NRF's Chain Restaurant Division
nccr
National Council of Chain Restaurants

January 28, 2014

Air and Radiation Docket
Docket ID No. EPA–HQ–OAR–2013–0479
Mailcode 2822T
Environmental Protection Agency
1200 Pennsylvania Avenue NW
Washington, DC 20460

RE: Docket ID No. EPA-HQ-OAR-2013-0479

Dear Sir or Madam:

On behalf of its members, the National Council of Chain Restaurants (NCCR) submits the following comments regarding the Agency's proposed 2014 standards for the Renewable Fuel Standard program. The National Council of Chain Restaurants, a division of the National Retail Federation, is the leading organization exclusively representing chain restaurant companies. For more than 40 years, NCCR has worked to advance sound public policy that serves restaurant businesses and the millions of people they employ. NCCR members include the country's most respected quick-service and table-service chain restaurants.

Chain restaurants are largely owned and operated by tens of thousands of small business franchisees, most of whom have one, two, or a small handful of individual restaurant locations. These small business franchisees are often family-run enterprises, and they are the very picture of small business in America. They give back to their communities through charitable donations to local good causes, and they serve as popular gathering places for family events, special occasions, and they serve countless meals around the country, from small towns to big cities and locations in between every single day.

In recent years, food commodity costs for chain restaurants and their small business franchisees have increased dramatically. This increase has happened to coincide with the enactment and implementation of the Renewable Fuel Standard. These higher food commodity prices are not unique to chain restaurants, but have been experienced by nearly every entity along the food chain, from poultry and livestock farmers on one end of the chain to chain restaurants and other retail food outlets on the other.

NCCR convened stakeholders in the food supply chain that, along with small business chain restaurants, have unfairly suffered under the RFS mandate. Working with these stakeholders, we launched a campaign to inform policymakers about the numerous ways in which the RFS imposes costs to food chain small businesses. Our initiative, "Feed Food Fairness: Take RFS off the Menu," has a website (www.RFSOfftheMenu.org) which provides important and timely information about how the RFS raises food commodity prices for small business and consumers alike.

National Council of Chain Restaurants
325 7th St NW • Suite 1100 • Washington, DC 20004
202.626.8183 • 202.626.8185 fax • www.nccr.net

Relevant research and studies by entities including the Congressional Budget Office, USDA Economic Research Service, Congressional Research Service, World Bank and National Research Council have all implicated the RFS in the sustained climb and continuing volatility in food commodity prices. Moreover, numerous academic studies have done the same. The attached Feed Food Fairness document, "The RFS and Rising Food Costs" details this research.

Although the public domain is replete with evidence that the RFS is, in fact, a significant factor contributing to higher food commodity prices, NCCR endeavored to determine the extent to which this is the case specifically for chain restaurants. NCCR commissioned the independent firm of PricewaterhouseCoopers (PwC) to thoroughly examine this issue. PwC reviewed existing private sector, academic, and government studies on the impacts of the RFS mandate on ethanol production and the price of corn and other commodities. They then combined these estimates with survey information on commodity purchases by chain restaurants to estimate the overall impact of the RFS on chain restaurant input costs.

PwC issued its findings in a report released in November 2012 entitled "Federal Ethanol Policies and Chain Restaurant Food Costs." The full report is available on our website at www.nccr.net.

PwC concluded that the conventional portion of the RFS mandate, when fully implemented in 2015, will raise chain restaurant food costs by up to $3.2 billion dollars a year, every year. That estimate is prospective from 2015 onward – it does not include all the years that the RFS has been in effect since its enactment. A summary of the PwC report's findings is included in the attached Feed Food Fairness document "PwC Study: Key Findings."

In addition to its estimate of the RFS' costs to chain restaurants industry-wide, PwC also estimated the impact on a unit franchise basis. For a typical quick service chain restaurant franchise unit (one restaurant), the RFS is estimated to raise food costs by about 10% per year, or $18,000. For a typical casual dining restaurant, the PwC estimate is 9%, or about $17,000. These are not insignificant sums, taking into account operating costs for restaurants, narrow margins which are typical for the industry, and an extremely competitive consumer market.

For the economy as a whole, PwC's findings are remarkable and concerning. If the RFS policy remains in effect unchanged, PwC estimated that by 2015 the mandate will result in the following percentage price increases for several key commodities: corn, 26.8%; soybeans, 15.7%; pork, 15%; potatoes, 13%; wheat, 12.1%; eggs, 11.2%; poultry, 7.7%; beef, 7.5%. The attached infographic displays the results in vivid terms. In addition, PwC estimates that the RFS will result in the production of an additional 6 billion gallons of ethanol which otherwise would not be produced in the absence of the mandate.

To provide an example and bring these numbers into perspective, consider the experience of one individual chain restaurant franchisee. Ed and Judy Anderson own and operate, with their son, four Wendy's restaurants in Virginia. Mr. Anderson testified before the House Energy & Commerce Subcommittee on Energy & Power in July 2013 that he estimates the RFS to cost his restaurants up to $30,000 per year, per location. For his four Wendy's restaurants, that's $120,000 a year in higher food costs, which is money that the Andersons are not able to use for their business. Unfortunately, the Anderson's experience with the RFS is all-too-common.

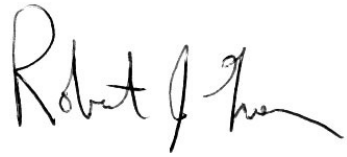
NCCR testified at the public hearing held by the Agency on December 5th, 2013. We expressed our support for the Agency's proposal to slightly reduce the conventional (corn) ethanol mandate for 2014 but urged the Agency to pursue further reductions in the final rule. The proposed 2014 volume mandate reduces the corn ethanol requirement to 13.01 billion gallons, which is a reduction of less than 6% from this year's 13.8 billion gallon mandate. Although a positive first step, the proposal of 800 million fewer gallons barely dents the conventional ethanol requirement and is not expected to shrink the 40+% of U.S. corn production that is currently commanded by ethanol. The proposed volumes will continue to provide incentives to overplant corn, which will unfortunately continue the distortions in food commodity costs that have existed since the enactment of the RFS. These distortions have caused the price of a bushel of corn to skyrocket by as much as 300% in recent years.

In addition, it is important to note the distinction between producer prices of food commodities and the corresponding costs that retailers in the food chain must bear, versus consumer prices for food purchased in foodservice establishments and retail grocery markets. Advocates for the ethanol industry contend that the average consumer has not experienced higher food prices as a result of the RFS. Although this is not true – the average U.S. family of four faced a $2000 increase in food costs in 2013 as a result of higher corn prices – the higher food prices experienced by consumers pales in comparison to those suffered by businesses -- many small -- in the food chain. Poultry and livestock farmers, food processors and food retailers such as restaurants have borne the brunt of higher food commodity prices caused by the RFS since its enactment. Due to competitive pressures and the weak economy of recent years, these farmers and businesses have not been able to pass along these higher costs to consumers. As a result, retail food prices for consumers have risen far less than have producer and wholesale food commodity prices, exacerbating already tight margins facing small business chain restaurant owners.

In closing, we welcome the opportunity to comment on the Agency's proposed reduction in 2014 RFS mandate levels. NCCR encourages you to significantly reduce the conventional portion of the mandate further in order to bring about meaningful relief from high food commodity prices for the nation's farmers, food chain businesses and consumers.

Thank you for considering these views.

Sincerely,



Robert J. Green
Executive Director