeheartedly with that sentiment. And I think a couple of the other witnesses have kind of touched on it. We made PPP work. We fit within the hours, the employer restrictions and everything, but having more flexibility if there is another round of PPP to cover some of those things, additional grant funds, it is absolutely critical. We are small to medium sized. There are so many in Ohio that are smaller than us that cannot take that \$75,000 loss that is closing down.

Mr. BISHOP. And following that up, and I do not know if it was touched on by Mr. Hern, but he said there is \$138 billion. I think the number is actually \$133 billion of money already appropriated into the Paycheck Protection Program which has basically expired. Ranking Member Chabot has a bill that would just amend that to allow folks, companies, all sorts of very small businesses who can document a very significant revenue loss to get another round of that and they are forgivable loans again like the first ones were, so sort of like a grant. And so I think there is overwhelming support in the House for that. There is a discharge petition pending for people to sign it and yet the leadership is blocking it from a vote because we had disagreements on illegal immigration and how many trillions need to go to state and local governments.

Do you think the American people are as mystified as I am why the House leadership will not allow that one point of agreement to go ahead and go forward so people can make use of, small businesses can make use of that \$138 billion of money already appropriated while we otherwise solve these other big problems later?

Mr. CASTORE. You know, I think that it is getting increasingly hard. I can hardly think of anyone except maybe barring my wife who I agree with the politics entirely on in the world, and I am dumbfounded a lot that we cannot focus more on the things that

we do agree on and the things that we do need to do, and this falls into that category. I understand how politics gets attached to everything, but this is just small business. These are just people who need help. This is exactly why government is supposed to be here is to reach out and get us through this. We need you guys, and it is one of those things that the less we can get all these other issues conflated with it and the more we can just say breweries need you, restaurants need you, small business needs you, let's get something through. We can even fix it. We can add to it later, but let's help out in some way because I think a lot of us will not be around if it takes too much longer.

Mr. BISHOP. Yeah. Thank you, Mr. Castore.

As somebody who is new up here, I do not understand it either. And interestingly, we have one more opportunity this week before we are gone for October to fix that one little problem and make an enormous difference in the lives of all these small businesses out there that are struggling to survive and all the employees who depend on them.

With that, Madam Chairman and Ranking Member Chabot, I yield back. Thank you.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Mr. Castore, what would you prefer, debt financing or more grants?

Mr. CASTORE. I would prefer all of the above, actually. In terms of how I think debt financing works for some people in some situations, I think that grants obviously work for some people in most every situation. But we need dollars. We need options and we need—

Chairwoman VELÁZQUEZ. The CARES Act that we passed back in May it is sitting in the Senate side and that includes grants and the reforms to make those loans more—to provide more access to those businesses that were left behind and, that did not have an opportunity to access those loans in the first and second tranche that we passed. So as a matter of fairness, that is not included in the Ranking Member's legislation but it is included in the CARES Act, in the HEROES Act, plus the new bill that we just introduced this week.

Now we recognize the gentleman from Illinois, Mr. Schneider, for 5 minutes.

Mr. SCHNEIDER. Thank you, Madam Chairwoman.

I want to in particular thank the witnesses today for sharing your story. You represent the millions of small businesses across our country who are struggling in this crisis. The pandemic has affected every aspect of your business, their business, and in no small part the impact on our supply chains has been devastating.

And I also want to thank the Committee, and always the Committee staff for working through the challenges to allow us to have this hearing to talk about this important issue.

Later today, the House is going to be voting on a bill I introduced, a bipartisan piece of legislation, again, the example of us coming together, working together. It is called the COVID Prepare Act. The idea behind the bill is fairly straightforward. As we face the pandemic, as we have struggled and so many small businesses have struggled through the spring and the summer just scraping

by to make ends meet, we need to know that all aspects of our Federal government have a plan for the expected rise in cases and new challenges we will face in the fall and into the winter.

So the COVID Prepare Act would require each agency to present to Congress their plan so the American people will have transparency and confidence that their government is working on their behalf.

As our witnesses can attest, a critical aspect of this is supply chain, and every stakeholder within the food supply chain in particular has had to adapt to the new reality. Like all small businesses, they have had to be nimble and figure out how to make a square peg fit into a round hole by switching from indoor dining to a focus on carryout, shifting from a delivery model as direct to consumer or the myriad of other ways that they relied on their own creativity simply to stay afloat.

But these small businesses and millions of others around the country should not have to be on their own standing alone, and that is what has been so deeply frustrating about this pandemic, the Federal government not stepping up to this challenge to provide industries with the necessary guidance for safely operating in this pandemic and finding a way through to the other side.

We all know that small businesses will need additional financial assistance. As we just talked about a moment ago, the question of whether it is loans or grants is an important question. Businesses are already on the edge of financial ruin. Many are closing their doors permanent.

That is why the assistance we are providing in the HEROES Act is so important, and the revamped version of that bill introduced this week has to come to the floor for a vote and ultimately go to the Senate. But we also know that we need guidance to get through and operate safely in this new environment.

So let me start with you, Mr. Larew, if that is okay. Thanks for joining us, and thanks for all you do on behalf of our country as a farmer. One of my colleagues earlier mentioned their experience working on a farm. I worked on a chicken farm as well. I know how hard it is from a day-to-day basis, but more importantly, I understand the complexities of trying to get product to market on a consistent basis.

As you highlight in your testimony, with meat packing facilities, certain parts of the food supply chain were particularly impacted by COVID-19 because they could either not or would not enact social distancing measures, and if they could it had a severe impact on capacity.

Looking forward to the fall and the winter, what guidance can Federal government provide from USDA, OSHA, and other Federal agencies that would help agricultural producers maintain capacity while incorporating best practices and social distancing?

Mr. LAREW. Thank you. And thank you for the question there.

So one of the first things I think that bears repeating here is the need to build more resilience into the system, which I think would be beneficial from the farm level, actually through the food chain itself, and particularly for farm workers and for those food workers who have been severely impacted.

So building that resilience involves a couple of things. First of all, it is trying to remove some of the level of concentration that is currently there, which involves anti-trust enforcement. It is also supporting the ability for small and very small processing plants right now to be able to get their inspection to a level that they have more markets available. Currently, it is cost-prohibitive for those small and very small plants to be able to meet a level of inspection that allows them to shift interstate. And so supporting measures like the RAMP-UP Act is one of those pieces there.

The more that we can build resilience by taking the amount of workers that we have I think, you know, as I mentioned earlier, 50 meat processing plants process 98 percent of the meat in this country. That is not good for farmers. It is not good ultimately for the food chain and its resilience, and ultimately for our food security. So from a farmer and consumer point of view it is all about building that resilience.

Mr. SCHNEIDER. Thank you. And I am out of time but let me just say with one last concluding thought, I know how hard it is for you as business owners, business leaders, but also the employees in your businesses. These essential workers are showing up to work every day. We are so grateful for them. For all you do, for all they do, thank you. And we will work to make sure we get the relief necessary to move forward.

With that I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

The gentleman from Tennessee, Mr. Burchett, is recognized for 5 minutes.

Mr. BURCHETT. Thank you, Chairlady. I appreciate you all being here and appreciate the panel very much.

I see one person up there, Mr. Wright, who probably does not speak with an accent. I think I saw where he was from Alabama, so I might just call on him if that is all right.

I am from Tennessee, so we can say that. I guess some are snickering but I guess they get it pretty quick.

How long did it take you to obtain your PPE?

Mr. WRIGHT. I think it took probably less than 4 weeks for us to get that. We were very fortunate in the fact of having a medium-sized bank that still has local leadership in it that kind of held our hand through that. So I think it was maybe 3 to 4 weeks at the most.

Mr. SCHNEIDER. Okay. You recorded in your testimony as saying that you doubled the rate of pay for our employees early in the pandemic and provided bonuses and overtime pay as the pandemic wore on. Have your employees returned to their pre-pandemic wages?

Mr. WRIGHT. What we did on that is that we paid an extra week of pay for the first month and the second month. We transferred our debt over to a percentage of their pay. Everyone has returned to the same level of pay. We continued to put some stuff out there time to time, but I chose to go the bonus route with that extra week pay.

Mr. BURCHETT. Right. Okay. Has the \$600 per pay in unemployment compensation affected your store's workforce?

Mr. WRIGHT. Early on we saw the challenges with that as we tried to reach out. And again, we were fortunate to find some college students from Auburn that we were able to employ on a short-term basis. Again, that has improved now in the last few weeks reaching out. So initially it was an issue.

Mr. BURCHETT. Great.

Mr. Larew, let me ask you a question. Can you walk us through a farmer's decision-making process when faced with supply chain shocks?

Mr. LAREW. Yeah, well, that is a massive question. But you know, which can vary greatly. And I might just reference the reason why it is complicated, it is pretty obvious in the sense that if you are a hog producer and you are raising a set of animals up, they are being primed to be ready for market at a certain weight to be processed. And when those challenges happened that is where you saw processing plants being shut down and therefore forcing producers to make very difficult choices and in many cases needing to euthanize those animals.

If we are talking about beef, for those independent ranchers out there, beyond the complexities of trying to determine what the market price truly is, they also struggled with these beef plant closures. For them, they can put animals either on feed or on pasture for a little bit longer but those take those animals out of condition if you will and means that their ultimate price that they are going to get is much lower and obviously, their input costs are higher.

If you were storing grain, that is a very different matter, but the grain markets pretty much across the board have been severely low for many, many years. So for all of these farmers who have been operating on very low margins, these disruptions along the supply chains have just been really devastating and really kind of compounded the economic challenges that they already had.

Mr. BURCHETT. I have found in Tennessee the meat processors, they used to call them slaughter houses but I guess that is not politically correct, but the meat processors, it is hard to find one, and when you do you have to schedule them out months in advance and that is just not a way to do business.

I do not know if it is by design or not, but during this whole thing I have noticed that the big boys are systematically going to crush the little people and I have found also that over half of our meat processors in this country are foreign owned and that to me is a scary proposition. It is very scary. And thank you for that.

How much time do I have? I have 41 seconds. I will have to go quick.

Mr. Castore—I do not know if I am saying that right or not—why does a brewery make more money from taproom sales than sales through distributors?

Mr. CASTORE. First and foremost, it is the cost of the packaging. The packages that we put our beer into cost as much if not more than the liquid itself. Each can runs about 20 cents. You have your Packtracker on top of it. The cardboard case trays that they go into. Then you have delivery drivers, other parts of the supply chain, and they just add up the cost. That direct to consumer, I am just handing a can of beer to somebody and they are giving me \$6.

Mr. BURCHETT. Okay. Well, I have run out of time.

For the record, Chairlady, I just want you to know I have had more beer spilled on me than I have ever drank, so being a Baptist I need to say that.

Chairwoman VELÁZQUEZ. The gentleman——

Mr. BURCHETT. And you know the difference between a Baptist and Methodist, don't you, Chairlady? A Baptist does not speak to you in the liquor store. So thank you all.

Chairwoman VELÁZQUEZ. The gentleman's time has expired.

Mr. BURCHETT. Thank you, Chairlady.

Chairwoman VELÁZQUEZ. The gentlelady from Minnesota, Ms. Craig, is recognized for 5 minutes.

Ms. CRAIG. Well, thank you so much, Madam Chairwoman. And I want to say thank you to both you and the Ranking Member for holding this incredibly important hearing today.

As mentioned in various testimony, the reason for this domino effect on our food systems is really down to the tightly bound food supply chain which is incredibly reliant on each step with little room for error.

I am a member of both the House Ag and this Committee, and I have seen firsthand during this pandemic how the food supply chain from farmers to meat processors to grocery stores to fisheries to restaurants and more has been greatly affected by this pandemic.

I also am a cofounder of the bipartisan Congressional Supply Chain Caucus. I have been working directly with leaders back in my district and here in D.C. to learn more about this domino effect.

One industry that is a piece of the food supply chain and that I know we have in all of our districts are these local independent restaurants. The independent restaurant industry continues to suffer as more are forced to close their doors, and now in places like Minnesota, they are forced to figure out how they are going to stay afloat when they lose that outdoor seating. It gets pretty cold in Minnesota and it is impossible to sit outdoors in the winter.

So I have two questions related to restaurants. The first for Ms. Gorton and the second for Mr. Larew. Mr. Larew, it is great to see you.

I will get my questions out of the way and then I will ask each of you to answer those afterwards.

Ms. Gorton, you spoke about the trouble restaurants are in in your testimony. Can you speak to how giving restaurants as proposed by the updated HEROES Act, which contains \$120 billion for payroll and other expenses would help your business, restaurants, and the overall health of the food supply chain?

And then second, Mr. Larew, I have heard extensively from farmers in my district that programs to connect with local schools and restaurants would be beneficial. Obviously, I am right there with Ms. Finkenauer with the RAMP-UP Act. What programs do you think could be helpful to increase the pipeline of farm products to restaurants and to diversifying our food supply chains?

So first, Ms. Gorton?

Ms. GORTON. Thank you.

The recently updated HEROES Act does a lot to address the plight of restaurants, allowing for more flexibility for the forgiveness of debt payments to us, their suppliers. And for forgivability

of the cost of supplies. And so this certainly goes a long way to sort of the reverse domino effect. If we can help the ultimate restaurants, that is going to flow back up the supply chain. It is going to unstick product from being backed up in the supply chain. It is going to allow us as suppliers to your constituents and their independent restaurants to continue to extend credit and provide food as they ramp up and try to fill up their pantries again.

I might say, however, though that while the independent restaurants are absolutely hurting, one of the things that is overlooked in this current bill are franchise restaurants. And I just want to make one comment about that.

I think that there seems to be a misperception that the name on the outside of the restaurant that is associated with a chain means that there is money flowing into those restaurants from the franchisor. Many of the small franchisees are just like independent operators. They may have more than one location but they, too, are suffering from the same problems created by the pandemic, the smaller, independent restaurants.

So I would encourage Congress to include franchisees in any relief that is provided. Thank you.

Ms. CRAIG. Thank you so much, Ms. Gorton.

And Mr. Larew?

Mr. LAREW. Absolutely. Thank you for the question because it is always important to try to find those connections from the family farmers out there to the businesses themselves and in this case, independent restaurants.

There are a number of USDA programs that Congress included in the most recent Farm Bill which I think is really helpful, and the more that we can do to confer use of that, but the land program which is a local agriculture market program really helps farmers out there build marketing plans, build connections out there that would include those restaurants. It also ties in with farmers markets as well. And also, the local food promotion programs. Those, along with the Farm to School grant program collectively work to try to build these connections.

So the more that we can do to kind of reinforce the access to these programs I think will get us a long step toward building that resilience they speak of.

Ms. CRAIG. Thank you so much, Mr. Larew.

And a Madam Chairwoman, it appears I am out of time, so I will yield back.

Chairwoman VELÁZQUEZ. Thank you. The gentlelady yields back.

Thank you again to all our witnesses today for their testimony and for offering their views on the challenges facing America's food system and what America's small businesses need to recover from this historic, unprecedented crisis.

By sharing your experiences, we will be able to better assist all small businesses in the difficult road ahead. Even though I am proud of both the PPP and EIDL programs, we must continue to work to find other ways to assist our country's small businesses from restaurants and grocery stores to farmers and processors so that they and their workers can continue to ensure that the rest

of us can have access to food, whether from a store, a restaurant, a farmer's market, or a food pantry.

I ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

If there is no further business before the Committee, we are adjourned.

[Whereupon, at 11:37 a.m., the committee was adjourned.]

APPENDIX

*Statement of Kimberly P. Gorton
President & Chief Executive Officer
Slade Gorton & Co., Inc.*

*Statement before the Committee on Small Business
“How COVID-19 is Impacting Small Businesses Across the Food System.”
United States House of Representatives
Washington, D.C.
September 30, 2020*

Chairwoman Velazquez, Ranking Member Chabot, and distinguished members of the Small Business Committee, my name is Kim Gorton, and I am the President and Chief Executive Officer of Slade Gorton & Company, a seafood processor and distributor based in Boston, Massachusetts and Ft. Lauderdale, Florida. I am also an Officer of the National Fisheries Institute, the nation’s largest trade association for the commercial seafood industry. I am pleased to have the opportunity to appear before the Committee today to discuss how the COVID-19 pandemic has harmed the seafood supply chain.

Slade Gorton & Company is a third-generation family business. Our mission is to bring wholesome, nutritious domestic and globally sourced seafood to Americans’ tables. Our company and its 85 employees is one of America’s largest distributors and processors of fresh, frozen and premium value-added seafood products, and we provide over 200 million seafood meals to families every year. We develop and manage fresh and frozen seafood programs for some of our nation’s largest retailers, distributors, and chain restaurants. We are proud of our record of supplying healthful and safe seafood to American families for over 90 years.

The Seafood Supply Chain

Many envision the seafood industry as solely fishermen. But it is so much more than the iconic images of men and women who work on the water. Harvesters catch or farm-raise the fish, but primary processors head and gut it, secondary processors portion and package it — often adding other ingredients such as breading or marinades — and distributors then transport the fish to either restaurants or retailers, who then serve or sell the seafood to families.

More than 1.7 million Americans work along that supply chain. About half a million men and women work at various places along the middle of this supply chain, many for small family run companies like mine, taking the product from the pier and transforming it into what you enjoy at a restaurant or in your home. Without us, the fishermen’s bounty would never make it off the docks, severing a vital link that gets seafood from our oceans to our tables.

Before the pandemic, this vast network of small companies generated approximately \$150 billion in U.S. sales per year, with nearly 70% of those sales coming from restaurants, cruise ships, hospitals, and other foodservice establishments. With the continued closure of, or severely restricted service at, restaurants and public eating venues, many of these companies are at serious risk of failing.

Seafood in the Wake of the COVID-19 Pandemic

With the foodservice industry coming to a crashing halt due to mandatory closures, and with 70% of seafood being consumed outside the home, the seafood industry was left in uncharted waters. The industry has had to deal not only with billions in lost sales, but also with the job losses that go with such an unexpected downturn. Personally, I saw over seventy percent of my business disappear overnight in the immediate weeks following the nationwide shutdown.

Ingenuity, resiliency, diversification, and honestly grit became the hallmarks of seafood processors and distributors during this time. Many struggling companies rushed to freeze and store product, some even began selling directly to consumers. Even with that effort, we saw many companies that had to dump millions of dollars' worth of fresh product that could not be sold, or stored. Seafood is not a Twinkie ... it goes bad at some point.

Unfortunately, when the restaurants moved to curbside and takeout service, seafood did not get its fair share. Seafood does not travel as well as other meal options, and therefore disappeared, or was dramatically cut back from restaurant menus. Even with partial reopenings, restaurant operators are faced with increased costs at a time when many are operating below break-even capacity. All have had to find ways to simplify service and menus and cut food costs. Although there are many affordable options, seafood tends to be more expensive than other proteins, and due to the complexity of managing across multiple seafood species, some of our foodservice customers have not resumed ordering our products, or where they have, have pared down to only the most popular items.

Outstanding Accounts Receivable Problems

One of the biggest issues affecting the seafood supply chain in the wake of the pandemic is the large unpaid debts owed to distributors for food that restaurants could not sell due to COVID-related government shutdown orders.

Seafood has a complex supply chain that runs from the boat or aquaculture farm through processors and distributors until it finally reaches the consumer. The middle of the value chain is not only a critical link in distribution but also helps provide essential financing our customers need to purchase products and pay their employees. Typically, restaurants purchase their supplies on payment terms that allow them to generate revenue before the bill comes due, normally 30-60 days after delivery.

When restaurants were forced to close in March, our foodservice customers had no sales and have not been able to pay Slade Gorton and companies like ours. Now that some restaurants are trying to re-open, they will again need to rely on us to provide credit so they can purchase the products they need. We are then faced with choosing to extend further credit, at higher risk of not being paid, or, abandoning what are in many cases decades-long customer relationships. Our company has largely chosen to stick by our customers, but at significant cost and risk.

What complicates this even further is the way in which most distributors help finance their operations — that that is, through asset-based lending from banks. Credit lines are tied to a distributor's assets, primarily inventory and receivables. As both receivables and inventories age, their value declines, reducing the distributor's borrowing capacity. With sales dropping dramatically, lost profits exacerbate this lack of liquidity, limiting a distributor's ability to purchase more seafood with which to service restaurant customers as they try to recover. It is a vicious cycle. The most recent challenge is that product is backed up in the entire system, choking cold storage facilities and limiting production capacity in processing plants.

We estimate that the seafood industry has about \$2.2 billion in outstanding bad debt and other distributors have about \$10 billion. Small businesses cannot absorb a deficit of this magnitude. We need help to fix this.

Accounts Receivable Conundrum

How COVID-19 has Disrupted Seafood Distribution

Standard Operating Procedure



The **bank** gives the distributor a loan.



The **distributor** buys the fish and sends the fish to the restaurant.



The **restaurant** pays the distributor once they sell the fish they ordered, and the distributor pays back the loan.

COVID-19 Disruption



Restaurants closed and couldn't serve the fish they ordered, leaving them unable to pay the distributors.



The **distributors** can't pay off the loans from the bank because the restaurants did not pay them for the fish they originally ordered.



The **banks** won't give new loans to the distributors who already owe them, meaning the distributors can't supply more fish to establishments now open & ready to serve.

Seafood suppliers need Federal economic help to cover debts owed to them by restaurants that closed due to government order.

Paycheck Protection Program

I want to thank the members of this Committee and the rest of Congress for moving so quickly in March to create the Paycheck Protection Program (PPP) as part of the CARES Act. It was a true testament to Congress working together to help Americans in a time of great turmoil. This funding has helped seafood businesses retain employees and offset payroll, mortgages, rent and utilities. Without this program, many seafood distributors and other small businesses would not have been able to survive. The PPP was exactly the type of program we needed and continue to need, and we strongly support efforts to extend this program.

