

STATEMENT OF
RICHARD REINWALD, OWNER,
REINWALD'S BAKERY,
BEFORE THE
JOINT ECONOMIC COMMITTEE

May 1, 2008

““How Are High Food Prices
Impacting American Families?””

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I would like to thank the Joint Economic Committee for holding this hearing today on how high food prices are affecting American families. I would especially like to thank my Senator from New York, Chairman Charles Schumer, and Vice Chairwoman Carolyn Maloney for their leadership on this important issue.

My name is Richard Reinwald and I own Reinwald's Bakery in Huntington, Long Island, New York. I am First Vice President of the Retail Bakers of America (RBA) and I am also affiliated with the American Bakers Association (ABA).

When we opened Reinwald's Bakery in Huntington, we continued a family tradition that now spans over 75 years and four generations. Our bakery makes everything from pies and breads to fancy cookies and of course, birthday and wedding cakes. We are very proud to be a part of people's lives in celebration and everyday life. We feel we contribute to the lifestyle that makes Huntington a great place to live and work.

It is almost to the day when we opened up 20 years ago. The first few years were a constant struggle and my wife and I did not know if we would make it. It was a great relief when the stress of that time was over.

Now the stress is back. In the last 12 months, we have seen explosive price increases on just about every commodity we use. This has created a perilous situation that threatens our ability to continue doing business in our community. For example, a one-hundred pound bag of

bread flour that cost \$17.00 in 2006 today costs \$52.00. Semolina flour was \$21.00 per one-hundred pound bag; today it is \$72.50. Soy oil and eggs have also doubled in the last year.

In a matter of weeks, our cost of goods sold soared to an all time high. Our bowl cost, or the cost of dough coming out of the mixing bowl, went from twenty-two cents per pound to fifty-one cents per pound for rye bread. Rye flour, used to make the best part of a deli rye sandwich, has not only doubled but is now in short supply and we are beginning to import rye from Europe as long as it is available.

How does one respond to such increases? In the past, Reinwald's Bakery has tried to couple small price increases with a strategy that enabled us to "sell" our way out of difficult times. The classic business response to rising material costs always has been to increase prices, cut labor, eliminate waste, seek economies of scale and pressure suppliers. We have been forced to do all of these things recently and until December of last year our strategy was working. Then in January the crisis came full circle – flour prices again reached new highs and wheat supplies plummeted to new record lows. Today I ask myself what strategy will we use to survive this year - what will we do now?

In February, we were forced to institute dramatic price increases across the board. Prices on bread items in particular increased significantly. A one-pound loaf of rye that sold for \$2.65 in April 2007 today costs \$3.45. In talking with bakers across the country, these kinds of increases are fairly common.

For us, the result of these increases has been a drop in volume of about five to seven percent. While this may not sound like much, it is the difference between profit and loss; staying in business or closing the door. Some of my colleagues have not fared so well. A baker in Tampa has seen a decrease in volume of 18% since Oct.

I feel very fortunate to have a loyal customer base. They understand that if we didn't raise prices to these levels we could not continue in business. However in conversations with them, my customers are angry and frustrated. They ask me what can I do.

To respond to these record high prices, I, along with many other wholesale and retail bakers from across the U.S. came to Washington D.C. in March of this year to participate in the Band of Bakers March. ABA, in conjunction with RBA and many other food industry associations and their members, met with members of Congress, the USDA and the White House to discuss what can be done in light of the current commodity crisis.

While I and every other baker in the U.S. understand that high food prices have been caused in part by increased worldwide demand, a weakened dollar and adverse weather events such as last year's drought in Australia, the ethanol program, which continues to subsidize food for fuel, and other government programs that pay farmers not to farm their land, have also led to the current food crisis.

Why are we putting food in our gas tanks instead of our stomachs? As bakers we have no gripe with the farmer – they are trying to make a living like everyone else. But it is difficult to

explain to my customers that flour prices are increasing because farmers are choosing to grow crops for fuel and not for food – that the government is incentivizing farmers through subsidies to grow corn for ethanol and not corn for feed and food uses. Wheat acreage continues to dwindle because farmers can make more money growing government subsidized fuel than they can growing food. Even with current record prices for flour, the response to grow wheat is greatly diminished because of mandates for ethanol production. The U.S. has a finite number of acres to use for farming, and fuel crops have taken over many acres that were previously used to grow food. Where will the land come from to grow more crops to meet new ethanol mandates? U.S. cropland is already stretched to its limit.

Now is the time for Congress to act on this issue. I am aware that the EPA can waive the renewable fuel standards (RFS) in cases when domestic supplies are not sufficient to meet demand or when implementing the RFS may severely harm the economy – I would argue that we are in the midst of insufficient demand and that the RFS is currently harming the economy. I encourage members of this committee to re-evaluate the ethanol program and to take necessary actions to waive the renewable fuel standards passed in the Energy Independence and Security Act of 2007.

Before closing, I would like to mention an outcome that is incidental, but no less important. Often overlooked is the impact that price increases have on donations to food banks. We sell our fresh bread for only one day and then happily give any that is left over to our local food pantries. I know that I am not alone in this practice, as many other bakeries in the industry also do the same. With the advent of increased costs we are tightening our inventory and we have been

forced to bake closer to anticipated demand, as have other bakers. The food pantry that has come to rely on our production overruns and therefore is now short of food when demand is higher. This comes at a time when more and more people need the relief that food pantries provide to help them through these tough times.

In closing, I would again like to thank this committee, Chairman Schumer and Chairwoman Maloney for taking time today to discuss this important issue. To reiterate the problem, food prices, including baked goods, are reaching all times highs at a time when the economy is already near its breaking point. Consumers cannot afford to continue to pay record high prices for basic foodstuffs. I encourage this committee to revisit the ethanol program and ensure that there is a proper balance between food for American families and alternative fuels. In so doing all Americans might enjoy a wholesome diet and still live within a reasonable budget.

Thank you.

Rich Reinwald