

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

TO: Members, Committee on Small Business
FROM: Chairwoman Nydia Velázquez
RE: How COVID-19 is Impacting Small Businesses Across the Food System
DATE: September 30, 2020

The Committee on Small Business will hold a hybrid hearing on, “How COVID-19 is Impacting Small Businesses Across the Food System.” The hearing is scheduled to begin at **10:00 A.M. on Wednesday, September 30, 2020** in room 2175 of the Rayburn House Office Building. Participating members can also join remotely via CISCO Webex.

This hearing will give members a chance to hear about the role of small businesses within our food production, distribution, and retail systems, the challenges they are facing, and how federal programs are addressing these challenges.

Panelists

- Ms. Kimberly Gorton, President and CEO, Slade Gorton & Co., Inc., Boston, MA
- Mr. Jimmy Wright, President, Wright’s Market, Opelika, AL
- Mr. Rob Larew, President, National Farmers Union, Washington, DC
- Mr. Collin Castore, Owner, Seventh Son Brewing, President, Ohio Craft Brewers Association (OCBA), Columbus, OH

Background

From farms and fisheries, to processing plants and grocery stores, to restaurants and kitchen tables, COVID-19 has exposed numerous vulnerabilities across our food system. As social distancing and stay-at-home orders became commonplace, and unemployment in America skyrocketed, millions of unemployed and food insecure Americans turned to food banks to help feed their families. Yet at the same time farmers had to dump milk, crush eggs, and plow under vegetables because of lost market opportunities, supply chain bottlenecks, and workforce challenges.¹ These food system disruptions created food security risks for vulnerable

¹ Helena Bottemiller Evich, *USDA Let Millions of Pounds of Food Rot While Food-Bank Demand Soared*, POLITICO, April 26, 2020.

populations, and significant business disruptions for small businesses struggling with the public health and economic impacts of COVID-19.

The initial measures to contain the spread of the virus resulted in the closure of restaurants, schools, and institutions that sent a shockwave throughout supply chains as COVID-19 severed the demand for millions of pounds of food earmarked for professional kitchens across the country. Nearly 40 percent of the country's fresh produce and 70 percent of seafood goes into food service.² The food-service sector represents about half of the food dollars spent and a quarter of food consumed in the country.³

Closing commercial kitchens put the restaurant industry at the front lines of the pandemic, but the ripple effects hurt small firms across the supply chain. Companies that process and deliver food to commercial businesses faced abrupt order cancellations across their entire customer bases. Those that sell on credit struggled to collect on products already delivered, and to fill orders. Farmers who planted crops and tended livestock for months based on pre-pandemic demands and markets are still struggling to process and sell their products. Fishing boats stayed in port, processors were backlogged, all while retailers struggled to maintain inventory as consumers rushed to buy food in grocery stores. Many businesses were left in the difficult position of having to adapt their small business to meet this new reality or shut down entirely.

Not only are small firms across the supply chain impacted, but so are their employees. Farm and agricultural workers, food processors, grocery store workers, truck and delivery drivers have been deemed essential workers during the time of COVID-19.⁴ Yet many in these industries did not receive adequate protection from COVID-19, and there have been numerous spikes in reported cases of COVID-19 in essential workers across the food chain.⁵ The essential workers that remain on the job to ensure that Americans have food on their table are often working in close quarters, putting their health and safety at risk.

Food System Relief Efforts

Congress has passed numerous bills in attempts to address a multitude of issues related to the global COVID-19 pandemic.

- On March 6, 2020, Congress passed the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020,⁶ which made the COVID-19 public health emergency a declarable disaster and allowed the Small Business Administration (SBA) to make EIDL loans to eligible small businesses.⁷
- On March 18, 2020, Congress passed the Families First Coronavirus Response Act,⁸ which provided \$400 million to USDA for the Emergency Food Assistance Program, \$500

² Jessica Fu, *Seventy Percent of the Seafood is Purchased When Dining Out. What Happens when the Nation is Ordered to Stay Home?* THE COUNTER, April 1, 2020.

³ Helena Bottemiller Evich, *USAD Let Millions of Pounds of Food Rot While Food-Bank Demand Soared*, POLITICO, April 26, 2020.