As soon as SBA and lenders announced they were going to start lending under the PPP, it was a struggle to secure a loan, while at the same time trying to keep the business afloat. My company's lender was initially prevented from participating in the program, so in order to save my business we had to immediately pivot and find a secondary lender. We were fortunate. I have heard horror stories of others who were not so fortunate, and who could not get a loan. I can also attest to how difficult the paperwork was to fill out. I understand that the intent is to ensure that the businesses applying are meeting the objectives of the PPP, but without guidance from my trade association it would have been nearly impossible to navigate. Most small family businesses would have had problems. It is my hope that any efforts to extend or renew the program would also make the process and paperwork easier for small businesses.

Looking Forward

If we are going to help the economy get back on track, we need to help small businesses survive this pandemic, especially restaurants. Current figures suggest that 25% of all restaurants in the United States have closed forever, many of them family businesses like mine. It is imperative that Congress pass another stimulus bill. Small business owners like me need additional help in order to hire and re-hire our employees who were let go or furloughed. I urge Congress to increase the flexibility around the use of PPP loan funds that qualify for forgiveness, including adding payments to suppliers as a covered forgivable expense. This change would allow restaurants and other commercial seafood customers to use PPP funds to pay off their bad debt for product received before the shutdown in March and to purchase food and supplies. The upfront costs for products and supplies can be prohibitive, particularly given that restaurants that have been able to re-open are still operating in suboptimal economic conditions. With this change, the PPP can provide access to much-needed funds for bad debt and for operating expenses by restaurants and other customers struggling to stay open, protecting jobs and preventing permanent closures. It would go a long way toward stopping the death spiral.

Congress also should take a look at some form of help to small businesses trying to restart operations. Increased costs associated with frequent sanitizing; new employee training regimens; retrofitting processing lines, offices, retail spaces, and restaurant dining rooms; and providing PPE supplies for employees and patrons are very difficult for struggling restaurants and small businesses to absorb in this environment. Federal grants or tax credits to help pay for these critical safety measures would go a long way in helping small businesses like mine. Ultimately,

jumpstarting the economy requires continued support for those businesses that account for 80% of our GDP, small businesses.

Conclusion

The seafood industry and our system of processors and distributors is a complex one, but one that helps ensure every American has access to this healthy and sustainable protein at a price point families can afford. Without companies like ours, in the middle of the supply chain, families in Colorado, Kansas, Minnesota, upstate New York, Oklahoma, and Ohio, and of course, all across this great country, would have little to no seafood in their restaurants or stores. The seafood community is a family of almost 2 million Americans unknown to rest of the country. On the bridge of a fishing boat we are iconic, but as distributors in Middle America, we are invisible. In these challenging times we need you to recognize the seafood community as the vibrant and diverse system we are. Finally, I implore you to recognize the challenges and needs of our industry's lifeblood, restaurants. Food is the foundation of health and well-being, and lies at the center of happiness, human connection, and a vibrant nation. Our families have fed your families for generations. Our families now need you.

Thank for allowing me to discuss the impact COVID-19 continues to have on the food industry and the seafood industry in particular and for this invitation to appear before the Committee. I will be pleased to answer your questions.



Prepared Testimony and Statement for the Record of

Jimmy Wright, Owner, Wright's Market

On Behalf of the National Grocers Association

Hearing on "How COVID-19 Impacted Small Businesses Across the Food System"

Before the

House Small Business Committee

September 30, 2020

2175 Rayburn House Office Building

Washington, D.C.

Opening Remarks & Background on Wright's Market

Good morning Chairwoman Velazquez, Ranking Member Chabot, and members of the House Small Business Committee. Thank you for allowing me the opportunity to serve as a witness today and share my experience as an independent grocer serving at the frontlines of the COVID-19 pandemic. I am the owner and president of Wright's Market in Opelika, Alabama. It is an honor to be in front of you today albeit virtually.

I am testifying today on behalf of the National Grocers Association, the trade association representing the independent grocery industry. NGA is the national trade association representing retailers and wholesalers that comprise the independent sector of the supermarket industry. Roughly half of NGA's retail members, including Wright's Market, fall under the Small Business Administration's threshold for small businesses. The independent supermarket industry is accountable for close to one percent of the nation's overall economy and responsible for generating \$131 billion in sales, 944,000 jobs, \$30 billion in wages, and \$27 billion in taxes. Defined as privately held, family owned or employee owned businesses, independent supermarket operators run businesses of all formats and sizes, serving a wide range of customers in their local communities. Having often been in business for generations, independent grocers are dedicated to their customers, associates and communities.

Wright's Market is a family owned business. My store originally opened as a small 2100 sq. ft. convenience store in 1973. I worked there as a student in high school and purchased the store from my previous employer in 1997. My store has expanded over the years to its current size of 22,000 sq. ft. We are a full-service supermarket and uniquely positioned to serve the community of Opelika, and I am grateful to have the opportunity to give back in many ways to my hometown.

During my testimony I will share my experience as an independent grocer serving my community throughout the COVID-19 pandemic. From panic buying, supply chain disruptions, to major operational challenges, the food retail industry has been faced with many obstacles since March. Unfortunately, the competitive playing field has also been tilted against smaller, independent grocers during the pandemic as antitrust policies and federal nutrition programs currently favor the most dominant players in food retail marketplace. In my testimony, I will outline how Wright's Market has worked hard to overcome these challenges, and I will also share some ideas on how Congress can help the independent supermarket industry so that small grocers, like myself, can best serve our communities.

Independent Grocery During the COVID-19 Pandemic

Without a doubt, 2020 has been the most challenging year that Wright's Market has been in operation. Since the President declared a national emergency and the Administration designated grocers as critical infrastructure businesses, independent grocers have experienced sustained and unprecedented levels of demand for grocery and household products. The emergency triggered two of the biggest weeks in grocery retailing in documented history as we experienced the effects of panic buying and the closure of food service establishments. Customers came in large volumes and stocked up on groceries and household products taking fewer trips with much larger basket sizes. According to a recent NGA and FMS Solutions financial benchmark study, the average shopper stocked up on 2-3 weeks of food. The hardest hit categories were household products, shelf-stable center aisle goods like canned soups and vegetables, rice, beans, and pasta. Nationally, meat sales nearly doubled in mid-March and produce sales were up 35 percent over last year's peak. Food retail experienced shortages across a number of

product categories during the early part of the pandemic, but the American food supply system showed resilience and caught up with demand in most grocery product categories. However, the independent supermarket industry continues to experience shortages and limited allocations of key high-demand products, which I will explain further later in my testimony.

Although sales volumes and revenue remain high for food retailers, independents experienced major operational changes to accommodate demand and to implement safety protocols to protect customers and employees from exposure to the virus. The beginning of the crisis was especially difficult because the government and public health experts did not have a firm handle on how to protect against transmission. We took extreme precautions to ensure the safety of the food retail environment, installing plexiglass shields at checkout, requiring the wearing of face coverings, instituting senior hours, and cleaning and disinfection the store thoroughly each night. According to the NGA and FMS Solutions study, two-thirds of independents adjusted their store hours to restock product, sanitize the stores, and to open the store to seniors and first responders before allowing access to the general public. Over 80 percent of stores installed plexiglass shields at the checkout counters to protect customers and store clerks. About 85 percent increased overtime pay and paid employees above their normal rate of pay for working during this challenging time. Wright's Market doubled the rate of pay for our employees early in the pandemic and provided bonuses and overtime pay as the pandemic wore on.

Early in the crisis, grocers faced difficulties procuring personal protective equipment (PPE) for their employees. Nationwide PPE shortages and conflicting messages from the government posed challenges for food supply workers. We struggled to find suppliers for hand sanitizers, face coverings, gloves, and face shields. A number of grocers had large PPE order cancellations because we competed with the federal and state government procurement efforts. Eventually the federal government helped to supply grocery stores with much-needed equipment. The Department of Agriculture (USDA) and the Federal Emergency Management Agency (FEMA) worked with NGA to distribute free cloth face coverings to grocers across the United States.

Frontline Workers Should Be Recognized for Their Service

The industry's ability to meet our customers' needs would not be possible without the dedicated and talented frontline workers who show up to work every day to move product and keep store shelves stocked. These workers are serving as they face serious challenges, including childcare, transportation interruptions, and health concerns. They are on the frontlines of the war against coronavirus at great personal cost. Seven months of working during the pandemic has taken a toll on our workers who are mentally and physically exhausted. While grocers have stepped up to do their part to recognize these supermarket superheroes by providing overtime pay, bonuses, and increased wages, we believe Congress must step up and show their support as well. NGA appreciates efforts by the House of Representatives in passing the HEROES Act, which would increase the compensation of frontline workers. As talks continue about another economic relief package, NGA urges Congress to work towards a bipartisan solution that would provide for these workers. NGA supports the approach taken by Small Business Committee Member, Rep. Dwight Evans (PA-03), in bipartisan legislation he introduced with Rep. G.T. Thompson, H.R. 6841, the AG CHAIN Act. This bill would enact temporary payroll and income tax relief to frontline food industry workers. From a small business perspective, we would be able to implement this legislation immediately through simple changes in the payroll department. It would have

an immediate impact on employee take-home pay and show these workers the federal government's appreciation for their service to our country during this challenging time.

Staffing Challenges Persist in the Independent Supermarket Industry

Throughout the pandemic, grocers have faced workforce challenges in keeping up with the operational demands of running a food retail business during a pandemic. Historic demand – in addition to enhanced sanitization practices and enforcement of social distancing guidelines – has required grocers to scale up their workforce significantly. Despite high unemployment rates, we face challenges in recruiting and retaining workers. After the CARES Act passed Congress, the additional \$600 per week in unemployment compensation, made it more difficult for grocers to attract workers. We understand the tremendous strain on unemployment agencies and agree there's a strong imperative for the federal government to provide for workers who lost their jobs through no fault of their own. However, Congress and state governments must find a way to equip the unemployment agencies with needed technology and capacity upgrades to improve the way unemployment compensation is delivered. NGA recommends a programmatic overhaul by capping compensation to a percentage of previous wages to eliminate any disincentives to work. Without access to a robust workforce, independent grocers will be hard pressed to deliver critical food and household supplies to the American public.

Liability Exposure is Number One Concern for Independent Grocers in Pandemic

Throughout the crisis, grocers have taken the lead in adopting procedures to protect customers and employees from exposure to the virus. Even though we continue to work around-the-clock to meet the demands of hungry American consumers, independents are growing more concerned about plaintiff's attorneys mobilizing against grocers to sue them simply for staying open. The unfortunate reality is, even with all of our proactive steps we've taken to protect associates and shoppers, the coronavirus is everywhere, and it's not possible to guarantee that it won't impact my store.

According to the law firm Hunton, Andrews, Kurth, more than 5,000 COVID-19 related claims have been filed against defendants already and that number is rising quickly¹. Fighting a claim will be costly and time-consuming and might even put me out of business. If I implement health and safety precautions, I should not have to defend against difficult to disprove claims and divert precious resources that my store and employees need.

Congress can help solve this problem by creating targeted liability protections for companies that follow federal and state public health guidelines during the coronavirus pandemic. We are encouraged by several bipartisan efforts in the House to enact limited commonsense liability protections. NGA supports H.R. 7528, the Get America Back to Work Act, a bipartisan bill introduced by Reps. Cuellar (D-TX) and Graves (R-LA), that would protect businesses that made good faith efforts to comply with federal, state and local guidance or appropriate industry standards and guidance. We are also encouraged by the framework proposal introduced by the Problem Solvers Caucus to provide liability protections in exchange for increased workplace protections. However, the devil is always in the details. It's a necessity for liability protections to be retroactive to the very beginning of the crisis since we've remained open to serve the American public

¹ <https://www.huntonak.com/en/covid-19-tracker.html>

Critics of liability protections have portrayed it as a give-away to large businesses, but the opposite is true. Small businesses stand to lose the most if Congress does not act. Unlike our large competitors, we lack sophisticated legal departments and cash necessary to defend ourselves against a wave of lawsuits. Perversely, this puts a target on the backs of smaller businesses who are easier to take down than larger competitors. NGA requests that the Committee stand up for small businesses in demanding sensible liability protections as Congress continues to debate another round of economic relief.

Product Shortages and Food Supply Chain Disruptions

The COVID-19 pandemic has made the grocery supply chain literally a kitchen table issue for the American people. The crisis has tested the resilience of the food and consumer product supply chain like never before. Even after the first wave of panic buying, the grocery supply chain continues to struggle to keep up with consumer demand, a trend disproportionately impacting independent grocers and their customers.

Protein Sector Disruptions

At the early stages of the pandemic, we saw acute disruptions in the protein sector. At first, egg prices soared to historic levels. Prices increased by nearly \$2.00 per dozen between March and April despite little evidence of lower output capacity from egg producers. Meat prices also dramatically increased during the early part of the, despite falling cattle prices. As meatpackers faced disruptions due to outbreaks of COVID-19 leading to capacity reductions, the wholesale price of meat skyrocketed at the same time that consumers engaged in a wave of panic buying.

As prices rose, independent grocers and wholesalers mistakenly fell victim to price gouging complaints by consumers and State attorneys general. To remain competitive and keep food prices as low as possible, independent grocers operate under an average net profit margin of 1 to 2 percent. As supplier prices increase, grocers continue to follow their established pricing structure and policies, while also working to mitigate such increases and keep prices low. Despite these efforts, higher supplier prices impact cost of goods, which in turn lead to high prices for consumers. The result is that retail grocers make a Sophie's choice: squeeze already razor-thin margins to keep retail prices low and customers happy, or pass along the increased costs into higher retail prices and risk angry customers along with accusations of price gouging.

Independent grocers were wrongly targeted by a wave of price gouging inquiries from law enforcement that required us to expend valuable time and resources producing records and documentation to fight back against these unfounded accusations. We are unaware of a single NGA member who was found to violate price gouging laws, but we suffered reputational harm from our customers.

NGA believes that dramatic price spikes in the protein sector are indicative of a disturbing trend of concentration in the food supply chain. Both farmers and consumers have been squeezed by a handful of firms that dominate the supply of protein products to the food retail sector. Rather than targeting grocers for unfounded price gouging investigations, what is needed now are antitrust inquiries into protein supply chain practices and potential enforcement actions. Continued wholesale pricing increases hitting grocers and their customers are not sustainable as the country continues to navigate the ongoing pandemic.

The Pandemic is Exacerbating Economic Discrimination Against Small Businesses

Inconsistent distribution and apparent shortages of consumer good staples has made it difficult for consumers to obtain high-demand products like paper products, cleaning supplies, and popular packaged food brands, as well as other commodities. However, this is not just a symptom of the current crisis – it is the direct result of economic discrimination in the grocery marketplace allowed by a lack of antitrust enforcement. Dominant players in the grocery marketplace and e-commerce giants are actively using their “buyer power” to impose discriminatory conditions on manufacturers and suppliers that disadvantage smaller, independent grocers like Wright’s Market and impede our ability to compete.

For decades, independent grocers have not had equal access to pricing, promotions and packaging deals that are provided to large firms. For example, dominant retailers have imposed arbitrary “channels of trade” classifications on manufacturers to justify discrimination against independent grocers and wholesalers on price and product availability, arguing, contrary to real world behavior, that grocery stores don’t compete with grocery sections of big box stores or e-commerce sites. Anticompetitive buyer power has also impacted the private label supply chain, reducing independent grocers’ access to products. Just like branded product manufacturers, private label manufacturers are forced to cater to the demands of dominant retail players over independents. As a result, budget-conscious consumers lose access to affordable alternatives at their convenient local grocer. And discrimination in product packaging or packaging sizing can confuse consumers, who may mistakenly believe that independent grocers are charging more than big box stores for the same products.

The current crisis has exacerbated economic discrimination in the grocery sector. Since March, the large firm “power buyers” have leveraged their market power to demand prioritization for distribution of high-demand products while extracting concessions on wholesale pricing². Independent grocers have lost access to both popular products and promotional pricing, which have made us less attractive to consumers seeking one-stop-shopping in the pandemic. Like many independents across the country, we lost access to key product offerings. My wholesaler reported receiving extremely limited allocations of high-demand products, as I watched my big box chain competitors continue to sell product that wasn’t available to me. In fact, one of the few times my wholesaler could access paper products in the early pandemic was through the so-called diverter wire, an industry service that allows buyers to access an oversupply of product from another buyer. Independent grocery wholesalers across the country reported similar experiences of finding products on diverter wires otherwise unavailable to them from suppliers. Another distributor I do business with reported that suppliers are pausing their service altogether so they can first accommodate the orders of large-volume retailers. My wholesaler also reported that promotional trade spending was down considerably by 20 percent, a tool that independent retailers use to compete on price and put products on sale, known as “Temporary Price Reductions.” Some suppliers have cut trade spending and promotions to independents altogether. These behaviors indicate a major competitive imbalance in the supermarket industry that favors large-volume retailers and e-commerce giants. Not only are the largest firms commanding the lion’s share of high-demand products, but they are able to access grocery products at far lower prices than independent grocers.

² https://progressivegrocer.com/walmart-pressures-suppliers-delivery-times?utm_source=omeda&utm_medium=email&utm_campaign=NL_PG+Daily+5&utm_keyword=&oly_enc_id=6799J132046712K

Consumers that live in rural areas are serviced by independents are disproportionately impacted and must travel longer distances to find products they need at more crowded large chain retailers. Like many American small businesses, independent grocers are at a more severe economic disadvantage to their larger rivals during the pandemic, a period when big box retailers and e-commerce giants are generating record profits³.

In 2005, NGA warned about this growing problem to the Antitrust Modernization Commission, concluding that the lack of enforcement against economic discrimination through laws like the Robinson-Patman Act was “help[ing] accelerate the rush to “bigness” and “scale” in a business environment in which sheer size influences buyer/seller decisions.”⁴ Unfortunately, regulators did not take seriously this growing threat and as a result the supermarket industry has experienced a rapid acceleration in concentration of economic power. These practices will only continue after the pandemic is over unless Congress or the antitrust regulators act. Consequently, consumers will face reductions in diversity in the marketplace, and choices will be limited to what the few remaining mega-retailers find most profitable.

For decades, NGA has argued strong and effective enforcement of US antitrust laws is essential to preserving a vibrant marketplace and ensuring small and mid-size businesses are able to compete and flourish to the benefit of all Americans. More robust competition in the food retail space will also benefit food insecure areas, as independents will be more inclined to invest in food desert locations if they have an opportunity to compete on price and product availability.

SNAP Online Purchasing & E-Commerce

The pandemic has accelerated a rapid migration to e-commerce for grocery shoppers. In March 2020, e-commerce sales exploded quickly with demand far exceeding slot availability in many cases. For the overall industry, e-commerce sales were between 80 to 100 percent higher year-over-year between mid-March and mid-May, but slowed when lockdowns began to ease and food service establishments re-opened. Fortunately, prior to the pandemic, the independent supermarket industry saw this change coming. NGA’s survey data suggests that 64 percent of independents offered some form of e-commerce in 2019 with about half of respondents without e-commerce capabilities indicating they planned to make the investment in e-commerce in 2020. If you were a grocer and not online before the pandemic, then you probably are now. Wright’s Market made the move online in 2016 and has been delivering groceries to customers’ homes in the Opelika and Auburn areas of East Alabama via a shuttle service called “Wright 2 U.”

Wright’s Market is also one of the original retailers, and the only single-store operator, that was selected to participate in, and successfully launched, the U.S. Department of Agriculture’s (USDA) Supplemental Nutrition Assistance Program (SNAP) Online Purchasing Pilot. This program was created in the 2014 farm bill and allows customers to use their benefits online at participating retailers’ websites. Wright’s Market launched SNAP online purchasing in March 2020, just days before the declaration of the national public health emergency. Since then, I have been able to better serve customers according to their

³ <https://www.nytimes.com/2020/08/19/business/coronavirus-walmart-target-home-depot.html?smid=em-share>

⁴ Statement of J.H. Campbell, Jr., on Behalf of the National Grocers Association, Before the Antitrust Modernization Commission on the Robinson-Patman Act (July 28, 2005).

needs, which is critical during the pandemic since many members of the communities surrounding my store have shifted their shopping preferences to online to avoid physically coming into retail stores.

SNAP is an invaluable program to the members of the community that I serve. In fact, over 40 percent of the retail sales at Wright's Market are to SNAP customers. In my experience as a store owner, most SNAP customers are hardworking people who do not want to be on government assistance. At Wright's Market, we feel that each customer should be treated with the same respect and level of service, no matter the form of payment. I am excited to use SNAP online purchasing to help address the issue of food deserts across East Alabama. There are many areas in Alabama that are considered food deserts, with a few hundred to a thousand residents lacking access to healthy foods. In these rural areas, small towns do not have the population density to support a profitable full-service brick and mortar grocery store. In many of these communities, the only food sources are found at convenience stores and dollar stores, many of which often lack fresh produce and meat due to supply chain issues. Being able to offer online purchasing and delivery to SNAP customers in the surrounding communities allows me to provide these families with my store's entire inventory of over 12,000 items, including a full variety of fresh meat and produce.

However, for SNAP customers to purchase groceries online the community must be educated about the program. I have found that although I have successfully launched SNAP online purchasing, many customers are not aware of the program or simply do not know how to order their groceries online. I was fully prepared to conduct extensive outreach in my community, but the pilot was delayed so many times in Alabama that it became difficult to do the outreach as planned. I would like to do a presentation with local churches and community centers to walk through the SNAP online purchasing process from the customers' perspective from start to finish. As SNAP online purchasing continues to expand into communities nationwide, I anticipate that a lack of education will be a challenge, especially for small retailers that don't have the capacity to conduct large outreach and advertising campaigns.

While many grocers have responded to the shift of consumers shopping from home by providing the opportunity for customers to purchase items via e-commerce or curbside pickup, small retailers face very high costs of entry to accept SNAP benefits online, and they also must work through an extensive application and testing process with USDA's Food and Nutrition Service (FNS), an e-commerce company of choice and a third-party processor. The technical barriers and expensive costs make it a difficult endeavor for many small retailers to pursue. Even though USDA FNS reopened the application process for retailers interested in participating in SNAP online purchasing and 47 states have been approved, my store is still the only single store operator that has been approved and launched.

Meanwhile, larger competitors, including Amazon and Walmart, have launched almost nationwide. However, the only grocers serving many rural communities across the country are independents, and until they can participate in SNAP online purchasing many members of these communities will be left behind. This comes at a time when SNAP participation is increasing, and food price inflation is occurring. According to a report released by USDA in June 2020⁵, there was a 5 percent increase in the cost of the Thrifty Food Plan from last year, an increase that is more than double the 20-year annual average increase of around 2 percent.

⁵ <https://www.fns.usda.gov/news-item/fns-001020>

Congress needs to act on legislation that will help make it more feasible for independent grocers to participate in SNAP online purchasing. I encourage the members of the Small Business Committee to cosponsor H.R. 7535, the Expanding SNAP Options Act, bipartisan legislation introduced by Rep. Robin Kelly (D-IL) that would provide financial and technical assistance for small retailers participating in SNAP online purchasing. The bill will help assuage some of the greatest challenges independent grocers face in getting set up for SNAP online purchasing, such as the expensive start-up and ongoing operating costs. It would also create a technical assistance center, which would be incredibly instrumental in providing support to small retailers that lack the resources and capacity to jumpstart the program by themselves. Another option that I recommend is for Congress to provide a tax credit for small retailers to cover the expensive start-up costs of implementing the program. A tax credit of up to \$10,000 annually for grocers falling into the Small Business Association's definition would go a long way in helping to get more independents up and running for this important program. NGA is currently working with several champions in Congress to advance the tax credit idea to help level the playing-field for independents.

Conclusion

As the Small Business Committee continues to work to advocate for the needs of small business, I strongly encourage all Committee Members to consider NGA's policy recommendations to help boost family owned, privately held grocers across the country. Independent grocers like Wright's Market share much of the same challenges and risks faced by the entire food industry in the pandemic, including liability exposure, employment and workforce issues, rising consumer goods costs, and operational difficulties. However, the pandemic has tilted the playing field sharply in favor of our largest competitors, as grocery power buyers have leveraged their market power to demand prioritization for distribution of high-demand products and online SNAP purchasing is only available through Amazon and Walmart for most SNAP shoppers. These are key competitive issues that will impair our ability to succeed in the grocery marketplace unless the federal government acts to stand up for Main Street grocers like Wright's Market. I am grateful for the privilege to testify in front of the committee today, and I appreciate your service to our nation. I look forward to addressing your questions. Thank you.

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TESTIMONY OF ROB LAREW
President
National Farmers Union

SUBMITTED TO THE U.S. HOUSE OF REPRESENTATIVES, COMMITTEE ON SMALL BUSINESS

"How COVID-19 Impacted Small Businesses Across the Food System"
September 30, 2020

2175 Rayburn House Office Building
Washington, D.C.

Chairwoman Velázquez, Ranking Member Chabot, members of the committee, thank you for the opportunity to testify today.

I am Rob Lawew, president of National Farmers Union, an organization that works to improve the wellbeing of and economic opportunity for family farmers, ranchers, and rural communities through grassroots-driven advocacy. Founded in 1902, today NFU represents approximately 200,000 farmers across the country.

The public health emergency precipitated by the COVID-19 pandemic has upended the lives of many Americans, and that includes family farmers, ranchers, and those residing in rural communities. The pandemic has led to dramatic shifts in consumer demand and the shuttering of processing facilities, which has crippled agricultural supply chains. Farmers, ranchers, and rural residents are also grappling with a deficient rural health infrastructure and inadequate access to broadband Internet as the world continues to shift daily essential tasks online. While the disruptions caused by the pandemic are unprecedented, many of the problems we face are nothing new. Rather, the pandemic laid bare the fragility underlying parts of our current food and farm system. We should institute reforms that increase the resiliency of the system in order to protect farm families and consumers alike.

Conditions facing family farmers and ranchers prior to the COVID-19 pandemic

Over the past several decades, the farm economy has been beset by sustained corporate consolidation, rising concentration in agricultural markets, and chronic cycles of overproduction in several commodities. These issues have been compounded in recent years with low crop prices, a global trade war, and increasingly frequent and severe weather events. Additionally, rural communities face underfunded and understaffed hospitals and often lack adequate broadband access.

Farm financial crisis

Since 2012, annual net returns for farmers have trended downward for major row crops, including corn, soybeans, and wheat, due to rising production costs and declining prices for commodities.¹ A highly concentrated and uncompetitive market for agricultural chemicals, fertilizers, and machinery has resulted in rising input costs. At the same time, prices for major row crops have been relatively low since 2014.²

A clear example of the crisis in the farm economy can be found in the dairy sector, where farmers in the United States have been going out of business in large numbers. In 2019, dairy farmers experienced a fifth straight year of low prices. For some farmers, this meant losing money and taking on more debt to stay in business, while other farmers chose to sell their herds. The number of dairy farms declined each

¹ “Producers see negative net returns for corn, soybeans, and wheat in recent years,” September 11, 2020, USDA Economic Research Service (ERS), <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=99306>.

² “U.S. Farm Income Outlook: September 2020 Forecast,” *Congressional Research Service*, September 23, 2020, <https://crsreports.congress.gov/product/pdf/R/R46539>.

year for more than a decade, and the pace of herd loss accelerated in 2018 and 2019. More than 2,700 dairy farms closed in 2018 (a 6.8 percent decrease), and nearly 3,300 dairy farms were lost in 2019 (an additional 8.8 percent decrease).³ A recent price rebound will not be sustainable as it is driven by government purchases and reverberations from pandemic-related supply and demand shifts. The loss of small dairy herds, the rise of mega-dairies, and the phenomenon of dairy prices consistently sitting below the cost of production have become business as usual.

As a result of these financial challenges, farm debt today is at an all-time high, akin to the debt load farmers carried during the crisis of the 1980s.⁴ While economic conditions on the farm are not identical, especially with much lower interest rates today as compared to 35 years ago, farm bankruptcies are on the rise.⁵

Trade wars and retaliatory tariffs

In 2018, the Trump Administration imposed Section 232 tariffs on steel and aluminum imports and Section 301 tariffs on many U.S. imports from China. In response, China levied retaliatory tariffs on nearly all U.S. agricultural products; many other countries also targeted U.S. farmers and ranchers with retaliatory tariffs of their own. These tariffs depressed prices for certain agricultural commodities and reduced export volumes. In 2018, these lower prices and exports, combined with higher input costs, resulted in a 16 percent decrease in U.S. net farm income as compared to 2017.⁶

The U.S. Department of Agriculture (USDA) offered multiple rounds of short-term financial assistance to farmers and ranchers through the Market Facilitation Program (MFP) to attempt to offset losses. However, despite nearly \$25 billion spent under MFP, these payments did not address the long-term consequences of the trade war such as shifts in trade patterns and loss of export markets that took decades to build.

Climate Change

Climate change is creating new challenges for farmers and ranchers and increasingly putting the food supply at risk. Extreme weather events are wiping out fields of crops while changing precipitation patterns and average temperatures are affecting growing seasons and stressing livestock. The summer of 2020 was the fourth hottest on record in the United States and brought with it record hurricane

³ James M. MacDonald, Jonathan Law, Roberto Mosheim, "Consolidation in U.S. Dairy Farming," *USDA Economic Research Service*, ERR-274, July 2020, <https://www.ers.usda.gov/webdocs/publications/98901/err-274.pdf?v=8873.9>.

⁴ "Assets, Debt, and Wealth: Farm sector equity (wealth) forecast to remain steady in 2020," *USDA Economic Research Service (ERS)*, September 2, 2020, <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finance/assets-debt-and-wealth/>.

⁵ Jesse Newman, "More Farmers Declare Bankruptcy Despite Record Levels of Farm Aid," *Wall Street Journal*, August 6, 2020, <https://www.wsj.com/articles/more-farmers-declare-bankruptcy-despite-record-levels-of-federal-aid-11596706201>.

⁶ Anita Regi, "Retaliatory Tariffs and U.S. Agriculture," *Congressional Research Service*, R45903, updated September 13, 2019, <https://crsreports.congress.gov/product/pdf/R/R45903>.

activity in the Atlantic Ocean and wildfires in the West.^{7 8 9} To be sure, 19 of the 20 warmest years on record have occurred since 2001—a trend that is expected to continue, further exacerbating the issues farmers face.¹⁰

Farmers have always had to contend with inhospitable weather conditions. Every season, farmers face the risk of losing crops or livestock due to drought, excessive rainfall, a late spring cold snap, a withering heatwave, or a major storm. For example, in mid-August this year, a devastating derecho passed from South Dakota to Ohio, leaving a path of destruction; in Iowa, as much as 43 percent of the corn and soybeans grown in the state may have been affected.¹¹

Corporate consolidation and market concentration

Prior to the disruptions precipitated by the COVID-19 pandemic, family farmers and ranchers were already facing immense consolidation in the agricultural markets that both supply to and buy from their operations. Multiple waves of nearly unfettered mergers and acquisitions over several decades has resulted in an agricultural and food supply chain system that is less competitive, resilient, and flexible, and underpays farmers while overcharging consumers. Just four companies controlled approximately 83 percent of beef slaughter and processing in 2017, and there are high levels of consolidation in pork and poultry as well. In 2015, four companies controlled 85 percent of the market for seed corn and 76 percent of the market for soybean seeds in the United States.^{12 13}

Livestock slaughter and processing facilities are also heavily consolidated. Today there are approximately 835 federally inspected slaughter facilities and 1,938 other slaughter facilities in the United States.¹⁴ In 1968, there were nearly 10,000 total slaughtering establishments across the

⁷ “Summer 2020 ranked as one of the hottest on record for U.S.” National Oceanic and Atmospheric Administration. September 9, 2020, <https://www.noaa.gov/news/summer-2020-ranked-as-one-of-hottest-on-record-for-us>.

⁸ “‘Extremely active’ hurricane season possible for Atlantic Basin.” NOAA. August 6, 2020, <https://www.noaa.gov/media-release/extremely-active-hurricane-season-possible-for-atlantic-basin>.

⁹ Blacki Migliozi, Scott Reinhard, Nadja Popovich, Tim Wallace and Allison McCann, “Record Wildfires on the West Coast Are Capping a Disastrous Decade,” *The New York Times*, September 24, 2020, <https://www.nytimes.com/interactive/2020/09/24/climate/fires-worst-year-california-oregon-washington.html>.

¹⁰ “Global Temperature,” *National Aeronautics and Space Administration (NASA)*, <https://climate.nasa.gov/vital-signs/global-temperature/>.

¹¹ Matthew Cappucci, “Midwest derecho devastates Iowa corn crop. Satellite imagery shows damage,” *The Washington Post*, August 13, 2020, <https://www.washingtonpost.com/weather/2020/08/12/iowa-derecho-corn-damage/>.

¹² Jorge Fernandez-Cornejo, “The Seed Industry in U.S. Agriculture: An exploration of data and information on crop seed markets, regulation, industry structure, and research and development,” *USDA Economic Research Service*, https://www.ers.usda.gov/webdocs/publications/42517/13616_aib786_1_.pdf?v=3857.1.

¹³ James MacDonald, “Mergers and Competition in Seed and Agricultural Chemical Markets,” *USDA Economic Research Service*, 2017, <https://www.ers.usda.gov/amber-waves/2017/april/mergers-and-competition-in-seed-and-agricultural-chemical-markets/>.

¹⁴ “Livestock Slaughter: 2019 Summary,” *USDA National Agricultural Statistics Service (NASS)*, April 2020, <https://downloads.usda.library.cornell.edu/usda-esmis/files/r207tp32d/34850245n/5712mr72x/lsan0420.pdf>.

country.¹⁵ As the number of plants has shrunk, many remaining plants have grown in size; for example, just 50 plants slaughter and process 98 percent of all cattle in the United States.¹⁶

Rural Health and Infrastructure

Rural communities have limited access to health care, including mental health services, as well as high speed broadband. A lack of infrastructure holds back rural economies, reduces educational opportunities, and worsens health outcomes.

Before the pandemic started, one in four rural hospitals were at risk of closure¹⁷ and nearly half were operating at a loss.¹⁸ Rural hospitals are chronically underfunded and understaffed, leading to 125 rural hospitals going out of business over the past decade.¹⁹ The remaining facilities are overburdened with too many patients relative to personnel. Urban areas have 31.2 physicians per 10,000 people and 263 specialists per 100,000 people, while rural areas have just 13.1 physicians and 30 specialists for the equivalent population.²⁰ Additionally, rural health professionals are typically under-resourced, with fewer beds and older medical equipment. Yet, the need is great because people aged 65 and older make up a large share of rural communities.²¹

Internet access has become essential as more daily tasks move online. Yet, the digitization of modern life has left many Americans behind. One in three²² rural Americans do not have access to broadband Internet, making it more difficult for them to run their businesses, communicate with friends and family, access telehealth services, and participate in online education.

Impacts of COVID-19 on family farmers, ranchers, and rural communities

The COVID-19 pandemic has been incredibly disruptive and damaging to family farmers, ranchers, and rural communities. Almost overnight, some farmers completely lost markets they depended on.

¹⁵ "Livestock Slaughter: 1969," *USDA Statistical Reporting Service*, April 1970, <https://downloads.usda.library.cornell.edu/usda-esmis/files/r207tp32d/ht24wp48q/9k41zj37v/LiveSlauSu-04-00-1970.pdf>.

¹⁶ Michael Corkery and David Yaffe-Bellany, "The Food Chain's Weakest Link: Slaughterhouses," *The New York Times*, April 18, 2020, <https://www.nytimes.com/2020/04/18/business/coronavirus-meat-slaughterhouses.html>.

¹⁷ Dave Mosley and Daniel Debehnke, "2020 Rural Hospital Sustainability Index," *Guidehouse*, April 8, 2020, <https://guidehouse.com/insights/healthcare/2020/rural-hospital-sustainability-index>.

¹⁸ Jessica Seigel, "Rural Hospital Closures Rise to Ninety-Eight," *National Rural Health Association*, February 20, 2019, <https://www.ruralhealthweb.org/blogs/ruralhealthvoices/february-2019/rural-hospital-closures-rise-to-ninety-seven>.

¹⁹ Ayla Ellison, "Rural America braces for COVID-19 as more hospitals close," *Becker's Hospital CFO Report*, April 13, 2020, <https://www.beckershospitalreview.com/finance/rural-america-braces-for-covid-19-as-more-hospitals-close.html>.

²⁰ National Rural Health Association (NRHA), <https://www.ruralhealthweb.org/about-nrha/about-rural-health-care>.

²¹ "Defining Rural Population," *U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA)*, <https://www.hrsa.gov/rural-health/about-us/definition/index.html>

²² Andrew Perrin, "Digital gap between rural and nonrural America persists," *Pew Research Center – Fact Tank*, May 31, 2019, <https://www.pewresearch.org/fact-tank/2019/05/31/digital-gap-between-rural-and-nonrural-america-persists/>.

Disruptions were caused by a combination of massive shifts in consumer demand; the closure of restaurants, bars, schools, and other institutions; and outbreaks at critical points in the supply chain, especially in livestock slaughter and processing facilities.

Prior to the pandemic, farmers were already experiencing a steady decline in commodity prices. The pandemic pushed prices lower, while also increasing the price of food for consumers. The U.S. Department of Agriculture “prices received” index for agricultural, crop, and livestock production shows a nearly 6 percent decrease from April through July 2020 compared to the same period in 2019.²³ Price changes differ by crop, but most farmers operate on razor-thin margins and cannot easily absorb losses. The losses farmers have incurred have not been passed on to consumers. Instead, consumers are paying higher prices for food. So far in 2020, the Consumer Price Index for food is approximately 3 percent higher compared to the same period in 2019.²⁴ At grocery stores in particular, consumers paid 5.6 percent more in June 2020 compared to June 2019, the largest increase in nearly a decade.²⁵

While many variables influence the prices for farm products and the retail cost of food, the large price swings during the pandemic have been largely attributed to disrupted supply chains. Prior to the pandemic in 2019, more than half of total food expenditures by consumers, businesses, and governmental entities were away from home (schools, restaurants, planes, trains and cruise ships) compared to food at home (grocery store purchases).²⁶ The pandemic drastically reduced food-away-from-home spending. Many farmers and ranchers were left without a market for their products, leading to surplus crops being buried and milk being dumped. Other farmers who managed to find a market often had to accept a lower price due to sudden loss of demand. Some farmers reported deciding not to plant, concerned about loss of markets.

The vulnerability of these supply chains to shocks is a feature of the extreme concentration in the middle of the supply chain between farmers and consumers: in processing, distribution, and retailing. At least 370 meatpacking plants, or about one third of the national total, experienced COVID-19 outbreaks among employees; as of September 23, 2020, there have been nearly 43,000 cases in the meatpacking sector.²⁷ These outbreaks have led to temporary closures, greatly reducing processing

²³ USDA National Agricultural Statistics Service (NASS), “Agricultural, Crop, and Livestock Production, United States: Received Indexes by Month,” accessed September 22, 2020, https://www.nass.usda.gov/Charts_and_Maps/graphics/data/received.txt.

²⁴ *USDA Economic Research Service (ERS)*, “Summary Findings: Food Price Outlook, 2020,” accessed September 22, 2020, <https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings/#:~:text=In%202020%20so%20far%20compared,an%20average%20of%202.8%20percent>.

²⁵ *USDA Economic Research Service (ERS)*, “Retail prices for nearly all food-at-home categories up in June 2020 compared to June 2019,” July 27, 2020, <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=99014>.

²⁶ “U.S. food-away-from-home spending continued to outpace food-at-home spending in 2019,” *USDA Economic Research Service*, June 15, 2020, <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=58364>.

²⁷ Leah Douglas, “Mapping COVID-19 outbreaks in the food system,” *Food and Environment Reporting Network*, April 22, 2020, accessed September 23, 2020, <https://thefern.org/2020/04/mapping-covid-19-in-meat-and-food-processing-plants/>.

capacity. At the peak of closures, beef and pork facilities were operating 25 percent²⁸ and 40 percent²⁹ below average, respectively. This bottleneck stranded farmers with animals that were market-ready, but had nowhere to go, leading to euthanized animals and depressed prices.³⁰ While many plants have reopened, processing capacity remains strained.

Across the country, in rural and urban communities alike, Americans are suffering from heightened food insecurity. In July, 1 in 5 Americans with children reported that they were not able to afford enough food to feed their families³¹, despite the fact that participation in the Supplemental Nutrition Assistance Program has risen substantially.³² Supply chain disruptions have added to the problem. Many organizations that typically donate large amounts of food have shut down, such as restaurants and hotels. Grocery stores have had less to donate because panicked customers have at times stripped shelves bare. Food banks have had to purchase food that would typically be donated.³³

While economic conditions as a result of the pandemic are troubling, the state of rural health infrastructure is also worrisome. Between the cost of treating acutely ill patients and losing revenue from elective care, the pandemic has added to hospitals' financial difficulties. The loss of rural health care facilities is an especially concerning possibility as the daily number of new COVID-19 cases in rural counties is growing at a higher per capita rate than in urban areas.

The pandemic highlighted the deficit of broadband access in rural areas as work and school have shifted to the home environment. Without sweeping action to close the gap between the rural-urban broadband divide, many rural residents will be left behind.

The federal government's pandemic response for agriculture and rural communities

The Coronavirus Aid, Relief, and Economic Security Act (CARES), as well as some earlier relief measures, provided crucial support for many struggling farm families. Congress should be commended for taking swift action when it became clear that the pandemic would have severe effects on our national health

²⁸ Laura Reiley, "Meat processing plants are closing due to COVID-19 outbreaks. Beef shortfalls may follow," *The Washington Post*, April 16, 2020, <https://www.washingtonpost.com/business/2020/04/16/meat-processing-plants-are-closing-due-covid-19-outbreaks-beef-shortfalls-may-follow/>.

²⁹ Laura Reiley, "Tyson says nation's pork production is down 50%, despite Trump's order to keep meat plants open," *The Washington Post*, May 4, 2020, <https://www.washingtonpost.com/business/2020/05/04/tyson-says-nations-pork-production-is-down-50-despite-trumps-order-keep-meat-plants-open/>.

³⁰ Michael Corkery and David Yaffe-Bellany, "Meat Plant Closures Mean Pigs Are Gassed or Shot Instead," *The New York Times*, May 14, 2020, <https://www.nytimes.com/2020/05/14/business/coronavirus-farmers-killing-pigs.html>.

³¹ David Harrison, "More Americans Go Hungry Amid Coronavirus Pandemic, Census Shows," *The Wall Street Journal*, August 16, 2020, <https://www.wsj.com/articles/more-americans-go-hungry-amid-coronavirus-pandemic-census-shows-11597570200>.

³² Ryan McCrimmon, "After long decline, SNAP rising due to COVID-19," *Politico*, June 24, 2020, <https://www.politico.com/newsletters/morning-agriculture/2020/06/24/after-long-decline-snap-rising-due-to-covid-19-788755>.

³³ Nicholas Kulish, "'Never Seen Anything Like It': Cars Line Up For Miles at Food Banks," *The New York Times*, April 8, 2020, <https://www.nytimes.com/2020/04/08/business/economy/coronavirus-food-banks.html>.

and economy. With tens of millions of Americans out of work, food insecure, or in otherwise critical financial situations, the influx of trillions of dollars into the economy has been extremely helpful. Family farmers and ranchers have accessed aid through a variety of federal agencies, including the U.S. Department of Agriculture (USDA), the U.S. Small Business Administration (SBA), the U.S. Department of the Treasury, and the U.S. Department of Health and Human Services (HHS). The steps taken by lawmakers staved off some of the worst possible outcomes from the pandemic.

Some farmers, ranchers, and small non-farm businesses in rural communities, were able to access support through SBA relief programs, including the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program. Farm and ranch businesses typically access government loan and grant programs through USDA. We commend Congress for recognizing the need and making farm and ranch businesses eligible for PPP and EIDL. Despite having access, some farmers experienced difficulties when applying to SBA programs. Ultimately, SBA data show that only 1.55 percent of PPP loan funds were distributed to agriculture, forestry, fishing, and hunting sectors.³⁴ The extent of EIDL usage by farm businesses is not clear.