⁴ Jen Skerrit and Deena Shanker, *Food Rationing Confronts Shoppers Once Spoiled With Choice*, BLOOMBERG BUSINESS, April 21, 2020.

⁵ Liz Crampton, *In Absence of Federal Action, Farm Workers' Coronavirus Cases Spike*, POLITICO, June 10, 2020.

⁶ P.L. 116-123.

⁷ 15 U.S.C. § 632 (2017).

⁸ P.L. 116-127.

million for the Special Supplemental Nutrition Program for Women, Infants, and Children, and provided additional flexibility to support expansion of the Supplemental Nutritional Assistance Program (SNAP), and school meals programs.

- On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act,⁹ which established the \$349 billion Paycheck Protection Program (PPP) and the \$10 billion Emergency EIDL grant program. The CARES Act also provided USDA with \$9.5 billion to support producers, \$14 billion for the Commodity Credit Corporation, and additional funding to support rural businesses and broadband expansion.
- On April 24, 2020, following the exhaustion of funding for PPP, Congress passed the Paycheck Protection Program and Health Care Enhancement Act (PPHCEA) which appropriated an additional \$310 billion for the PPP, \$50 billion for EIDL loans, and an additional \$10 billion for Emergency EIDL grants. This act also ensured that agriculture businesses were eligible for EIDL funds.
- On June 5, 2020, the Paycheck Protection Program Flexibility Act (Flexibility Act),¹⁰ established a minimum maturity of five years for PPP loans, extended the covered period during which a borrower may use PPP funds for certain expenses, and extended the forgiveness period for PPP loans from eight to 24 weeks.

SBA Relief Efforts

The CARES Act established a new guaranteed loan program at the Small Business Administration (SBA). This Paycheck Protection Program (PPP) provides loans and some loan forgiveness for small businesses to cover payroll and other expenses during the crisis. The Act also expanded SBA's Economic Injury Disaster Loan (EIDL) program to provide small firms with grants and loans. These programs were designed to provide small businesses with much needed capital to support workers and operations during the global COVID-19 pandemic.

Farms and other eligible enterprises across the food system have been able to take advantage of the PPP program, however agricultural entities were initially excluded by SBA from the EIDL program until Congress passed the Paycheck Protection Program and Health Care Enhancement Act, ensuring that agricultural enterprises can access the EIDL program. Overall, the SBA and Department of Treasury's implementation of these programs has been problematic, certainly for many small businesses across the food system.

Despite the loan programs from the SBA, many small businesses across the food system are still at risk of permanent closure as the country continues to grapple with COVID-19. Since small businesses are the backbone of the U.S. economy, composing nearly half of U.S. private sector employment and generating 44 percent of U.S. economic activity,¹¹ ensuring that these businesses fully recover from the COVID-19 public health emergency is crucial to reviving the U.S. economy.

⁹ P.L. 116-136.

¹⁰ P.L. 116-142.

¹¹ SBA OFFICE OF ADVOCACY, FREQUENTLY ASKED QUESTIONS, U.S. SMALL BUS. ADMIN. (Sept. 2019)

USDA Food System Relief Efforts

The Families First Coronavirus Response Act, passed in March 2020, provided emergency allotment for the Supplemental Nutrition Assistance Program (SNAP), the largest program working to fight hunger in America.¹² This led the USDA to increase SNAP amounts for participants up to the maximum allowable benefits.¹³ While this provided an increase in food dollars for many already on SNAP and those newly enrolled, there has not been an increase in the maximum allowable benefits for SNAP leaving many continuing to struggle with food insecurity as unemployment spiked to unprecedented levels in May 2020 and continues to remain high.¹⁴

Many small and medium size retailers accept SNAP, and there are numerous requirements that they must meet in order to process SNAP payments.¹⁵ Since the outbreak of COVID-19 and the changing consumer behaviors, USDA has expanded the SNAP online pilot program to 47 states.¹⁶ Retailers must meet online purchasing requirements to be approved for online SNAP ordering, and SNAP benefits cannot be used for delivery or other service charges. In most states, the only approved online SNAP vendors are Amazon and Walmart, excluding many small and medium sized retailers.¹⁷ With very limited exceptions, restaurants and other eateries are not eligible to be SNAP retailers, and SNAP recipients cannot purchase hot meals or prepared foods.