Farmers struggled to access PPP, especially at first; some lenders were misinformed about the eligibility of farm and ranch businesses, and farmers reported being wrongfully denied access. Many of these problems were resolved as lenders became more familiar with program rules and SBA released formal guidance. Nevertheless, farmers showing negative net income in 2019 were never eligible for the program. Having a bad year farming is not uncommon and highlights a greater need for assistance.

Farm and ranch businesses were originally deemed ineligible for EIDL³⁵, but the Paycheck Protection Program and Healthcare Enhancement Act corrected this issue.³⁶ Once farmers were eligible, NFU was told the application process was simple, especially compared to PPP. However, because most farm and ranch businesses have relatively few employees, many farmers received only a small fraction of the maximum allowable amount for the forgivable emergency grants. Additionally, some farmers applying for loans or emergency grants never received them because program funding ran out.

Cooperative businesses are incredibly important to rural America, including farmer-owned co-ops that help producer-members market their crops and livestock, consumer-owned rural electric and telecommunication co-ops, as well as retail food co-ops. Cooperatives were pleased to be eligible for SBA pandemic relief programs due to CARES Act language that waived the personal guarantee

³⁴ “Paycheck Protection Program (PPP) Report: Approvals through 08/08/2020,” *U.S. Small Business Administration (SBA)*, <https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf>.

³⁵ Jerry Hagstrom, “SBA Says No to Ag Aid: Farm groups question SBA loan restrictions,” *DTN Progressive Farmer*, April 2, 2020, <https://www.dnppf.com/agriculture/web/ag/news/business-inputs/article/2020/04/02/farm-groups-question-sba-loan>.

³⁶ Small Business Administration (SBA), “SBA to Make Economic Injury Disaster Loans Available to U.S. Agricultural Businesses Impacted by COVID-19 Pandemic,” May 4, 2020, <https://www.sba.gov/article/2020/may/04/sba-make-economic-injury-disaster-loans-available-us-agricultural-businesses-impacted-covid-19>.

requirement. However, cooperative businesses have reported significant barriers to program access. For example, the EIDL application requires prospective borrowers to disclose all owners with a 20 percent or greater stake in the company. But in a co-op of just six or more people, no single member-owner holds that percentage stake and the EIDL application does not allow for any way to describe that fact. While a cooperative can ultimately be approved through an appeals process, a failing initial application puts them at that back of the line and requires an unnecessarily lengthy route to approval.

Assistance from USDA has been essential to farm and ranch families, though it is important to note some of the trouble spots in USDA aid programs. Assistance has not been distributed equitably through the USDA's Coronavirus Food Assistance Program (CFAP). As of September 20th, producers of just three commodities – cattle, corn, and milk – received approximately 77 percent of all program payments.³⁷ Due to program rules, many affected producers were not even eligible for support. Additionally, the top 1 percent of recipients received more than 20 percent of program payments, while the bottom 10 percent received just 0.26 percent.³⁸

The application period for CFAP closed for most producers on September 11. A second round of CFAP, known as CFAP 2, was recently announced. CFAP 2 includes expanded eligibility for some crops that were previously left out. NFU will be watching closely how the program is administered. We remain concerned that many farmers that lost markets and were ineligible for the first round of CFAP may not realize that CFAP 2 includes updated eligibility guidelines. While NFU will communicate program changes to our members and the broader farming community, USDA must do more to reach out to farmers that do not typically access USDA programs.

The other main form of direct federal support for farmers and ranchers through USDA is the Farmers to Families Food Box (FFFB) program. The FFFB program is an attempt by USDA to facilitate the distribution of farm products to people in need of the food from farmers that lost markets due to supply chain disruptions. While the program has undoubtedly helped both people in need of food and some farmers without a home for their products, the program has also been riddled with problems: some suppliers were approved who did not have the capacity to deliver on the program; many smaller farms had difficulty accessing the program; some food banks received too much supply, while others did not receive enough or any; and some regions of the country were covered better than others.³⁹

Amid the worst economic downturn since the Great Depression, the need for additional relief legislation is abundantly clear. The House-passed Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act could offer a helpful path forward for family farmers, ranchers, and rural communities if

³⁷ USDA, "CFAP 1.0 Dashboard: Program Payments by Category and Commodity," Accessed September 23, 2020; dashboard last updated September 20, 2020, <https://www.farmers.gov/cfap/data>.

³⁸ U.S. Government Accountability Office (GAO), "USDA Market Facilitation Program: Information on Payments for 2019," August 21, 2020, <https://www.gao.gov/products/GAO-20-700R>.

³⁹ Lola Fadulu, "As hunger spreads with pandemic, government takes timid steps," *The New York Times*, May 13, 2020, <https://www.nytimes.com/2020/05/13/us/politics/coronavirus-hunger-food-banks.html?auth=login-email&login=email>.

enacted. In addition to offering \$16.5 billion in additional disaster relief for affected farmers, it would include essential funding for health services, state and local governments, housing assistance, infrastructure, biofuel plants, stimulus checks for taxpayers, and nutrition assistance. It would also require long-overdue protections for workers at risk of occupational exposure to COVID-19, including meat plant workers and other food supply chain workers.

Opportunities to improve the wellbeing of farmers, ranchers, and rural communities

There are ample opportunities to improve the wellbeing of farmers, ranchers, and rural communities, ensure food security for consumers, and restore resiliency to our food system. We must find creative solutions to restore fair and transparent markets for farmers, increase competition across agricultural supply chains, regionalize and increase the capacity of livestock slaughter and processing, ensure pandemic aid is distributed equitably and where it is needed most, and strengthen rural health and broadband infrastructure.

Congressional oversight of pandemic aid

NFU is thankful for the aid Congress has provided to farmers and ranchers to make sure they can keep producing the food, fuel, and fiber essential to all Americans. But much of this aid has not been delivered equitably and to all farmers who need it. To ensure that future funding is allocated fairly Congress should oversee the development and execution of USDA farm assistance programs. Additionally, such programs must not contribute to the glut of agricultural commodities by incentivizing overproduction.

Certain restrictions on access to SBA programs should also be addressed. A key barrier to farm and ranch access to PPP is a requirement to show positive net income in 2019. Since 2014, more than half of U.S. farm operations had negative income from their operations. Thus, a significant number of farmers were ineligible to receive a loan through PPP. NFU supports H.R.7175, the Paycheck Protection for Producers Act, which would allow farmers experiencing net negative income in 2019 to qualify for the program using gross income.

We know that relatively few farms benefited from PPP given the small share of funds going to the agriculture, forestry, fishing, and hunting sectors. But we do not know the full scope of farm sector participation in the program due to how SBA reported on loans. We recommend Congress do more to hold SBA accountable and require the agency to provide more data about how these relief programs are used among different sectors, and how the programs are performing.

Fair and transparent markets

With the influx of federal spending on farm assistance payment programs such as CFAP and MFP, policy changes are needed to address the causes rather than simply the symptoms of a broken farm economy. For example, NFU commissioned a study, published in 2011, on the viability of supply management for major commodity crops, which found that if a reserve system had been in place between 1998 and 2010 for major commodity crops, it would have reduced government payments by nearly \$100 billion while

net farm income would have remained about the same.⁴⁰ Canada, meanwhile, has been successful in administering a dairy supply management system built around production quotas and fixed prices that allow farmers to cover costs at their current output levels. To preserve the viability of family farm agriculture, the next round of farm policies must take steps to establish fair prices, manage inventories, and ensure stable and equitable trade policy.

For years, U.S. trade policy has focused on free trade—not fair trade—to the detriment of U.S. farmers and ranchers. These open market policies have encouraged the production of a few crops on a huge scale, leading to overproduction, monoculture, and the loss of small farms that are unable to compete at scale, and allowed the import of less expensive agricultural commodities that take market share from U.S. goods. Further, the high value of the U.S. dollar has pushed down prices paid to U.S. farmers as foreign importers look for a deal.

Lax antitrust enforcement has allowed a few, large corporations to dominate every step of agricultural production. Recently, there has been a rise in private antitrust litigation in food and agriculture; several high-profile investigations and cases regarding price-fixing in the chicken and beef industries are ongoing. While private legal challenges are important, more must be done to protect farmers and consumers before they are harmed.

There is a need for stronger antitrust enforcement from the Department of Justice (DOJ), the Federal Trade Commission (FTC), and the Packers and Stockyards division of USDA. New legislation is needed to ensure that the burden of proof is placed more squarely on merging companies to show that their merger will not harm competition. Antitrust agencies should review competitiveness in all aspects of the food and agriculture supply chain and must work to restructure large firms where violations have occurred. Congress should provide these agencies the resources and direction they need to act.

Farmers need more options to bring their livestock to market. A more regionalized approach with more, small- to mid-size plants can help. NFU supports H.R.7490, the Requiring Assistance to Meat Processors for Upgrading Plants (RAMP-UP) Act that was introduced in July and would help state inspected or custom-exempt slaughter facilities gain federal meat inspection status, thus opening up new market opportunities and creating more competition in this sector.⁴¹ Additional legislation will be essential as well. Farmers and ranchers urgently need more marketing options for their cattle, hogs, poultry, and other livestock. The cost of establishing federal or state-inspected plants, particularly smaller facilities, must be reduced. And the development of cooperative or producer-owned slaughter and processing facilities should be encouraged. Any changes must maintain consumer confidence in slaughter and processing in the United States. It is also crucial that the safety and well-being of processing plant workers and meat inspectors remains top priority.

⁴⁰ Harwood D. Schaffer, Chad Hellwinckel, Daryll E. Ray, and Daniel G. De La Torre Ugarte, “A Study of the Impact of a Reserve Program Had One Been in Effect in the Period, 1998 to 2010,” September 2011, http://nfu.org/images/stories/policy/091211_Report.pdf.

⁴¹ House Agriculture Committee, “RAMP-UP Act will help meat and poultry processors access inspection to meet demand,” July 2, 2020, <https://agriculture.house.gov/news/documentsingle.aspx?DocumentID=1918>.

Strengthen rural health infrastructure

Rural areas cannot grow and thrive without access to high quality health services. We must reverse the trend of hospital closures and ensure that rural hospitals have the necessary resources to stay open and provide adequate care. One important step to take is to set a 20 percent rural benchmark in the Provider Relief Fund to prioritize facilities with the greatest financial need, those hit hardest by COVID-19, and those serving a large portion of at-risk patients.⁴²

NFU has been a leader in helping strengthen mental health resources for agricultural professional and rural residents.⁴³ For example, NFU has partnered with other organizations on a program to train individuals who interact with farmers and ranchers to recognize signs of stress and offer help.⁴⁴ We thank Congress for its strong support for the Farm and Ranch Stress Assistance Network (FRSAN).⁴⁵ And we urge Congress to continue to fully fund FRSAN and expand the network commensurate with need. There is also a need to allocate funding for farmer and rancher stress management training programs through existing USDA mission areas and agencies.

Improve broadband connectivity in rural areas

Pandemic-related social distancing measures have accelerated the ongoing shift online and has highlighted the digital divide between rural and nonrural Americans. Expanding Internet access in rural communities will not only help these communities adapt to the pandemic, but it will also strengthen local economies and create new jobs. For example, USDA estimates that broadband-enabled precision technology could add more than \$18 billion to agriculture's total economic impact.⁴⁶

NFU supports H.R.6723, the Universal Broadband Act that would treat broadband like the essential utility it is by expanding the Universal Service Fund (USF) contribution base to include broadband services. NFU also supports S.4113, the Broadband Reform and Investment to Drive Growth in the Economy (BRIDGE) Act, which will direct funding to states and Indian Tribes to deploy affordable, high-speed broadband in unserved and underserved communities.

Conclusion

The COVID-19 pandemic has helped expose that while our food system is efficient, it is also brittle. Over the past 50 years, every aspect of agriculture has become more concentrated and more specialized. In

⁴² U.S. Department of Health and Human Services, "CARES Act Provider Relief Fund: General Information," accessed September 23, 2020, <https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/general-information/index.html>.

⁴³ "Farm Crisis Center," *National Farmers Union*, accessed September 23, 2020, <https://farmcrisis.nfu.org/>.

⁴⁴ "Farm Groups Partner to Help Farmers Manage Stress," *National Farmers Union*, December 11, 2019, <https://nfu.org/2019/12/11/farm-groups-partner-to-help-farmers-manage-stress/>.

⁴⁵ "Farm and Ranch Assistance Network (FRSAN)," *USDA National Institute of Food and Agriculture (NIFA)*, accessed September 23, 2020, <https://nifa.usda.gov/program/farm-and-ranch-stress-assistance-network-frsan>.

⁴⁶ "A Case for Rural Broadband: Insights on rural broadband infrastructure and next generation precision agriculture technologies," *U.S. Department of Agriculture*, April 2019, <https://www.usda.gov/sites/default/files/documents/case-for-rural-broadband.pdf>.

the absence of robust antitrust enforcement and appropriate support for family farm agriculture, most links in the food supply chain are now dominated by a handful of large corporations, and there are many fewer, larger farms. When so few operations are responsible for such a large portion of our food, closures or disruptions can shock the system and threaten our food security. We must act collectively to make our farm and food system more resilient.

Thank you for the opportunity to testify. This has been an extraordinary year for family farmers and ranchers and our daily lives have been upended, just as it has been for the rest of our country. I look forward to your questions.

Testimony Submitted by: Collin Castore

Founder and Owner of Seventh Son Brewing Co. Columbus, OH

President of the Ohio Craft Brewers Association

"How COVID-19 is Impacting Small Businesses Across the Food System"

House Committee on Small Businesses

United States House of Representatives

September 30, 2020

Chairwoman Velazquez, Ranking Member Chabot and members of the Committee, thank you for asking me to testify today. I look forward to speaking on the behalf small and independent brewers about the impact of COVID-19 on our businesses and our supply chain.

My name is Collin Castore, and I am the founder of Seventh Son Brewing Company and Antiques on High, both located in Columbus, OH. I also serve as board president of the Ohio Craft Brewers Association, representing the 351 breweries in the Buckeye state.

Seventh Son been producing exceptional beers in our historic Italian Village neighborhood of Columbus since 2013. We will brew around 7000 barrels of beer this year- we are in the medium size range of the "long tail" of smaller breweries that comprises the Brewers Associations membership of independent craft brewers across this country. In the past seven years we have watched our business grow to the point where we have two locations, roughly \$5,000,000 million in combined wholesale and taproom sales, and employ 70 Ohioans.

In addition to the people employed directly at Seventh Son, our brewery helps to support countless jobs throughout Ohio from the people our wholesalers employ to help sell our beer to the farmers that grow our hops and barley. A smooth supply chain is imperative to the success of our brewery and is equally beneficial to our partners. I have always been proud of the fact that for every new job created by our brewing industry, there are twenty-four jobs generated in the industries that help us brew and sell our beer.

Unfortunately, this goes both ways. According to a recent report by the economic firm Dunham and Associates, 651,000 jobs supported by the U.S. beer industry will be lost by the end of the year due to the COVID-19 pandemic.

Running a brewery has always been a capital and time intensive business, and that is true now more than ever. As a small business we are constantly planning and constantly adjusting these plans to meet our suppliers needs, pay our employees, and continue to make great beer. We are always aware that unexpected issues arise and we do everything we can to prepare for them, but we were not prepared for COVID-19. I don't know that anyone could prepare for COVID-19. This virus and the measures taken to contain it have had an unprecedented impact on Seventh Son and other small and independent breweries across the country.

Prior to the coronavirus changing the world as we knew it, Seventh Son sold our beer through our taprooms, as well as other restaurants, bars and retailers throughout Ohio. We participated in festivals and events and were an active part of our community. Our two taprooms serve as places for people to taste and enjoy our beer but also as event based and community gathering spaces. We have hosted countless celebrations like weddings, anniversary parties, and even baby showers. In seven years of business we have raised upwards of \$400,000 for local charities and neighborhood groups ranging from habitat for humanity to local homeless shelters. In the Ohio Craft Brew Associations most recent 2018 economic impact study Ohio's breweries accounted for more than 1.15 million in direct dollar contributions to charities and over 13,000 volunteer hours.

We understood the need to close our tasting rooms early on for the health and safety of our employees and our customers but the uncertainty over the past six months has made it extremely difficult to run a hospitality focused industry.

Summer is patio season in Ohio and for Seventh Son and the majority of breweries in the country it is our busiest time. This year we were limited to roughly 40% of our normal capacity and we have had a 10pm curfew imposed since reopen began in May. Even with those rules I consider Ohio breweries to be lucky as certain other states have guidelines that have made it literally impossible to operate on-premise tasting rooms due to COVID restrictions being applied with irrelevant and outdated food sales requirements. Many would welcome federal guidance and consistency to help with these issues.

According to the Brewers Association, the trade association that represents small and independent brewers, the majority of the 8,300+ breweries across the United States make the majority of their revenue from taprooms/tasting rooms or "own-premise" sales. Estimates by the association taken from surveys suggests that small brewers have seen a reduction of on-premise sales revenues of close to 30% in the six months since March of 2020.

It is also true that the majority of breweries get most of their wholesale revenue from on premise sales to restaurants, bars, concert and sporting venues, which have of course been severely restricted over the past 6 months. These outlets sold nearly 20% of the total U.S. beer volume annually. Data from mid-September shows draught sales still around a third lower than this point last year. Aside from the ongoing disruption, the unexpected speed and magnitude of these closures resulted in an estimated \$900 million dollars' worth of beer that became unmerchantable and needed to be destroyed. The health and success of the brewing industry is directly tied to these outlets and larger hospitality industry. Neither of us will get back to full strength until COVID-19 is eradicated.

At Seventh Son we have our own canning line and some existing relationships with grocery chains that helped us to pivot quickly and absorb most of this volume loss into cans. We pushed hard to get our retail partners to try new traditionally "taproom exclusive" beers in cans and literally overnight on March 16th we began a home delivery business and began embracing carryout sales models in our shuttered taprooms. These measures were a lifeline but our head is barely above water.

We completed a \$5 million dollar expansion in 2018 and have a wonderful facility but also a not wonderful amount of debt to go with it. When we sell a can of beer to our distributor, we get \$1 for that can, when we sell a can direct to consumer through carryout or delivery, we get roughly \$2 for that can, when we sell a can of beer in our taproom, we get \$6 for that can. We built our expansion for future wholesale growth but taproom revenue and taproom profit margins are essential to support it.

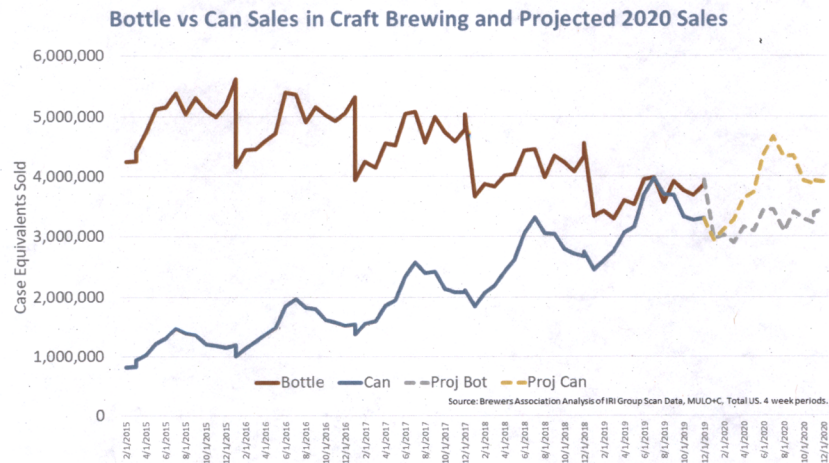
While taprooms and brewpubs continue to limp along at a variable pace wholly dependent on regulation and consumer sentiment many of my fellow Ohio small brewers and fellow small brewers across the country have little to no packaging capability, and have been unable to take

advantage of the rise of packaged sales and offset the lost revenue at their breweries. Many are quite literally hanging on by a thread at this point.

I'm sure you have seen the sensationalist headlines referencing increased alcohol sales. More accurately they should say that there are increased alcohol sales at retailers like grocers, convenience stores, big box retailers, and liquor stores. Those increases must be offset against the massive decline in sales at on-premise channels like restaurants, bars, hotels, and sports and entertainment venues. The size of the overall pie has not shifted even as the individual slices appear different. Moreover, sales of packaged product don't come without a cost. Packaging our product increases our overhead costs and breweries make less per barrel than we would through other types of sales.

To make matters worse, breweries are sharing that they are unable to get the bottles and cans they need to fill their packaging needs. The increased demand for cans both in and outside our industry has caused a canning shortage in the United States. All can sizes have had periods of shortage—16-ounce, 12 ounce, and slim 12 ounce, at various levels at various times, making the materials we need harder to find and more expensive.

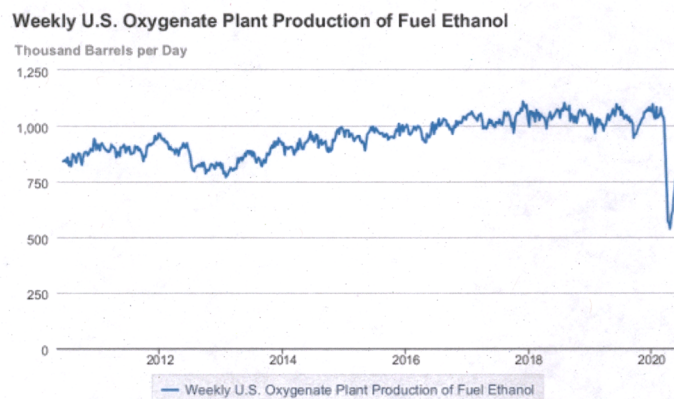
Cans sales were already predicted to outpace bottle sales for the first time in 2020, this situation is made even worse by the increase in demand for packaging materials due to the coronavirus



This issue is important enough that the Brewers Association has issued a can shortage advisory to their members making them aware that demand is likely to continue to outpace supply through next year or possibly longer.

Even with the increase in retail sales the brewing industry is expected to lose \$22 billion dollars in 2020. Packaging our product is integral to our survival and I am concerned about how our industry will fare if we don't have a way to package and sell our beer.

Another issue that is growing cause for concern is a potential CO2 shortage. Breweries need food grade commercial CO2 that is generally collected as a by-product from various chemical industries like ethanol. At the beginning of the pandemic when people stopped driving there was less of a demand for gas, which meant that there was less of a demand for ethanol. Many ethanol plants that captured commercial CO2 were taken offline. Though production partially has ramped back up our industry still sees signs of a shortage caused by fires, natural disasters and unexpected closures. My peers have been impacted by force majeure and in the worst-case scenarios haven't received needed deliveries, leaving them without this necessary ingredient for their beer.



 Source: U.S. Energy Information Administration

How Can Congress Help?

We know that some of these things are out of your control but you have the ability to help. For our industry to survive, breweries need certainty and we need financial assistance.

First and hopefully easiest is to pass the popular bipartisan Craft Beverage Modernization and Tax Reform Act and make the current federal excise rates permanent. If the current rates are allowed to expire my Federal Excise Tax rates will go up 100% starting in January. This would cost me \$25,000 dollars; this would cost me an employee. Lower rates create jobs. Our people need us and their hard work is keeping us afloat right now.

Second, we appreciate Congress's swift action at the beginning of the pandemic with the CARES Act, which let Seventh Son and the majority of breweries apply for and receive money from the Payroll Protection Program (PPP). I would very likely not be here had it not been for the

\$359,000 that we received. The program offered needed assistance but was not the perfect solution for breweries. Still, I encourage Congress to:

- Forgive all PPP loans of less than \$150,000.
- Add additional funds to the program and allow businesses that can show revenue losses to apply for another loan.
- Give us the ability to write off the funds we used for business expenses.
- Breweries would also benefit from a 6-month extension of the Subsidy for Certain Loan payments for the 79(a) and 504 Loan Programs.

As president of my state association I also request the inclusion of 501(c)(6)'s in the list of organizations that can apply for PPP loans. Our guild has helped us more than double the number of breweries in Ohio in the past five years and helping to create more than 21,000 jobs. As a result of the pandemic we had to cancel three events that would have accounted for about \$130,000 in revenues. That's about a quarter of the budget for our non-profit organization. Making 501(c)(6)'s eligible for PPP would help us to maintain our staff of 2 and many other state guilds are in a similar position. Our guild is the backbone of our industry in Ohio. The OCBA educates consumers and helps raise awareness of Ohio made craft beer and continually fights for fair, balanced legislation that has allowed Ohio breweries grow into a 1 billion dollar a year economic contributor to Ohio's economy.

I feel strongly that Seventh Son needs another round of PPP to survive the impacts of COVID-19. I know that many of fellow breweries need it as well; but please also consider passing the RESTAURANTS Act and the RESTART Act, both of which would provide businesses like mine with grants, rather than debt, and allow us more flexibility in how we use those funds.

We also encourage congress to consider a credit for unmerchantable (perishable) goods that had to be destroyed due to supply chain interruptions caused by the coronavirus, our industry lost millions of dollars due to beer that went out of code. In many cases, breweries and our wholesale partners bought back product that was already out in the market place to safely dispose of it. These were extraordinary business costs that were a direct result of shutdowns caused by the pandemic. We would benefit greatly from a common-sense one-time solution.

For the past decade, the United States brewing industry has been a success story in American manufacturing and job creation, we directly employ more than 160,000 people in every congressional district in the country. We need your help to weather this pandemic and continue to grow and thrive.

Thank you for your time and for having me here today, I look forward to any questions you may have.

Questions for the Record

To: Kim Gorton, CEO of Slade Gorton Seafood:

In the CARES Act, Congress provided \$300 million to support fishery businesses, yet it is my understanding that 6 months after the passage of the CARES Act, none of this funding has been distributed. How are fishery businesses coping, and what needs to happen to get these businesses the support they need? *Thank you for the question, I would like to make the following points:*

First, Congress included processors and distributors within the scope of this relief in the CARES Act. I wish other agencies of the Administration, such as USDA, would do likewise in formulating relief programs for the food industry.

Second, despite that good news, you are correct. NOAA has been very slow to get this money to its intended recipients. Congress passed the CARES Act at the end of March. It took until May for NOAA to announce how it would distribute the funds. NOAA designed a system based on its fishery disaster fund. But this is an economic emergency for the entire nation, not an environmental issue with respect to a fishery.

Because of this convoluted system that NOAA created, we are now in October and only a very small fraction of the money has started to trickle out. It is my understanding that many states, including Massachusetts and Maine, have said the funds won't be released until December. USDA and SBA managed to get billions of dollars into the pockets of small businesses and farmers before seafood businesses received a penny from NOAA. With all due respect to NOAA, this is astonishing.

If additional funds are allotted to the seafood industry by Congress in the next stimulus package, Congress must establish a firm deadline for NOAA to get these funds into the pockets of the industry. Congress must then insist that the agency meet it.

- Just this month, the USDA announced that they are providing \$530 million in relief funding to support the U.S. seafood industry and fishermen impacted by retaliatory tariffs from foreign governments. Is this program benefiting the seafood processors and distributors who are the ones struggling with tariffs and trade restrictions? *We were pleased to see that USDA was providing these funds, and it looks like USDA is prepared to get the funds out quickly. However, this program does not include processors and distributors – the companies that typically feel the brunt of the pain from these tariffs and the consequent loss of market access. In many cases the processors and distributors have paid the tariffs and not passed that cost along to the fishermen because they had agreed upon a price—thus creating a bigger loss for them. While I am happy this money is out there, the program should include the middle of the supply chain.*

- The seafood industry has struggled to access other USDA programs like the Farmers to Families Food Box program and the Coronavirus Food Assistance Program. What are the barriers to accessing these programs, and how can they help struggling small businesses in the seafood industry? *The Farmers to Families Food Box Program was created as part of the CARES Act to provide fresh food to families via food distributors to food bank, and community organizations. The program has just announced its third round and by the end of October 2020 will have distributed about 100 million food boxes to families. It is a wonderful program designed to help families get the food they so desperately need in these uncertain times, but also helps the farmers and the food distributors by avoiding food waste. Unfortunately, the seafood industry has no access to the Farmers to Families Food Box program. The program allows for fresh meat, dairy, and produce but not seafood, and companies like Slade Gorton would very much like to be a part of it. We know how many people need access to healthy proteins, and seafood is the healthiest protein on the planet. In fact, the USDA guidelines recommend Americans eat several servings a week. Further, in some communities and religions, meat may not be an option, but seafood is welcome and would be widely supported. We need Congress to work with USDA to include seafood in this program, we are not aware of any legal reason that prohibits the Department from including seafood.*



MICROBUSINESS:

A Community-Centered Solution
to Inequitable Food Systems

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About AEO

The Association for Enterprise Opportunity is the leading voice of innovation for microfinance and microbusiness. Our mission is to create economic opportunity for underserved entrepreneurs throughout the United States. We engineer transformational change through research, convening, incubation, and advocacy to foster a robust and inclusive market place.

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Table of Contents

Executive Summary.....	4
Despite Billions, Millions of Americans Are Still Hungry.....	5
Inequitable Food Systems.....	7
Understanding Low Food Access.....	7
Understanding the Health Impacts of Food Inequality.....	8
Combating Food Insecurity Through Quality Jobs and Stable Employment.....	9
Microbusiness: an Innovative Solution to Systemic Failure.....	10
The Food System Microbusiness Difference.....	13
The Food System Microbusiness Impact.....	15
<i>Microbusinesses Increase Food Access</i>	15
<i>Microbusinesses Multiple Economic Impact</i>	15
<i>Social Impact</i>	16
Microbusiness: a Community - Centered Solution to Food Inequality.....	18
Recommendations.....	19

Executive Summary

Low food access areas are disproportionately located in lower income areas and disproportionately impact communities of color. Compared to middle income zip codes, communities in low income zip codes have 25 percent fewer chain supermarkets located in their neighborhoods. When compared to zip codes with predominantly white residents, zip codes with predominantly Black and Latinx residents have half and one third the amount of chain supermarkets respectively.

Although billions of dollars have been dedicated to increasing food access, the success of food access initiatives are varied and provide scant evidence to prove the claim that increasing healthy food access for lower income families will help them eat healthier.

The truth is that a family cannot afford to eat healthy foods if they cannot afford their housing, do not have quality jobs, and are laden with debt. Poverty and income inequality are the largest barriers to accessing healthy foods.

With 40% of Americans lacking the savings to withstand a financial hardship such as losing a job¹, every American is vulnerable to hunger and are at risk for being food insecure. With over 40 million Americans already food insecure, strategies geared at securing healthy food for all should strive to make disadvantaged communities more financially secure and to make food systems more equitable.

AEO's research explores the possibility of local food system microbusiness to increase food access, food security, and economic opportunity while building community wealth. Defined as all the processes and actors involved in transforming a seed into food, food systems include farmers, distributors, food manufacturers, retailers, and consumers. By bridging economic development and financial security with locally owned food systems, local food system microbusiness empowers community members with the capacity to change their food systems while disrupting the effects of poverty.

With over 300,000 microbusinesses operating within the food system and responsible for more than 1.9 million jobs and \$17 million in paid salaries, the presence of microbusinesses in the food system is significant. Greater capital investment and increased technical assistance² would provide tremendous support for food system microbusinesses. Supporting the growth and success of food system microbusinesses in lower income communities means that those who are most affected by food insecurity and poverty become the voices that are most amplified and empowered in realizing solutions.

¹ Wiedrich, Kasey, and David Newville. (2019). Vulnerability in the Face of Economic Uncertainty. Prosperity Now, pp. 1-12. Retrieved from https://prosperitynow.org/sites/default/files/resources/2019_Scorecard_Key_Findings.pdf

² For the purpose of this paper, the term 'technical assistance' will be used despite the fact that in lieu of 'technical assistance,' AEO utilizes a 'trusted guidance' model that is uniquely structured to meet the needs of low-wealth, small business owners.

Despite Billions, Millions of Americans Are Still Hungry

Food touches every aspect of life and is critical for sustaining health and healthy communities. From the cafeteria breakfast that starts a child's school day to the comfort foods that unite and bridge heritage, communities, friends, and memories, food is a unique symbol and representation of who we are, what we value, and where we call home.

However, food is not a right that is equitably afforded to everyone: an estimated 1 in 8 people in the United States, or over 40 million Americans, are food insecure and lack consistent and reliable access and/or resources to purchase culturally appropriate, nutritious, and affordable food.³ To address food insecurity, government agencies, NGOs, and the private sector have invested billions of dollars into initiatives designed to increase access to healthy food and decrease nutritional inequality.

Operating with the assumption that people would purchase healthy food if made conveniently available,⁴ the Healthy Food Financing Initiative (HFFI) launched in 2011 to finance the opening of full service grocery stores and healthy food retailers in underserved communities nationwide. HFFI has distributed more than \$500 million in funding and has also leveraged more than \$1 billion in additional resources such as private capital, loans, and federal tax incentives to increase healthy food access.⁵

Additionally, mobile grocery stores have opened nationwide in an attempt to connect fresh fruits and vegetables to communities with low access to grocery stores.⁶ Convenience stores and bodegas, or small corner stores selling limited groceries, have converted to "healthy corner stores" to provide a convenient, neighborhood source for fresh fruits and vegetables.⁷

In an attempt to connect urban residents to fresh and locally grown food, urban farms have sprouted in many cities across the United States.⁸ The number of farmers' markets grew from 2,000 in 1994 to 8,600⁹ in 2019 and in 2017, Supplemental Nutrition Assistance Program (SNAP) participants spent more than \$22.4 million at farmers' markets.¹⁰

66 There is **INSUFFICIENT** evidence to prove that opening grocery stores is an effective strategy for tackling food insecurity

Although billions of dollars have been dedicated to securing healthy food for all, the success of food access initiatives and strategies are greatly varied and provide scant evidence to support the claim that increased food access increases positive health outcomes or changes unhealthy eating behaviors.¹¹

There is insufficient evidence to prove that opening grocery stores and making healthy foods available is an effective strategy for tackling food insecurity and nutritional inequality in low food access areas and in lower income communities.¹² Although the opening of grocery stores in low food access areas have shown positive changes in how communities' perceive their access to healthy foods,¹³ positive perceptions have

³<https://hungerandhealth.feedingamerica.org/understand-food-insecurity/>

⁴Nathan A. Rosenberg and Nevin Cohen, Let Them Eat Kale: The Misplaced Narrative of Food Access, 43 *Fordham Urb. L.J.* 1091 (2018), <https://ir.lawnet.fordham.edu/ulj/vol43/iss4/55>

⁵*Ibid.*

⁶<http://www.myveggies.org/mobile-market-summit.html>

⁷Meyers, Theresa, "Building Healthy Corners," DC Central Kitchen, 20 Apr. 2018, <https://dccentralkitchen.org/2018/04/20/building-healthy-corners/>

⁸<https://www.d-townfarm.com/>

⁹<https://farmersmarketcoalition.org/education/qanda/>

¹⁰*Ibid.*

¹¹Nathan A. Rosenberg and Nevin Cohen, Let Them Eat Kale: The Misplaced Narrative of Food Access, 43 *Fordham Urb. L.J.* 1091 (2018), <https://ir.lawnet.fordham.edu/ulj/vol43/iss4/55>

¹²Abayasinghe, An, Heasalt, et al., "Health-related outcomes of new grocery store interventions: a systematic review," *Public Health Nutrition*, vol. 20, no. 7, 2017, pp. 2236-2248, doi:10.1017/S1368880917000933

¹³Blitzstein, J.L., Snider, J., Evans, W.D. (2012) Perceptions of the food shopping environment are associated with greater consumption of fruits and vegetables. *Public Health Nutrition*, 15(6), 1124-1129



not been shown to cause healthier food buying or eating behaviors.¹⁴ Although some studies have shown increases in fruit and vegetable consumption,¹⁵ other studies examining the impact of grocery stores have not detected any significant improvements in healthy eating behaviors.¹⁶ Although the introduction of a supermarket and increasing food access may lead to healthier eating and buying habits, an isolated approach to addressing food insecurity, such as increasing food access, is an inadequate "solution" to achieving nutritional equality and healthy, well-fed communities.

Newer research frames food insecurity as an effect of social and economic inequality and has shifted focus away from downstream interventions, such as healthy food retail, to instead focus on upstream interventions, such as policy solutions.¹⁷ Policy recommendations include increasing minimum wage¹⁸, strengthening labor protections to ensure job security,¹⁹ protecting and expanding SNAP,²⁰ and providing universal free school lunches.²¹

While advocates for community food and financial security should continue to look upstream to advocate for equitable policies, frontline communities living with poverty and food insecurity also need immediate economic opportunities and financial solutions to survive and thrive in disinvested conditions.

A local food system driven by locally owned microbusinesses can address both low food access and the economic conditions that affect food insecurity. Bridging economic security with locally owned food systems, local food system microbusiness is an economic development approach that empowers community members with the capacity to change their food systems, while improving their financial security. Through enterprise ownership, job creation, and wealth building, the people that are most affected by food insecurity and poverty become the voices that are most amplified and qualified in determining appropriate food security solutions.

¹⁴Nathan A. Rosenberg and Nevin Cohen, *Let Them Eat Kale: The Misplaced Narrative of Food Access*, 45 *Fordham Urb. L.J.* 1091 (2018). <https://ir.lawnet.fordham.edu/ulj/vol45/iss4/5>

¹⁵*Ibid.*

¹⁶Alcott, Hunt, et al. "The Geography of Poverty and Nutrition: Food Deserts and Food Choices Across the United States," *SSRN Electronic Journal*, Jan. 2018, doi:10.2139/ssrn.3095779.

¹⁷Nathan A. Rosenberg and Nevin Cohen, *Let Them Eat Kale: The Misplaced Narrative of Food Access*, 45 *Fordham Urb. L.J.* 1091 (2018). Available at: <https://ir.lawnet.fordham.edu/ulj/vol45/iss4/5>

¹⁸*Ibid.*

¹⁹*Ibid.*

²⁰*Ibid.*

²¹*Ibid.*

Inequitable Food Systems

Food arrives to our tables through a complex journey. Beginning with a seed that is planted at a farm, fruits and vegetables are harvested by human hands then transported for processing before being sold to grocery stores and prepared into a meal. The food journey continues to encompass how food is disposed: does food head to a landfill where it sits and rots, or is it composted and recycled back into the earth?

The processes and actors involved in transforming a seed to food is called the food system. Operating simultaneously on a global, local, industrial, and small farm scale, food systems are commonly described in different stages and broken down into the smaller systems of production, processing, distribution, retail, and food waste management. A complex and interconnected web involving many people, places, resources, policies, and markets, food systems generate profound economic, environmental, social, and health impacts.

Although every community participates in a food system, food systems are not equitably designed and therefore contribute to inequities in how food is accessed, who can afford nutritious foods, and why certain foods are purchased.

From which crops receive government subsidies to which neighborhoods have convenient and abundant access to grocery stores, the food system inequitably benefits some communities while disadvantaging others. The disparities in healthy food access, food security, and nutritional equality are exacerbated by race and class: food insecurity disproportionately affects lower

income households and lower income households are more than twice as likely to be Black, Latinx and Native American than white.²² Because food systems have profound economic, cultural, and health effects, food systems can accelerate harm or benefits in a number of wide-reaching ways.

Understanding Low Food Access

The term 'food desert' has become commonplace in explaining the conditions that characterize low food access. Framing low food access as a result of being more than a mile away from a grocery store,²³ the concept of 'food desert' provides a limited and inadequate understanding of why some communities cannot and do not consume healthier and more nutritious foods.

Low food access areas are disproportionately located in lower income areas and disproportionately impact communities of color. Compared to middle income zip codes, communities in low income zip codes have 25 percent fewer chain supermarkets located in their neighborhoods.²⁴ When compared to zip codes with predominantly white residents, zip codes with predominantly Black and Latinx residents have half and one third the amount of chain supermarkets respectively.²⁵ For example, Washington D.C.'s two lowest income neighborhoods, which are predominantly African-American, only have 1 supermarket for every 70,000 residents whereas the highest income neighborhood, which is predominantly white, has 1 supermarket for every 12,000 residents.²⁶

Within urban cities, low food access is intimately linked to a history of racial segregation and discriminatory government policies. While redlining, restrictive housing covenants, and discriminatory lending practices concentrated Black communities in inner

²² Walker, Renee E., et al. (2010) Disparities and Access to Healthy Food in the United States: A Review of Food Deserts Literature. *Health & Place*, vol. 16, no. 5, pp. 876-884, doi:10.1016/j.healthplace.2010.04.013.

²³ <https://www.ers.usda.gov/amber-waves/2010/march/Access-to-affordable-nutritious-food-is-limited-in-food-deserts/>

²⁴ Walker, Renee E., et al. "Disparities and Access to Healthy Food in the United States: A Review of Food Deserts Literature." *Health & Place*, vol. 16, no. 5, 2010, pp.876-884, doi:10.1016/j.healthplace.2010.04.013.

²⁵ *Ibid.*

²⁶ Nathan A. Rosenberg and Nevin Cohen, *Let Them Eat Kale: The Misplaced Narrative of Food Access*, 43 *Fordham Urb.L.J.* 1091 (2018). Available at: <https://ir.lawnet.fordham.edu/ulj/vol45/iss4/5>

cities, white communities moved to the suburbs where supermarkets subsequently followed.²⁷ In the 1980s, supermarkets in cities were closing in unprecedented rates while supermarkets nationwide were opening in unprecedented rates.²⁸

The closing of supermarkets in inner cities exacerbated low food access as well as inner city disinvestment: supermarkets not only provide food but also employment, foot traffic, commercial activity, and local tax revenue.²⁹

Disinvestment has also exacerbated low food access and poverty in rural communities. While poverty rates in rural counties are greater than in urban counties,³⁴ rural communities have to travel the furthest distances to access healthy food.³⁵ Rural tribal communities, in particular, have disproportionately high rates of food insecurity and poverty as well as the lowest access to healthy food and the lowest concentration of grocery stores.³⁶

Understanding the Health Impacts of Food Inequality

Lower income communities that are most stretched on time and income are more likely to have neighborhoods saturated by cheap fast food restaurants and less grocery stores, while higher income communities with greater disposable income and time are more likely to have double the amount of grocery stores.³⁷ Compounded by low food access, inadequate income, and insufficient time to purchase, prepare, and cook healthy meals, the high density of fast food restaurants in lower income neighborhoods exacerbate unhealthy eating behaviors and contribute to increased vulnerability to diet-related illnesses such as obesity, diabetes and heart disease.³⁸ Furthermore, decreased nutritional quality can adversely influence early childhood cognitive development, increase susceptibility to illness, and impact educational outcomes.³⁹

Additionally, households in the top income quartile tend to purchase more healthy groceries than households in the bottom income quartile.⁴⁰ Food purchasing and consumption behaviors vary for a number of reasons such as differences in disposable income,⁴¹ access or the ability to purchase healthier foods,⁴² knowledge of



²⁷New York Law School Racial Justice Project, "Unshared Bounty: How Structural Racism Contributes to the Creation and Persistence of Food Deserts," (with American Civil Liberties Union) (2012) Racial Justice Project Book 3, http://digitalcommons.nypl.edu/racial_justice_project/3

²⁸Ibid.

²⁹Wortlich, Kasey, and David Newville, "Vulnerability in the Face of Economic Uncertainty," *Prosperity Now*, 2019, pp. 1-12, "Vulnerability in the Face of Economic Uncertainty."

³⁰<https://hungerandhealth.feedingamerica.org/understand-food-insecurity/>

³¹<https://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/key-statistics-graphics.aspx>

³²Ibid., U.S. Census Bureau.

³³Jennigan, Valerie Blue Bird, et al., "Food Insecurity Among American Indians and Alaska Natives: A National Profile Using the Current Population Survey-Food Security Supplement," *Journal of Hunger Environmental Nutrition*, vol. 12, no. 1, 2016, pp. 1-10, doi:10.1080/19320349.2016.1127750

³⁴Ibid.