Unfortunately, even before the COVID-19 pandemic, the supplemental nature of SNAP often meant that food insecure families and individuals turned to food banks to make it through the month. With the public health and economic crisis caused by the COVID-19 pandemic, food banks are now struggling to address the needs of an increasingly food insecure America, where more than 20% of households are experiencing food insecurity.¹⁸ As millions of people grapple with unemployment and business closures, they are turning to food banks to help put food on the table. According to Feeding America, which represents 200 food banks across the nation, demand has increased an average of 70 percent.¹⁹

Coronavirus Food Assistance Program-Farmers to Families Food Box Program

In an attempt to address the increased demands at food banks, the USDA has implemented the Farmers to Families Food Box Program, part of the Coronavirus Food Assistance Program (CFAP). This program was developed with the intent to address the need for emergency food assistance, loss of market outlets for many farmers, and the impact COVID-19 shutdowns were having on food distribution businesses. This program has received \$4 billion in funding for the purchase and distribution of fresh produce, dairy, and meat product through food banks and

¹² P.L. 116-123.

¹³ USDA, *USDA Increases Monthly SNAP Benefits by 40%*, USDA PRESS RELEASE No. 0227.20, April 22, 2020.

¹⁴ Rakesh Kochhar, *Unemployment Rose Higher in the Three Months of COVID-19 Than it Did in Two Years of The Great Recession*, PEW RESEARCH CENTER FACTANK, June 11, 2020.

¹⁵ USDA, *Is My Store Eligible?*, USDA FOOD AND NUTRITION SERVICE, Dec. 6, 2016.

¹⁶ USDA, *FNS Launches the Online Purchasing Pilot*, USDA FOOD AND NUTRITION SERVICE, Aug. 31, 2020.

¹⁷ *Id.*

¹⁸ Tommy Tobin, *Fighting Food Insecurity Amid COVID-19*, FORBES, July 8, 2020.

¹⁹ Paul Morello, *Want to Help Food Banks During the Pandemic, Here's How*. FEEDING AMERICA, April 20, 2020.

other non-profit organizations.²⁰ To accomplish the procurement and distribution, USDA issued a Request for Proposals (RFP) from businesses that have the capacity to procure, pack, and deliver to food banks and other non-profits.²¹

Since the rollout of this program numerous concerns have been raised about the contracting and distribution, including unlicensed and inexperienced small businesses receiving multimillion-dollar contracts.²² The House Agriculture Committee, Subcommittee on Nutrition, Oversight, and Department Operations, held a hearing July 21, 2020, where hunger relief organizations raised concerns about the program implementation and coordination, as well as problematic contracting processes that has undermined accountability of the program.²³ In addition to concerns with program implementation and management, there have been reports that the Administration has inserting letters signed by President Trump in food boxes, stating that the recipients of the food are “cherished members of our great American family” and asserting, “We will support America’s recovery every step of the way.”²⁴

Coronavirus Food Assistance Program—Direct Payments

USDA also received funding in the CARES Act that has been used to provide \$16 billion in direct payments to producers impacted by disruptions in supply chains and the drop in commodity prices. Many, but not all, crops and livestock grown and raised in the U.S. are eligible for at least partial relief payments, if the crop or commodity suffered a 5-percent-or-greater market price reduction due to COVID-19 outbreak.²⁵

So far, the U.S. Department of Agriculture’s (USDA) Coronavirus Food Assistance Program (CFAP) has distributed billions in aid to family farmers around the country, but the program has presented challenges for small producers, such as farmers and ranchers who market locally, regionally, or direct to consumers. CFAP’s initial payments were based on national, wholesale prices that do not always reflect the value of products sold through different market channels, such as direct to consumer or institution, or at different price premiums. The House Agriculture Committee has sent letters to USDA expressing concerns with CFAP calculations and accessibility.²⁶

²⁰ USDA, *Trump Administration Announces an Additional \$1 billion for the Farmers to Families Food Box Program*, USDA PRESS RELEASE, August 25, 2020.