³⁵Walker, Renee E., et al., "Disparities and Access to Healthy Food in the United States: A Review of Food Deserts Literature," *Health & Place*, vol. 16, no. 5, 2010, pp. 876-884, doi:10.1016/j.healthplace.2010.04.013.

³⁶Well, Judith, et al., "Access to Healthy Food and Why It Matters: A Review of the Research," Policy Link, 2013, <https://www.policylink.org/insources-to/healthy-food-and-why-it-matters>

³⁷New York Law School Racial Justice Project, "Unshared Bounty: How Structural Racism Contributes to the Creation and Persistence of Food Deserts," (with American Civil Liberties Union) (2012) Racial Justice Project Book 3, http://digitalcommons.nypl.edu/racial_justice_project/3

³⁸Tretholt, Sarah, and Allison Karyn, "The Grocery Gap: Who Has Access to Healthy Food and Why It Matters," PolicyLink, 2010, www.policylink.org/insources-to/healthy-food-and-why-it-matters

³⁹Vaughan, Christine A., et al., "Does Where You Shop or Who You Are Predict What You Eat? The Role of Stores and Individual Characteristics in Dietary Intake," *Preventive Medicine*, vol. 100, July 2017, pp. 10-16, doi:10.1016/j.pmed.2017.03.015.

nutritional information,⁴³ personal preferences,⁴⁴ and time available to prepare and cook meals.⁴⁵ Research suggests that parents' choice to purchase or deny junk food can be partially explained by income inequality: given financial constraints, lower income parents oblige junk food requests because it is one luxury they can afford their children whereas higher income parents, who can afford luxuries such as vacations, do not perceive junk food as a luxury but rather as unhealthy behavior.⁴⁶ Although both lower and higher income parents perceive food as a mechanism of care, the income differences drive parents to behave differently in their food purchasing choices.⁴⁷

Combating Food Insecurity Through Quality Jobs and Stable Employment

Because food insecurity is strongly associated with poverty, strategies geared at decreasing hunger and encouraging healthy eating need to address economic inequality. Where systems have failed to provide affordable, culturally appropriate, and healthy foods, systems have also failed to provide quality jobs, capital access, public transportation, and affordable housing.⁴⁸ The conditions that fail to provision communities with adequate and affordable healthy food are the same conditions that continually fail to lift communities out of poverty. To champion for improved health outcomes while expecting communities to persist in inequitable economic conditions is unreasonable and inadequate; communities need to be equipped with the ability, capacity, and resources to change their economic and health outcomes and systems need to be modified to enable such change.

To ensure that families have sufficient and healthy food, families first need to have the income and ability to purchase fresh fruits and vegetables—which are generally more expensive than cheap, processed foods.⁴⁹ Although low food access impacts food buying behavior,

66 Although low food access impacts food buying behavior, the GREATEST INFLUENCE on food purchases is disposable income

the greatest influence on lower income families' food purchases is disposable income.⁵⁰ Therefore, efforts directed at encouraging lower income⁵¹ families to eat healthier should also focus on increasing disposable income so that families can afford to buy healthier foods.

Disposable income is affected by financial security, or the ability to save while still being able to afford basic needs such as food and housing.⁵² For a lower income household to achieve long term financial security, their current finances need to be stabilized and improved.

Quality jobs and stable employment are vital to helping stabilize household income and for helping families achieve long-term financial security. An effective strategy for achieving lasting, long-term food security and nutritional equality is to invest in creating quality jobs that enable families to afford to save and to afford their basic needs and healthy food.

Investing in a locally owned food system builds a market infrastructure for long-term, sustained financial security as well as supports immediate financial stability by generating quality jobs and opportunities for ownership and wealth creation.

⁴³Ibid.

⁴⁴Ibid.

⁴⁵Ibid.

⁴⁶Fardiy Singh, Phya, "Why Do Poor Americans Eat so Unhealthfully? Because Junk Food Is the Only Indulgence They Can Afford," Los Angeles Times, Los Angeles Times, 7 Feb. 2018, www.latimes.com/opinion/story/2018-02-07/story.html.

⁴⁷Ibid.

⁴⁸Ibid.

⁴⁹Walker, Berne E., et al. "Disparities and Access to Healthy Food in the United States: A Review of Food Deserts Literature." *Health & Place*, vol. 16, no. 3, 2010, pp. 876-884. doi:10.1016/j.healthplace.2010.04.013.

⁵⁰"An Equitable Food System: Goals for Families, Communities, and the Economy" PolicyLink, www.policylink.org/food-resources/food-system-equity-equivalent-voice-and-equitable-food-system.

⁵¹"Short-term Financial Stability: A Foundation for Security and Well-Being" The Aspen Institute, 30 Apr. 2019, <https://www.aspeninstitute.org/publications/short-term-financial-stability-a-foundation-for-security-and-well-being/>.

⁵²"Bigger Than You Think: The Economic Impact of Microbusinesses in the United States," The Association for Enterprise Opportunity, 2013, http://www.aeo.org/wp-content/uploads/2013/03/Bigger-than-you-think-report_FINAL_MEO_11_10_13.pdf.

Microbusiness: An Innovative Solution to Systematic Failure

Microbusiness—or enterprises with less than 5 employees—are uniquely positioned to strengthen local economies and food systems. Representing 92% of all U.S. businesses,⁵³ microbusiness have a broad, deep, and place-based reach. Microbusinesses create ownership opportunities and contribute to over 26 million jobs nationally.⁵⁴ Offering employment opportunities for those with greater employment barriers such as the 50+ age group, individuals without college degrees, returning citizens, recent immigrants, and individuals living outside metropolitan hubs, microbusinesses

drive local economic activity and opportunity for disadvantaged groups in disinvested communities.⁵⁴

The capability of microbusiness to build assets and wealth for lower income communities is evidenced to be an effective strategy for narrowing the racial wealth divide and economic inequality.⁵⁵ For example, whereas White adults have 13 times the wealth of Black adults, the wealth disparity between White business owners and Black business owners decreases to a multiplier of 3.⁵⁶ Moreover, Black business owners have 12 times the median net worth than Black non-business owners.

Potent with the ability to drastically improve individual economic outcomes and effect broad market impact, food system microbusinesses offer an opportunity to increase access to healthy foods while building wealth, creating quality jobs, and strengthening the local food system.



66 Food system microbusinesses offer an opportunity to **INCREASE ACCESS** to healthy foods while building wealth, creating quality jobs, and strengthening the local food system

⁵³Ibid.

⁵⁴Ibid.

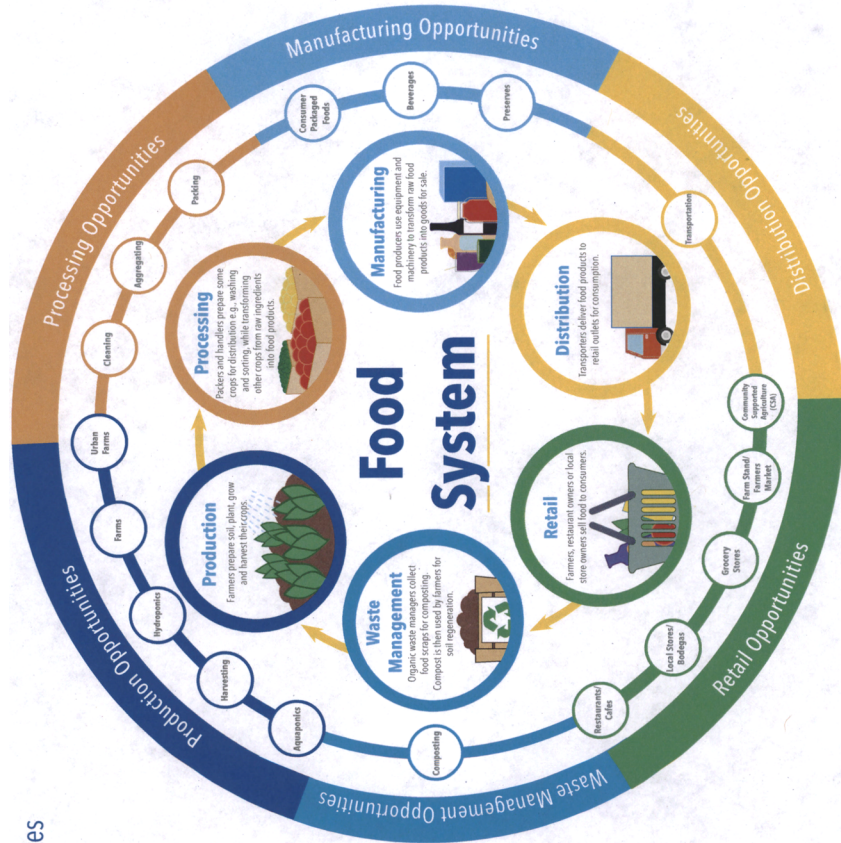
⁵⁵"The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success," The Association for Enterprise Opportunity, 2016, https://aieo.org/wp-content/uploads/2019/03/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB.pdf

⁵⁶Ibid.

Microbusiness Opportunities in the Food System

From farm, to fork, to final disposal, a variety of microbusiness opportunities exist across the local food system. Food system microbusinesses in low food access areas offer communities an opportunity for increased access to healthy foods, wealth building and quality job creation.

The food system can be broken down into six segments: Production, Processing, Manufacturing, Distribution, Retail and Waste Management. Within these segments, a myriad of microbusiness opportunities exist.



The Food System Microbusiness Difference

With robust, innovative, and local food systems already in existence,⁵⁷ lower income communities have been resourcefully provisioning food for themselves long before academics named the problem of food inequality as 'food deserts.'⁵⁸ The multitude of resourcefulness and innovation in lower income communities is demonstrated by the prevalence of community gardens,⁵⁹ bulk food buying clubs,⁶⁰ the sharing of groceries, informal food economies like selling homemade food,⁶¹ and home kitchen entrepreneurs who sell food through the likes of the Cottage Food Act.

A local food system comprised of microbusinesses can achieve lasting food security, nutritional equality and equitable health by dismantling the effects of poverty and improving economic opportunities and conditions in lower income communities. By equipping communities with the ability to own and operate their local food systems, local food system microbusinesses enable communities the ability to effect positive community health outcomes.

A food system owned by the local community is a powerful community engine and tool because it entrusts in communities the ability to control outcomes, make decisions, and adapt to meet unique local needs. Although a locally owned food system is not the panacea to structural, social, and economic inequality, it is a community-centered response to system and market failures. While simultaneously creating opportunities for economic growth, wealth building, and place-based investment, locally owned food systems center communities as the most important stakeholders and decision makers in determining their economic and health outcomes.

Despite the complex intersection of food insecurity, low food access, poverty, and disinvestment in lower income communities, microbusiness provides an opportunity to support communities in changing the local infrastructures that exacerbate adverse economic and health outcomes. Rather than waiting for a supermarket to move in and open in lower income communities, a local food system focusing on microbusiness ownership means that community members have the capacity and resources to fill the grocery gap by opening their own grocery stores.



⁵⁷Brinkley, Catherine, et al. "Culturing Food Deserts: Recognizing the Power of Community-Based Solutions." Latest TOC RSS, Alexandrine Press, 2017, www.ingentaconnect.com/contentone/alex/bemv/2017/000000043/000000003/art00003.

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Ibid.

FoodLab Detroit, MI

FoodLab is a community and membership of good food entrepreneurs and microbusinesses that share resources and knowledge to help incubate, accelerate, and support local food system entrepreneurship. Providing technical assistance, skillshares, and networking, FoodLab helps align food system actors and opens up new market opportunities for local food businesses. A 2017 survey found that 97 FoodLab member food businesses purchased over \$48,000 worth of local food from local producers because of "good public relations, the possibility of purchasing smaller quantities, the support for the local economy, fresher/safer food, and high customer satisfaction."

⁶²

TAKEAWAY: Local food system microbusinesses want to support and work with other local food system actors.



⁶² <https://foodlabdetroit.com>



Local Food Pathways Tucson, AZ

Local Food Pathways supports the economic viability of small farmers by facilitating procurement contracts with anchor institutions and increases the capacity of local farmer microbusinesses to remain competitive through networking and knowledge sharing. Building a supply and demand market for local fruits and vegetables, the program is currently expanding its approach by working with local distributors and restaurants to increase the alignment between food system actors.

Although there is an institutional and market demand for local fruits and vegetables, Local Food Pathways' farm microbusinesses require technical assistance for business planning, certification, and licensing.

TAKEAWAY: Technical assistance is necessary for local food system microbusinesses to better meet market demand.

The Food System Microbusiness Impact

The presence of microbusinesses in food systems is significant. There are over 327,212 microbusinesses operating within the food system, which are responsible for employing more than 1.9 million people.⁶³ In 2016, food system microbusinesses paid more than \$17 million in salaries.⁶⁴ Although significant, these figures do not include the economic contributions from the myriad of informal food economies that operate out of home kitchens and through community networks.

Microbusinesses Increase Food Access

In low food access areas lacking full grocery stores, smaller stores selling a more limited range of groceries such as bodegas, convenience stores, and ethnic food stores may be unable to stock fresh fruits and vegetables because they cannot meet the minimum purchase requirements from major distributors.⁶⁵

Food System Microbusiness Segments*



DC Central Kitchen Healthy Corners Washington, DC

DC Central Kitchen's Healthy Corners puts fresh fruits, vegetables, and snacks in bodegas and corner stores. Responsible for aggregating, processing, distributing, and marketing healthy foods, DC Central Kitchen acts as a microbusiness-centered wholesaler and "provides free infrastructure like refrigeration and shelving, marketing materials, and direct technical assistance to help store owners engage customers and increase sales of healthy items."⁶⁷

In 2017, 71 bodegas and corner stores were stocked by the Healthy Corners program and sold 251,000 healthy items⁶⁸ and increased the walkability to healthy food by 11% in targeted, low food access areas. 50% of participating businesses have seen profit increases, 97% of store owners think differently about selling produce, 91% of participating store owners would recommend the program, 58% of customers purchase their fruits and vegetables from a Healthy Corners store, and 64% of customers reported that the availability of fresh fruits and vegetables has helped them eat healthier.⁶⁹

TAKEAWAY: Equipping microbusinesses with the means and technical assistance needed to sell healthy foods is an effective strategy for increasing revenue, food access, and positive changes in perceptions around healthy foods and eating behaviors.

⁶³U.S. Census, North American Industry Classification System, 2016

⁶⁴Ibid

⁶⁵Ibid

⁶⁶U.S. Census, North American Industry Classification System, 2016

⁶⁷Meyers, Theresa. "Building Healthy Corners." DC Central Kitchen, 20 Apr. 2018. dccentralkitchen.org/2018/04/20/building-healthy-corners/

⁶⁸Ibid

⁶⁹Ibid

The inability to stock fresh fruits and vegetables hurts both local businesses by limiting sales, and communities by limiting ability to access healthy foods.

A local food system, however, can fill the gap of stocking healthy foods because local farmers are more flexible and can accommodate smaller orders. Rather than waiting on new grocery store infrastructure, a local food system means that existing microbusinesses, such as bodegas, can be leveraged to increase food access.

In addition to increasing healthy food retail in smaller stores, increasing local food production promotes opportunities for increasing food access through farmers markets, community gardens, school gardens, community supported agriculture (CSA) food boxes, and healthy food pop-ups.

Microbusinesses Multiple Economic Impact

The economic impact of local food systems are documented in numerous, encouraging studies nationwide. For example, a 2010 study in Northeast Ohio found that a 25 percent shift in agriculture to local production could create 27,664 new jobs which would generate \$4.2 billion in economic activity and \$12 million in state and local taxes.⁷⁰

Another study in the state of Iowa found that a 10% increase in locally grown fruit and vegetable purchases would produce over 4,000 new jobs, \$112 million in income, and \$302 million in industrial output.⁷¹

According to a multipliers study on local economic impact, for every \$100 spent at one of these food system microbusinesses, an additional \$68 dollars is generated in the community in total economic impact.⁷² For

example, if local food system microbusinesses directly received the same amount of funding as the Healthy Food Financing Act, \$500 million infused in microbusiness would generate an additional \$340 million in total economic impact, not including the local tax revenue generated. That would generate an additional 4,788 full time jobs that pay more than \$220 million in additional salaries.

Food LINC

An example of the potential impact of increased capital investment and technical assistance to support food microbusinesses can be gleaned from the USDA's Food LINC initiative. Food LINC utilized the framework of 'Food Value Chains' to promote collaborative business planning, transparency and exchange of information between food system actors such as farmers and retailers, the FOOD LINC project resulted in a 34% increased returns to producers⁷³ and helped participants unlock an additional \$3.5 million in federal funding and philanthropic partners.⁷⁴ FOOD Linc achieved these results and return on investment by funding a 'value chain coordinator' whose responsibilities included providing technical assistance to farmers, convening food system actors, and assisting in contract negotiations.⁷⁵

TAKEAWAY: Aligning food system actors generates significant economic returns for food system microbusinesses.

Social Impact

In addition to promoting financial stability, wealth creation, and increased food access, local food system microbusinesses promote opportunities for communities to work together to create stronger social ties, to expand social and professional networks, and to increase civic engagement.⁷⁶ Organizing around local food systems

⁷⁰Maci, B., Schaller, L., & Shuman, Michael (2010) The 25% Shift: The Benefits of Food Localization for Northeast Ohio & How to Realize Them. Retrieved from <http://www.northeastfood.org/sites/default/files/resources/the25shiftfoodlocalizationintheneoRegion.pdf>

⁷¹<http://www.ambio.net/resources/multiplier-effect/>

⁷²Proctor, Laura, and Teresa Gallucci. "Iowa's Local Food Systems: A Place to Grow." CiteSpace, Feb. 2007, citospace.net.psu.edu/ViewDocSummary?doc=10.1.1.190.5119

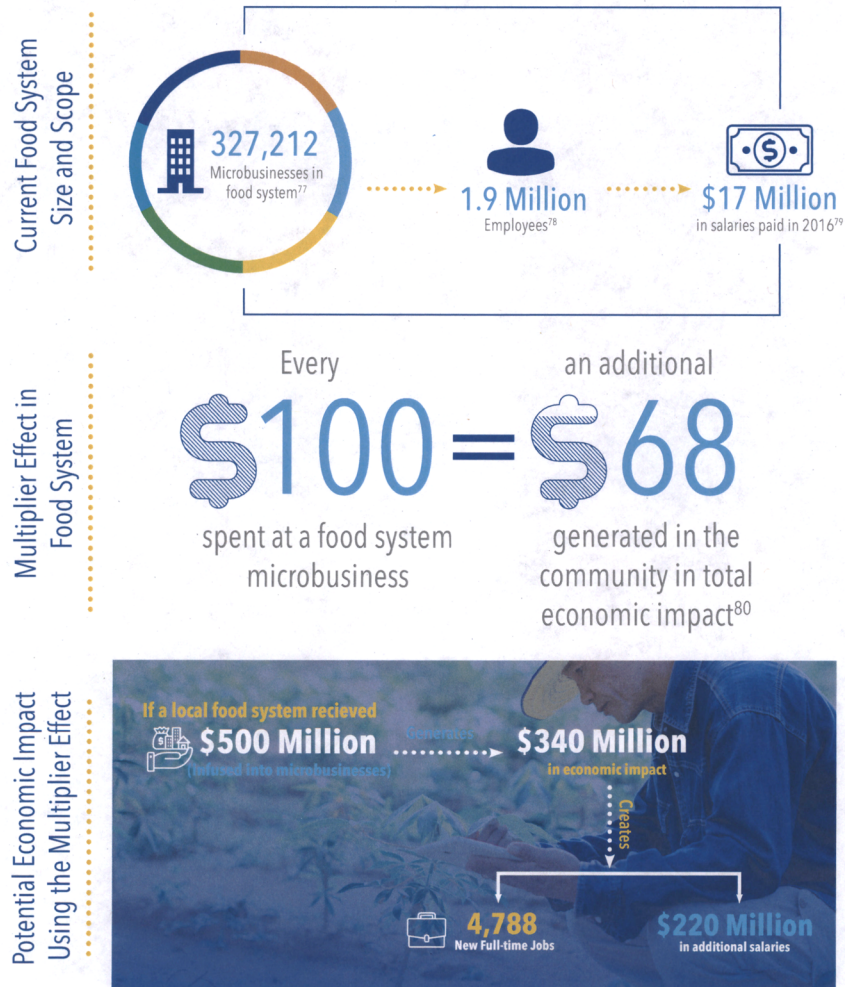
⁷³Dunning, Rebecca. Food LINC Final Report. The Wallace Center, 2016, Food LINC Final Report.

⁷⁴Ibid

⁷⁵Ibid

⁷⁶Ibid

Economic Impact of Microbusinesses in the Food System



⁷⁷ U.S. Census, North American Industry Classification System, 2016

⁷⁸ U.S. Census, North American Industry Classification System, 2016

⁷⁹ Ibid.

⁸⁰ Kretz, Laura, and Teresa Gallardo. "Local Food Systems: A Place to Grow." *Childsnet*, Feb. 2007, citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.190.5119

can drive communities to engage other community issues such as affordable housing, education, and public transportation.

Furthermore, urban agriculture and community gardens can dramatically change the look and feel of neighborhoods. Urban agriculture and community gardens can transform vacant lots into thriving green spaces and create spaces for community gatherings. Studies have shown that community gardens positively affect mental health, preserves culture in immigrant communities, and promote an increased sense of self-empowerment.⁸¹

Microbusiness: a Community-Centered Solution to Food Inequality

Intimately linked to income inequality, low food access and food insecurity should be framed as proxies for understanding the broader, adverse impacts of socioeconomic inequality and poverty on communities' health, wealth and ability to thrive.

The best strategy for achieving lasting food security, nutritional equality and equitable health outcomes is to improve economic opportunities and financial stability in lower income communities. To effectively correct the conditions of food insecurity, nutritious, affordable, and culturally appropriate foods must be made conveniently available and communities must have the means to purchase, cook, and enjoy nutritious foods.

Food system microbusinesses provides the opportunity to support communities in changing their local infrastructures which exacerbate adverse economic and health outcomes. Because microbusiness creates ownership opportunities, builds assets, and is led by community members, food system microbusiness can accelerate community wealth as well as increase access

SUPRMARKT Los Angeles, CA

Seeing the food and health disparity in her community, Olympia Auset felt activated to find a grassroots solution to the structural issues of food, health, and opportunity inequality. SUPRMARKT is pop-up market that brings fresh fruits and vegetables to the residents of South Los Angeles and is a grassroots, food system microbusiness that emerged to fill the gap of low food access in South Los Angeles. Beyond increasing food access, SUPRMARKT builds community power to increase community confidence and capacity in changing their conditions and outcomes.





Although successful and growing, SUPRMARKT needs access to flexible capital to continue scaling as well as access to technical assistance to develop accounting skills, legal expertise, and business planning.

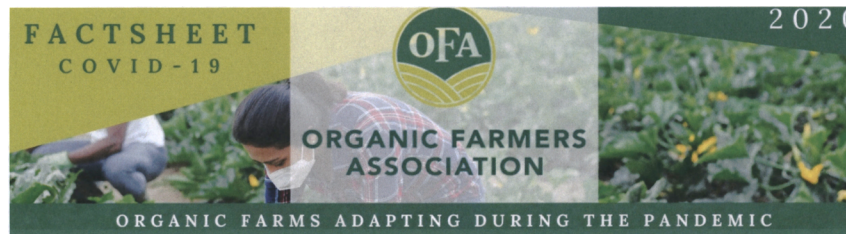
TAKEAWAY: Successful food system microbusiness startups still require capital and technical assistance to scale and remain successful.

to healthy foods and strengthen the local food system. Investing in food system microbusiness can disrupt poverty in disinvested communities by building a local economic infrastructure that supports access to affordable, convenient healthy food, and creates economic mobility for broad, community prosperity. Supporting the growth and success of food system microbusinesses in lower income communities means that the people that are most affected by food insecurity and poverty become the voices that are most amplified and empowered in realizing solutions.

⁸¹ Kearney, Sharon C. "The Community Garden as a Tool for Community Empowerment: A Study of Community Gardens in Hampden County." CORE, ScholarWorks@UMass Amherst, 1 Jan. 1970. core.ac.uk/doi/10.1359/9513.

Recommendations for Advancing Microbusiness as a Response to Inequitable Food Systems

 Better Align Food System Microbusiness Actors	 Increase Capital Investment in Local Food System Microbusiness	 Increase Technical Assistance to Local Food System Microbusiness	 Pursue Supportive Food System Microbusiness Policies
RECOMMENDATIONS <ul style="list-style-type: none"> • Efforts aimed at supporting local food system microbusinesses should be geared at better aligning food system actors to build stronger local supply and demand markets. A stronger local supply and demand pipeline will help keep spending and dollars within the local economy • Align local food system microbusinesses with corporate, government, and anchor institution contracts • Invest in a B2B platform that connects local producers to food microbusinesses • Invest in B2C platform that connects microbusinesses to consumers 	RECOMMENDATIONS <ul style="list-style-type: none"> • Overall greater capital investment is needed to support local food system microbusiness in driving greater food, economic, and social impact. Whether the microbusiness is starting up, scaling up, or trying to stay up, entrepreneurs need capital to remain competitive, profitable, and sustainable • Incubate and accelerate local food system microbusinesses through training programs • Support the scaling of food system microbusinesses with flexible financing • Increase access to patient capital • Invest in commercial kitchen spaces and shared equipment to provide affordable infrastructure to microbusinesses 	RECOMMENDATIONS <ul style="list-style-type: none"> • Provide products and services that help microbusinesses succeed by equipping entrepreneurs with the appropriate tools, skills, and strategies to overcome their challenges • Provide paperwork assistance for licensing, permitting, and capital access • Provide assistance with marketing materials and healthy food merchandising • Assist in contract negotiations with anchor institutions and microbusinesses • Assist food microbusinesses with food safety practices and certifications • Assist producers with Good Agriculture Practice (GAP) certifications • Offer translation and interpretation for technical assistance services • Provide culturally competent products and services • Provide trusted guidance to help microbusiness grow and scale • Provide tech-enabled, online tools to assist in growing and scaling microbusinesses 	RECOMMENDATIONS <ul style="list-style-type: none"> • Support immigration and labor reforms that protect farm workers • Expand SNAP benefits and eligibility to ensure that all families can afford healthy and affordable foods • Enact legislation that establishes tax credits and grants to stimulate investment and healthy nutrition options • Provide set-asides for local microbusinesses to provide food for public school cafeterias and anchor institutions • Support policies that legalize street vending • Support zoning policies that increase urban agriculture • Support reduced building code regulations to increase the accessibility of roadside farm stands • Prioritize flexible and common sense solutions to dietary disclosures and packaging restrictions for microbusinesses



Flexibility, Diversity & Direct-to-Consumer Sales Winning Strategies

Despite uncertainty at the start of the coronavirus outbreak in early 2020—as restaurants, schools, and other institutions shuttered to a close—many organic farms have been bright spots of the COVID-19 economy. Nearly every organic category has seen year-over-year sales gains since March, and, with the pandemic radically reshaping consumer behavior, that growth could continue. Steve Lutz, senior VP of strategic insights firm Category Partners, says consumers are prioritizing immune health more than ever before, and expects this newfound focus to have a “lasting impact” on their spending habits. Meanwhile, safety-conscious consumers are more wary about who is touching their food, driving direct-to-consumer sales such as CSAs. Even while COVID-19 has presented many challenges, these shifting consumer priorities have created new opportunities for farmers—particularly organic farmers, who can market themselves as a healthy choice, and has benefited farmers that can sell direct-to-consumer or had diverse markets already established.

Here’s how a handful of organic farmers from around the country have fared:

DAVE BISHOP, [PRAIRIERTH FARM](#), ATLANTA, IL



FARM FACTS: PrairiErth Farm is a 480-acre multigenerational, diversified farm that sells “a bit of everything” through various channels throughout central Illinois and Chicago.

EXPERIENCE: Bishop calls 2020 “interesting times, but good times as far as our business.” While their restaurant sales rapidly contracted, PrairiErth has more than compensated by expanding its typically 150-member CSA to 300, with 100 more now on the waiting list. PrairiErth grows some feed crops like corn, but they feed it to their own livestock or sell to local rather than commercial feed mills, sparing them reliance on the now-deeply disrupted “commodity crop structure.”

TAKEAWAYS: Bishop credits PrairiErth’s resilience to its “diversified” crop selection, customer base, and marketing. “Diversity is not only critical in regenerative production systems, but in marketing systems. Grow lots of things and sell them in lots of places,” he recommends. Bishop particularly observes many other meat farmers who work with commercial processors struggling with processing chain disruptions. “What do you do with a 280-lb hog that’s soon going to be a 400-lb hog [because there’s no big processors open]?” he asks. “I mean, this puts you in a horrible position... that highlights very clearly that if something goes wrong, the whole (industrial food) system has no way to adapt.” Finally, he says, “nobody overrules the consumer, so that’s where the power lies... we’re on the road to developing a more resilient, local food system, and we—the public—need to support it by how we spend our food dollars.”

DAVE CHAPMAN, LONG WIND FARM, EAST THETFORD, VT

FARM FACTS: Long Wind Farm has grown soil-based organic greenhouse tomatoes, which they sell wholesale to supermarkets, since 1984.

EXPERIENCE: Chapman says Long Wind Farm was so well-poised to meet the COVID-era marketplace that no marketing changes were necessary. “The main thing we’ve had to do,” he jokes, “is learn how to say ‘I’m sorry,’ because we just can’t fill the [increasing] orders.” One challenge was finding enough workers to meet this surging demand. While some employees stayed home—especially the first month—Chapman managed to pay high-risk workers to stay home and give people “combat pay” for coming to work, with the help of the PPP. Chapman, one of the first wave of farmers to apply for a PPP loan, says he received it unusually quickly because he “worked with a local bank that was very committed to the process.”



TAKEAWAYS: “Surviving as a business is always a moving target,” Chapman says, which makes adaptability key. However, he thinks his existing business model is uniquely well-suited for current conditions: “We sell into the wholesale market as a small regional producer, and we’re big enough that the stores like dealing with us.” While Long Wind Farm easily found enough seasonal workers for harvest season, Chapman has seen many farms that typically rely on immigrant labor—particularly H2A workers—having much more difficulty due to border closures. “It’s a pretty gripping commentary,” Chapman observes, “that a lot of [American agriculture] doesn’t work without a labor force that, by and large, doesn’t have a path to citizenship, that’s treated as second—or third—class citizens, and that doesn’t have legal protections, including the right to come to work.”

LAURA FREEMAN, MT FOLLY FARM, WINCHESTER, KY

FARM FACTS: Mt. Folly Farm sells organic grains, hemp, pastured beef, chicken, and pork with “a local, shortened supply chain.”

EXPERIENCE: “The biggest challenge we had was shutting down our farm-to-table restaurant” mid-March due to COVID restrictions, Freeman says. Immediately, she recouped by turning the restaurant into a “farm grocery store” for her farm-to-table market products. “We took out all the tables, put in coolers, and started selling beef and early spring crops.” Unlike many of her beef-farming neighbors, Freeman has “gone local,” which she says has made her relatively immune to processing chain disruptions. “We have a small USDA beef and lamb packer who is open, though now absolutely swamped,” she explains.

TAKEAWAYS: Freeman says going local has helped her “pivot” to meet COVID-era realities by “creating a food system we can watch and manage safely.” “We are small and committed, with a great team spirit,” she adds. Further buoying Mt. Folly, like many local organic farms, was its permanent staff of 25 employees, who “became cross-trained on all sorts of projects... from salesmen and saleswomen helping the distiller, to chefs working in the garden.”

KEN KIMES, NEW NATIVES FARM, SANTA CRUZ, CA

FARM FACTS: Kimes is co-owner of New Natives Farm, a microgreens, sprout and mushroom farm that sells through several channels including farmers markets and health food stores.



EXPERIENCE: “It was hard to understand at first what we should do around all of this,” says Kimes, who initially lost roughly 30% of his business when Silicon Valley tech campuses shut down, decimating his wholesale food service demand. Nonetheless, due to its relatively self-sufficient production process—they pack their own greens, for instance—New Natives has mostly weathered the COVID storm, and, with the help of the Paycheck Protection Program (PPP), has retained its entire workforce. Kimes says it was “relatively straightforward” to apply for the PPP loan, but recommends applying to more than one bank, “having a good set of accounting books on hand,” and trying to get the loan from a local bank.

TAKEAWAYS: Kimes’ recommendations can be summed up by two words: “be nimble.” “An important thing,” he explains, “is that we sell to a lot of different channels,” many of which now demand rigorous food safety regimens to which New Natives had to adapt. “The more you can just embrace the new opportunities,” Kimes concludes, “the better it’s going to work out.”

MARK MCAFEE, ORGANIC PASTURES DAIRY, FRESNO, CA

FARM FACTS: Organic Pastures Dairy milks 714 pasture-grazed cows on 400 acres and produces its own line of raw dairy products, including milk, cheese, butter, cream, and kefir which they sell to 1300 grocery stores nationwide.

EXPERIENCE: McAfee says Organic Pastures Dairy has “never had better sales or more enthusiasm.” He credits this success to consumers’ focus on immune system health, driving many to try raw milk for its probiotic richness. “That’s what’s driving our markets, because people don’t want to be a statistic in the ICU.” Because Organic Pastures processes its own raw milk, they have not been vulnerable to the conventional processing facility closures that have become commonplace due to the loss of food service market. Instead, they bottle their own milk, package it under their own brand, then deliver it to stores on their own trucks. This direct connection, McAfee says, enabled them to pivot when they realized, come late February, that their demand would outstrip supply. “We adapted literally within a day, and sometimes we would deliver our products to stores and they would say, ‘just put all of your products on all the entire shelf, and don’t worry about anybody else, because they’re not coming for another two weeks. And as a result, we picked up a lot of new customers.”

TAKEAWAYS: McAfee says the most important factor to COVID-era success is “a consumer connection.” “When you truly listen to consumers and adapt to respond to them, you’re winning. But if you’re not connected to them, how would you know how to respond? So social platforms, an email address, a 1-800 number... are very important.”

JUDITH REDMOND, FULL BELLY FARM, GUINDA, CA

FARM FACTS: Redmond is a co-owner of Full Belly Farm, a 360-acre northern California organic farm that produces vegetables, herbs, nuts, flowers, and fruit, which they sell both wholesale and retail.



EXPERIENCE: “The challenge was to reinvent the way we farmed, marketed, did farmers markets, harvested vegetables—everything,” Redmond says. “It was hard for us to cover all the demands for communication from the public. We also had to deal with the mental health side of things—many of our employees were very frightened to continue work. We had to make sure our employees understood that the shelter-in-place still applied to them as soon as they got home... it was very challenging, with many uncertainties.” Despite these challenges, Full Belly Farm has thrived, especially its CSA, which by July had over 2000 people on its waiting list.

TAKEAWAYS: Redmond credits Full Belly Farm’s resilience to its “diverse marketing structure, with CSA, farmers markets, stores and wholesale outlets.” “When our restaurant and food-service business ended, we were able to fill-in elsewhere,” she explains. “We already have an on-line presence, so people could find us and order CSA boxes using our on-line interface.”

JENNIFER TAYLOR, LOLA'S ORGANIC FARM, GLENWOOD, GA

FARM FACTS: Taylor runs Lola’s Organic Farm, which sells organic fruits and vegetables through farmers markets, a co-op, and a CSA program. She also works at Florida Agricultural & Mechanical University (FAMU) as the coordinator of Florida’s Statewide Small Farm Program, which helps farmers obtain education and training to implement organic methods.

EXPERIENCE: Lola’s Organic primarily grows fresh fruits and vegetables—food categories that saw especially astronomical sales increases nationwide during the pandemic’s early phases, with consumers suddenly gravitating to products perceived to boost immune system health. “That [sales boost] was true for us,” Taylor says, “and that’s still going on.” “One outcome of this whole thing,” she explains, was that “it caused everyone to slow down and reflect on what’s important to us and to our communities, and as we did that, to think about our health. Because health was an issue.” Many of Taylor’s local community members began to focus on “how to build our own immune systems, and how to eat healthy foods,” she says. “And that was why the customers were being, and still are, very appreciative and supportive of the farmers gearing up to share and sell their local organic produce to the customers [through channels like farmers markets].”

TAKEAWAYS: Taylor, who works with small farmers to implement organic practices and enter “different alternative types of marketing systems” at FAMU, says **the COVID crisis has “verified” the resilience of local organic farming and underscored its importance to community food systems.** “Communities found that [local organics] did not stop being available [during COVID], and food from your local organic farmers was and is the reliant food resource for the community,” she explains. “It also verified [that] for us, because we knew we were essential food providers long before we were deemed that role.” While the organic farmers of Taylor’s community broadly adapted well to the pandemic restrictions, she says farms that “use direct connections from the farmer to the consumer and to the communities” have been especially successful. Taylor also observes that **the pandemic’s disproportionate public health impact on**

communities of color drives home the need to bring the essential health benefits of organic agriculture to urban areas, which she says calls for helping urban and underrepresented farmers implement organic methods through technical assistance, education on certification, and cost-sharing. "Healthy environments, healthy food resources, pollinator habitats, the lack of toxic chemicals being used-- all these are benefits that urban communities see through growing organic agriculture in the soil," she explains. "And so expanding and enhancing resilient agriculture systems and growing [organics] in urban areas-- that supports minority communities."

LORETTA ADDERSON, ADDERSON'S FRESH PRODUCE, AUGUSTA, GA

FARM FACTS: Adderson has run Adderson's Fresh Produce since 2007, where she grows organic fruits and vegetables on her 56-acre multi-generational family farm.



EXPERIENCE: "Our biggest challenge was finding a market for our produce," says Adderson, who had ordered seedlings before the pandemic started with the expectation of selling to 12 different distribution channels, including multiple restaurants, school districts, and retail markets. "We immediately realized we had overproduced... due to the pandemic, we only had one online market and one juice bar [to sell produce to]." Faced with lagging sales and over 15,000 seedlings, Adderson pivoted by introducing a Grab Bag Program—which, to better meet public health standards during the pandemic, soon became a Grab Box Program—targeting two different communities. One market where this transition was particularly challenging was the Veggie Park Farmers Market, an organic produce market that serves the Harrisburg neighborhood of Augusta. Harrisburg is a food desert—an urban area where accessibility to affordable fresh food is limited. Many Veggie Park customers, Adderson explains, could not access traditional CSAs because they had no credit or debit card, making it impossible to pay online. The farmers were not set up to receive EBT card payments either, so innovation was necessary. "The boxes were delivered to a central location, and the customers would pick up their boxes and place a check or cash in a container beside the boxes," Adderson says. While Veggie Park did get some customers for the Box program—especially when their annual Fruit and Vegetable Prescription Program opened—sales remained down significantly compared to their traditional farmers market sales from previous years. Nonetheless, Adderson's Fresh Produce has weathered the storm, albeit with lower sales than usual and the loss of many of their crops due to extreme summer heat. "Our plan for the fall is to step up our game with an increase in brassicas," Adderson says, "and to add a Box CSA for a stronger 2021."

TAKEAWAYS: "We still have a lot of work to do," Adderson says of the implementation of her Box Program. "The CSA is a new concept for our communities, families and farmers... [so we need to] educate, and, importantly, allow EBT for online purchases."

As a retired nutritionist, Adderson has been preaching the importance of building immune health since long before the pandemic. Now this commitment has begun to pay off, with consumers finally gravitating toward the vitamin-rich, immune boosting organic vegetables she has long been committed to growing to improve the health of her community. "Providing organic dark leafy greens and other high-nutrient vegetables to help reduce nutrition-related diseases is our mission," she says. "Broccoli, brussels sprouts, cabbage, cauliflower, collard greens, kale, mustards, and spinach are full of vitamins and minerals. Excellent sources of Vitamin A and C, too." Adderson plans to keep using her platform as a staple food resource for her community to drive home the connection between health and diet and encourage her customers to consume more fresh, nutritious, and vitamin-rich foods to protect their health, both during the pandemic and beyond.

MARYROSE LIVINGSTON - NORTHLAND SHEEP DAIRY, MARATHON, NY


FARM FACTS: Livingston runs Northland Sheep Dairy, a 177-acre farm that produces “completely handmade” aged sheep cheese and lamb using 100% grass-fed sheep, and primarily sells wholesale to restaurants and retail outlets.

EXPERIENCE: Livingston considers herself incredibly lucky that due to the production timeline for both aged cheese and lamb, her sales dropping off precipitously during the pandemic has not hugely affected her livelihood. “I make aged cheeses, so I’m usually selling the previous year’s cheese,” she explains. “I’m mostly wholesale—we make whole wheels that go to a couple distributors, mostly to restaurants. But of course [this year] the restaurant sales went kaputt, as did my distributors... so I have a couple really small retail outlets I sell to, but other than that I’m really not selling much cheese. So therefore, I haven’t weaned my lambs... I’m not milking, I’m not making cheese, yet.” As for lamb, Livingston does direct sales to customers, which were, as usual, concentrated around November last year. “So we sold all our lambs at once and had a nice nest egg from that, so we’re doing fine,” she says. “We’re using this year to do lots of projects we’ve never had time to do, we’re making the most of it, and it’s going pretty well.” And for this year’s slaughter season, she says, “I’m fortunate that I have a wonderful relationship with a great USDA butcher that’s certified organic, and I have my appointment, and I’m good to go.”

TAKEAWAYS: “Being small has made us resilient,” Livingston says, “and so has making aged cheese [which can be stored rather than sold for a long time]. If I were producing a ton of fresh cheese, I’d be really under the gun to keep them moving.”

NATE POWELL-PALM - COLD SPRINGS ORGANICS, BELGRADE, MT

FARM FACTS: Powell-Palm is a millennial farmer who has been running his own organic cattle-growing operation since the age of 12, and the owner of Cold Springs Organics, an 875-acre ranch where he produces grains and grass-fed beef.

EXPERIENCE: “In Montana, we sort of socially distance natively, so it wasn’t all that much of a change for us. And in the summertime, me and my crew don’t really leave the farm, it’s just too busy for that,” quips Powell-Palm, who I finally reached after several weeks during a 30-minute break between marathon sessions of combining wheat. The biggest impact of COVID on his day-to-day operation, he says, is that it “disrupted some of the supply chain, so ordering parts [for machinery like combines] has been kind of tricky.”

With meat processing plants shutting down en masse during COVID, many meat growers have been left unable to sell this summer. Powell-Palm, however, was able to “inch by,” thanks to Montana’s robust system of local, family-run slaughter plants, which have fared much better than the industrial-scale processors elsewhere. “The plants here don’t have very many employees, so they’re pretty resilient as far as surviving [the pandemic],” he explains. But by next year, Cold Springs will be better prepared: this year’s shutdowns have inspired them to open their own processing plant. “We had mostly been selling our cattle to Whole Foods, which goes through a larger processor that’s experienced disruptions throughout the pandemic,” Powell-Palm explains, “so it’s kind of inspired us to take the jump.”



TAKEAWAYS: Powell-Palm says **the pandemic has made it clearer than ever that organic grass-fed beef is not only the only ecologically sustainable beef production system, but also a critical solution for consumer health and a bulwark against devastation for farmers during economic crises.** Unlike other beef, which is loaded with the blood pressure-spiking Omega-6 fatty acids that spur nutritionists to warn against too much red meat, grass-fed beef largely replaces these fats with the much more heart-healthy Omega-3s. “Grass-fed beef actually has nearly the same Omega-3 [fatty acid] profile as salmon... so when you talk about salmon’s ability to bolster brain function and heart health, grass fed beef does that as well,” Powell-Palm says. With consumers becoming unusually health-conscious during the pandemic, he says, many have started to take stock of these benefits. “There’s also been a lot of studies about farm economic liability and grazing,” Powell-Palm says, “and the farms that graze [their livestock] as opposed to using feedlots, they’re really the ones that survive the bad times, like this pandemic. They’re the really resilient model.” Reflecting on his decision to open his own meat processing plant as well as his own feed mill—which he says is “kind of as a service” for members of his community who want to raise their own food—Powell-Palm says local processing infrastructure and self-sufficient local food systems are key to keeping food available to communities during crises like COVID. “Thinking about the wake-up call of [COVID],” he says, “we’ve got a lot of food going un-used at the local level right now, so we’re trying to figure out how you make [our local commodities] more accessible, more able to utilize at the local level, and more available to consumers and to communities.”

WHERE DO WE GO FROM HERE?

Most organic farmers seem to agree on one thing: that COVID-19 has exposed fundamental flaws in the food system status quo. Mark McAfee calls the pandemic “a national stress test on our food system [where] consolidated, huge industrial systems have failed” while local, organic, consumer-connected systems have thrived. While COVID-19 has been tragic, Bishop says, it has unexpectedly provided “a once-in-a-lifetime opportunity” to reevaluate our current food system and imagine how it might improve for the future, using the resilience and success of the many thriving local, organic farms as a blueprint.

Several farmers also recommended specific policy priorities, including:

- Establishing federal quotas for dairy to stabilize dairy prices, protecting dairy farmers from market shocks like the pandemic
- Establishing robust certification processes for the grass-fed label on meat to ensure uniform standards and increase consumer transparency
- Allowing EBT cards to be used for online CSA purchases, to enable consumers without access to credit or debit cards to access fresh produce delivery
- Bringing the crucial soil health benefits of organic farming to cities by supporting urban organic farmers
- Improving nutritious food access for Black, indigenous, and people of color communities by supporting underrepresented organic farmers via technical assistance, organic certification education, and increased funding for the organic certification cost-share program
- Enforcement of antitrust laws to combat meat/dairy industry concentration, which many have called “the root cause” of COVID-related processing supply chain disruptions
- Fixing the organic livestock enforcement loophole, which has tanked organic dairy prices
- Mitigating the farm workforce’s vulnerability to border closures by introducing a new longer-term farm worker visa for immigrants and an agriculture-centric path to citizenship
- Prioritizing local farms + disproportionately impacted communities when distributing stimulus money
- Making federal investments into organic sector development
- Revising eligibility restrictions for SNAP, creating incentives to buy fresh, local foods

Statement of Jerry Scott
Elmer's Restaurants, Inc.
Portland, Oregon
Hearing entitled "How COVID-19 is Impacting Small Businesses Across the Food System"
U.S. House Committee on Small Business
September 30, 2020

Chairwoman Velázquez, Ranking Member Chabot and distinguished members of the Committee, my name is Jerry Scott, President and CEO of Elmer's Restaurants, Inc., based in Portland, Oregon. ERI is the franchisor of 14 restaurants in Oregon, Idaho, Washington, and California, most of these being single-unit owner/operators. We also operate 15 restaurants directly. These restaurants employ over 1000 hard-working people. Thank you for convening the September 30, 2020, Committee on Small Business hearing titled "How COVID-19 is Impacting Small Businesses Across the Food System." Thank you for your leadership as you consider measures to provide relief to desperately struggling small businesses within the food system during the ongoing pandemic.

Much like the coronavirus itself impacts the entire population, the economic impact of COVID-19 is felt across the entire economy and virtually every industry. In recognition of the massive economic impact to small businesses and their employees, Congress rightfully enacted meaningful, broad-based relief through the CARES Act, which created programs like the Paycheck Protection Program, and expanded the Economic Injury Disaster Loans and the Employee Retention Tax Credit to provide liquidity to small businesses that enabled employees to stay connected to payrolls during this critical time.

As Congress considers additional stimulus, I believe relief measures should be fairly applied and based upon need targeted to the most affected businesses. One measure that I understand that Committee members may be considering is H.R. 7197, the RESTAURANTS Act, to establish a new relief fund for restaurants and other food and beverage purveyors. As a restaurant operator myself, one might assume I would be strongly supportive of this bill. But I am not; unfortunately, the House version of the RESTAURANTS Act would do nothing to help franchised restaurants like Elmer's. If Congress pursues specific relief for the restaurant sector, as is the case in H.R. 7197, the RESTAURANTS Act, I strongly urge that franchised business owners be treated equally and qualify for relief as the small business owners that they truly are.

Under the current language, an eligible entity for additional COVID relief would exclude any franchise business operating under a brand that is associated with 20 or more locations, regardless of the type of ownership of the locations. This language would disqualify thousands of small franchise business owners from receiving much-needed relief, despite the fact that they are just as much a small business as any non-franchised business. Consider for example, that 70% of franchisees who own restaurants are single-unit franchisees, and only 2% of franchisees who own restaurants own 11-25 units.

With those figures in mind, I believe the current proposal to exclude single-unit franchise owners from additional COVID-relief is based on a misguided understanding of the franchise business model. Franchising is based on the principle that every franchisee owns and operates their own business and is independently responsible for their own decisions, including the opportunity to retain business-related profits. The franchisor provides support for the brand through standards regarding quality and uniformity. In short, the national brand, or franchisor, sets standards and

ensures consistency of consumer experience, while the individual owner operates the business location and retains its profit. Under the Franchise Rule, the FTC defines a “franchisee” in Section 436.1(h) as [one who] will obtain the right to operate a business that is identified or associated with the franchisor’s trademark, or to offer, sell, or distribute goods, services, or commodities that are identified or associated with the franchisor’s trademark”.

While many believe franchisees are privileged with greater access to capital because of their affiliation with a nationally recognized brand and brand support from a corporate headquarters, that could not be further from the truth. Franchise owners only license the brand from the franchisor, but it is incumbent on the franchise owner to seek capital, such as through the SBA’s 7(a) lending program or private capital. Just because a franchise owner is affiliated with a national brand does not mean it has greater resources to access capital. Likewise, the benefits of owning a franchise, such as national advertising and consumer brand recognition, are paid for by the franchise owner through a percentage of sales revenue as royalty.

Considering these realities, I respectfully urge you to reconsider excluding franchise businesses, like mine, from accessing additional federal relief. Instead, I encourage you to consider making a technical fix that mirrors language in S. 4012, the RESTAURANTS Act that allows franchisees who own fewer than 20 locations to qualify for relief funds. I believe this approach more strongly aligns with the goal of aiding the most affected small business owners, without picking the winners and losers of this pandemic based solely on the business model.

During a pandemic that has deeply affected nearly every small business in America, it is unclear why Congress would seriously consider a narrow, sector-specific measure designed to help some businesses, but not others in desperate need. Even within the narrow food and beverage sector, H.R. 7197 is so narrowly crafted that it would only help *some* restaurants, and provide no relief to mine. I hope Committee members will work toward improving H.R. 7197 so it can meet the needs of a much broader swath of the small business community.

Again, thank you for your strong, bipartisan leadership to address the liquidity issues faced by small businesses across America. And thank you for considering my views.

Jerry Scott
President/CEO
Elmer’s Restaurants, Inc.



Tyson Foods – A Home Grown U.S. Company

A U.S. business with family heritage

- Founded in 1935 by John W. Tyson and grown under three generations of family leadership, with our global headquarters in Springdale, Arkansas
- Tyson is a publicly-traded company, listed on the New York Stock Exchange
- Tyson operates nationwide, helping to feed millions of American families every day
- Tyson employs 120,000 team members in the U.S. across 140 facilities in 32 states

Supporting rural America

- Tyson is one of the nation's leading supporters of independent farmers and ranchers. We rely on more than 9,000 independent farmers, and they are, in turn, vital to our success
- We spend almost \$15 billion a year to buy cattle and pigs, as well as to partner with farmers to raise poultry for us
- Tyson produces 20 percent of the beef, pork, and chicken in the U.S. and is the largest purchaser of livestock
- Tyson is the first major U.S. food company to verify sustainable beef production at scale in its beef supply chain. We are working with cattle producers to verify sustainable beef production practices on more than 5 million acres of cattle grazing land
- All Tyson chickens are raised without using any antibiotics

Feeding America during the pandemic

- To help fight hunger in the U.S. during the pandemic, Tyson has donated more food over the past 12 months than any other year in its 85-year history. This has included a record 30 million pounds of protein, equivalent to 120 million meals
- Tyson has partnered with Feed the Children to address the issue of food insecurity. As part of the effort, it provided 10 million meals to families in 16 states across America
- We have provided over 4 million meals to our team members in the U.S. this year

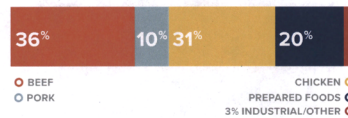
A driver of U.S. exports

- Tyson uses its scale and resources to develop new markets around the world for U.S. beef and pork producers
- We help make the U.S. competitive in other markets, raising the value of the supply chain for farmers and ranchers

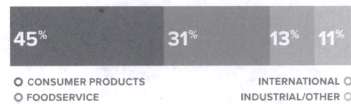
FISCAL YEAR 2019 SALES

\$42.4 Billion

SALES BY SEGMENT



SALES BY DISTRIBUTION CHANNEL



BEEF



155,000

HEAD PER WEEK CAPACITY¹

85% AVERAGE CAPACITY UTILIZATION

12 FACILITIES²

PORK



461,000

HEAD PER WEEK CAPACITY

90% AVERAGE CAPACITY UTILIZATION

6 FACILITIES²

CHICKEN



45,000,000

HEAD PER WEEK CAPACITY

87% AVERAGE CAPACITY UTILIZATION

183 FACILITIES²

PREPARED FOODS



76,000,000

POUNDS PER WEEK CAPACITY

86% AVERAGE CAPACITY UTILIZATION

40 FACILITIES²

CATEGORY-LEADING RETAIL BRANDS

141,000 TEAM MEMBERS³42 DISTRIBUTION CENTERS/
OUTSIDE COLD STORAGE FACILITIES2 RESEARCH AND
DEVELOPMENT CENTERS

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Facilities table do not include livestock grower farms. Some facilities make products that are reported in multiple segments. For presentation purposes, facilities are reflected in the segment that had the majority of the facility's production. Capacity per week is based on the following: Beef and Pork (six day week) and Chicken and Prepared Foods (five day week). Capacity per week at year end is affected by acquisitions and divestitures during fiscal 2019. Average capacity utilization is based on capacity available throughout the year. ¹ Beef facilities include one plant temporarily closed due to a fire. ² The Beef segment includes 3 case-ready locations that share facilities with the Pork segment. ³ Chicken facilities include processing plants, rendering plants, blending mills, feed mills, grain elevators and broiler hatcheries. The Chicken segment includes 2 locations that share facilities with the Prepared Foods segment. ⁴ Prepared Foods facilities include a pet treat production plant and a vertically-integrated turkey operation. The Prepared Foods segment includes 3 locations that share facilities with the Chicken segment. ⁵ On September 28, 2019. See our Annual Report on Form 10-K for additional details.

A Strategic Approach to Monitoring for COVID-19



Tyson Foods is launching an industry-leading testing program and expanding its occupational health staff.

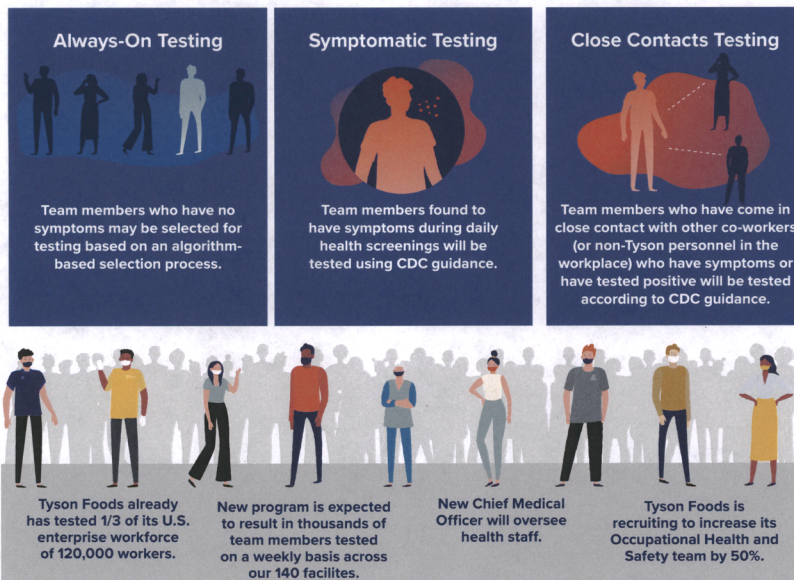
We're adopting a strategic, ongoing approach to COVID-19 monitoring across our facilities. This approach was designed with input from Matrix Medical and is consistent with CDC guidance.

Hiring Additional Health Staff

The company plans to add a Chief Medical Officer position as well as recruiting almost 200 nurses and administrative support personnel to supplement our 400 existing health services staff. The additional nurses will conduct testing and assist with case management and coordinating treatment for team members who contract the virus.

Our Strategic Monitoring Approach

We are adopting a three-pronged COVID-19 monitoring strategy that is designed to help ensure on-going protection of team members.



These industry-leading protocols are another part of our commitment to the health and wellness of our team members, their families, and the communities in which we operate.

To learn more, visit TysonFoods.com/coronavirus.

Data and statements made based on information available as of July 30, 2020.



Tyson Foods is a modern, multi-national, protein-focused food company producing approximately 20% of the beef, pork and chicken in the United States in addition to a portfolio of foods under the *Tyson®*, *Jimmy Dean®*, *Hillshire Farm®*, *Ball Park®*, *Wright®*, *Aidells®*, *ibp®*, *Smart Chicken®* and *State Fair®* brands.

Team Member Health and Safety

The **health and safety** of our team members is, and always will be, our number one priority. We take this responsibility very seriously and are doing everything we can to keep them safe and healthy.

To that end, Tyson Foods has taken and will continue to take **precautionary measures** that meet or exceed CDC and OSHA guidance to protect team members. Since the creation of our internal coronavirus task force in mid-January, we have continued to monitor and implement measures including:

- relaxing attendance policies to encourage workers to stay home when they're sick;
- temporarily idling some facilities when necessary to protect workers and limit the spread of coronavirus, even under the Defense Production Act (DPA) order;
- providing and requiring surgical-style masks to be worn anytime in a facility;
- taking team member temperatures before every shift and installing more than 150 infrared walkthrough temperature scanners to assist in this effort;
- implementing social distancing measures, such as installing workstation dividers, barriers in breakrooms, and outdoor tents where possible for additional space for breaks; and
- regularly cleaning and disinfecting high traffic areas, such as restrooms and breakrooms.

Tyson Foods has partnered with Matrix Medical, a leading provider of mobile and on-site health care services. Matrix Medical is conducting diagnostic testing for Covid-19 on behalf of Tyson. Other leading health care service providers may also perform testing.

- Tyson Foods is focusing on an initial group of more than 30 production facilities in the United States where Tyson is rolling out advanced testing capabilities and enhanced care options on-site to team members. Priority is given to communities with a higher prevalence of Covid-19 and will assess additional needs based on clinically significant risk factors, CDC guidance and access to testing.
- Matrix Medical or other providers will disclose numbers from verified test results with the relevant local and state health departments and Tyson is assisting those health departments with their efforts to conduct contact tracing for team members who test positive.

Moreover, Tyson has prioritized **additional support** to our frontline team members and their families while they perform their critical work of keeping food on America's tables. This additional support includes:



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- providing \$120 million in “thank you” bonuses to our 116,000 frontline workers and truckers. Team members who cannot come to work because of illness or childcare issues related to COVID-19 will continue to qualify;
- eliminating the waiting period for workers to qualify for short-term disability benefits so they can receive pay while out sick and increasing short-term disability coverage to 90% of normal pay until June 30, 2020;
- waiving co-pays, co-insurance, and deductibles for team members to receive COVID-19 testing, eliminating pre-approval or preauthorization steps, and waiving co-pays for telemedicine; and
- relaxing refill limits for 30-day prescriptions of maintenance medication.

These employee supports are consistent with Tyson’s **longstanding, industry-leading commitment to supporting our team members**. For example, in 2019 we:

- paid hourly employees an average rate of \$15.77;
- provided over \$700 million in benefits to team members, including access to health care coverage for all full-time team members who have completed 59 days of employment and an employer-sponsored 401(k) plan;
- invested nearly \$1 million in education assistance for team members; and
- continued to operate and expand our education assistance program.

Returning to Work

In making decisions on returning to work, we are looking at **each Tyson facility on an individual basis in coordination with federal, state, and local officials**. In doing so, we are developing plans for continued operations, reduced operations, and resuming operations for facilities which were temporarily idled or shut down. Team members who test positive may return to work only when they have met the criteria outlined by the CDC.

Protecting the Food Supply Chain

We understand the role we play in providing nutritious food for American families during this pandemic. In addition, we also provide life-sustaining food for food banks, military commissaries, and health care cafeterias. Farmers, ranchers, growers, producers, and all the related livestock and farming industries also depend on us for their own livelihoods.

Because of the potentially catastrophic chain reaction flowing from a plant closure, we are mindful and measured when making decisions about idling our operations. But we will not hesitate to idle a plant to protect our team members. Keeping our plants operational is not only about keeping the doors open, the lights on, and the lines running. The only way we can operate our business and help keep America fed is for our team members to feel safe and protected.



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September 30, 2020

The Honorable Nydia Velázquez
Chair
House Small Business Committee
2361 Rayburn House Office Building
Washington, DC 20005

The Honorable Steve Chabot
Ranking Member
House Small Business Committee
2069 Rayburn House Office Building
Washington, DC 20005

RE: Small Business Committee Hearing on "How COVID-19 is Impacting Small Businesses Across the Food System"

Dear Chair Velázquez and Ranking Member Chabot:

Thank you for your tireless efforts in addressing the ongoing public health crisis and economic consequences created by the COVID-19 pandemic. As the committee considers additional relief for small businesses across the nation, we respectfully request your support for craft distilleries, breweries, wineries, cideries, meaderies, and their employees who contribute to our nation's economy. Our industry is at the nexus of the hospitality and tourism industries, and before the onset of COVID-19, we proudly supported more than 5.4 million jobs across the country and generated more than \$562 billion in economic activity in 2018.

"Stay at home" orders and social distancing policies have had a significant impact on our industry as fewer Americans dine and drink outside of their homes, travel, or attend large events and gatherings. The majority of our members are small producers with limited distribution who rely predominantly on sales from visitors and events in tasting and taprooms. These small businesses operate on slim margins, and during the pandemic, they have worked to find alternative routes to market through purchase and pick up, direct-to-consumer delivery, or the development of new products such as hand sanitizers.

Absent additional economic and targeted tax relief this fall, many craft producers struggling to reopen and bring employees back to work will close permanently. These closures will impact the livelihoods of employees and business partners alike who provide valuable resources, such as farmers who source raw ingredients, glass, plastic and aluminum bottle and can manufacturers, equipment suppliers, distributors, truck drivers, warehouse workers, and countless others who provide valuable materials and services to the beverage alcohol industry.

Please consider the following recommendations in support of craft beverage producers as you work to develop further economic aid for small businesses, including those in the hospitality and travel sector around the country:

- **Enact a permanent extension of the Craft Beverage Modernization and Tax Reform Act (H.R. 1175/S.362)**, which has bi-partisan support from 75 Senators and 347 representatives. A permanent extension of the current federal excise tax rates would provide certainty amidst economic instability. Many craft beverage producers struggling to remain solvent during the current crisis fear what a significant increase in excise tax

rates on January 1, 2021, will have on their businesses. Taking action now would enable these businesses to reshape business plans, preserve their workforce, and purchase grains and other raw ingredients, equipment, and services required to remain open.

- ***Support the RESTAURANTS Act, which creates a revitalization fund for eligible food service establishments to keep workers employed, maintain operations, and meet financial obligations.*** The legislation authorizes the Department of Treasury to provide grants to eligible food and drinking establishments for payroll, benefits, mortgage, rent, utilities, maintenance (including construction of outdoor seating), supplies (including protective equipment and cleaning materials), food, debt obligations to suppliers, and any other expenses deemed essential by the Secretary of the Treasury.
- ***Replenish funding, reopen applications, and offer expanded flexibility for the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan Program (EIDL) administered by the Department of Treasury and Small Business Administration.*** Distillers, brewers, vintners, cider producers, and mead makers strongly support the continuation of these programs that have provided an economic lifeline during this challenging time. We urge Congress to fund and approve another round of PPP and EIDL loans that would allow past borrowers to apply for a second loan. We further support added flexibility to ensure that all PPP loans spent consistent with Congressional intent are forgiven and can cover additional reopening costs to support employee and customer health and safety. Congress should give businesses the ability to use these funds to procure personal protection equipment (PPE) and COVID-19 testing as well as make PPP loans tax-deductible to eliminate additional tax liability for businesses striving to survive under current conditions.
- ***Create temporary tax incentives that encourage consumers to return to on-premise dining and drinking establishments once public health officials determine it is safe to do so.*** Examples include reinstating the expanded business entertainment tax deduction and creating a new, temporary travel tax credit equal to 50% of any expense for meals, lodging, recreation, transportation, or entertainment while traveling away from home within the U.S.
- ***Encourage the Administration to work with our trading partners to simultaneously suspend tariffs on beer, wine, distilled spirits products, and our supply chain partners and reduce trade barriers on the agriculture and food sector.*** Tariffs are taxes on our business operations, and the elimination or reduction of those tariffs would maintain the health of our businesses and global supply chains, support American jobs, and help American consumers.
- ***Defer all federal excise tax obligations on domestic and imported alcohol products through December 31, 2020.*** We are grateful that the Alcohol and Tobacco Tax and Trade Bureau (TTB) allowed deferred payment of federal excise taxes and filings for domestic products from March 1, 2020, through July 1, 2020. Many businesses need an extension through the end of the year so they can dedicate scarce resources to payroll, benefits, and other operating costs during this difficult time.

While some may be outside your jurisdiction, we believe these proposals would provide critical resources needed for our collective members to stay afloat during this challenging time in our country. Thank you for your leadership. We look forward to working with you in the days ahead.

Sincerely,

American Cider Association
American Craft Spirits Association
Beer Institute
Brewers Association
Distilled Spirits Council of the United States
WineAmerica
Wine Institute
American Mead Makers Association