²¹ USDA, *USDA Announces Additional Contracts for the Farmers to Families Food Box Program*, USDA AGRICULTURE MARKETING SERVICE, July 1, 2020.

²² Helena Bottemiller Evich and Ryan McCrimmon, *I Need the Food: Ag Department Food Box Program Beset by Delays*, POLITICO, May 27, 2020.

²³ Committee on Agriculture, Subcommittee on Nutrition, Oversight, and Department Operations, Statement of Eric Cooper, President and Chief Executive Officer, San Antonio Food Bank, Hearing on An Overview of the Farmers to Families Food Box Program, July 21, 2020, <https://docs.house.gov/meetings/AG/AG03/20200721/110913/HHRG-116-AG03-Wstate-CooperE-20200721.pdf>.

²⁴ John Roberts and Alex Pappas, *Trump to Include Letter on Coronavirus Guidelines in Food Delivery Program for Those in Need*, FOX NEWS, July 31, 2020.

²⁵ Specialty Crops and the Coronavirus Food Assistance Program, USDA, <https://www.farmers.gov/cfap/specialty>.

²⁶ House Committee on Agriculture, *Peterson Questions Data and Methodology Used in Making USDA CFAP Payments*, COMMITTEE PRESS RELEASE, August 21, 2020.

Defense Production Act Efforts

Beyond the programs and funding provided by Congress, President Trump invoked the Defense Production Act to issue an Executive Order to keep large slaughterhouse and meat production facilities open even as they struggle to keep workers safe.²⁷ As the coronavirus swept through the nation's meatpacking plants this spring due to close working conditions without adequate COVID-19 safety measures, many small towns became some of the country's biggest hot spots, and production slowed down in a few large facilities.²⁸ This had ripple effects across the supply chain, as workers got sick and plants shut down or decreased capacity. Many growers were left with animals that could not be processed, causing them to lose money and in some cases, euthanize their animals.²⁹ This bottleneck impacted thousands of small farm businesses that rely on large processors to purchase their livestock, and threatened to impact domestic meat supplies.

The food sector, including meat processing, has undergone sweeping consolidation in the last few decades, leading to multiple highly-concentrated markets and specialized vertically integrated companies.³⁰ This has created a food system that is extremely efficient, capable of producing and delivering large amounts of food quickly and inexpensively to consumers, but with far fewer small farms, processors, distributors, and retailers. Faced with a disruption like the COVID-19 pandemic, this highly concentrated food system that focused on specialized production is also less diverse and has proven to be less resilient.

Next Steps for Food System Support

Many food system businesses have struggled even with the support of USDA, and SBA programs like PPP and EIDL. Additional support and flexibility are needed to ensure that these vital small businesses can continue to provide for themselves and their employees. This includes targeted direct support for producers, especially young farmers and farmers of color, that have struggled to access current USDA programs. Additional protections and supports are needed for food and farm workers to support their health and safety as they continue to work on the front lines, ensuring that our food system functions. Finally, given the unequal distribution and problematic implementation of both USDA and SBA relief efforts, both agencies need to provide transparent data and information on program operations in order to permit oversight into the spending and administration of their programs.

On May 15, 2020, the House passed the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES Act) to address these disparities, provide support for Americans who need it most, and extend key provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act. The HEROES Act includes provisions to (1) extend the \$600 weekly federal unemployment payments through January 2021; (2) provide direct support for families, including a second round of economic impact payments; and (3) give significant assistance to state and

²⁷ The White House, Executive Order on Delegating Authority under the DPA with Respect to Food Supply Chain Resources During the National Emergency Caused by the Outbreak of COVID-19, April 28, 2020.

²⁸ Michael Grabell, Claire Perlman, Bernice Yeung, *Emails Reveal Chaos as Meatpacking Companies Fought Health Agencies Over COVID-19 Outbreaks in Their Plants*, PROPUBLICA, June 12, 2020.

²⁹ *Millions of Healthy Pigs Euthanized After COVID-19 pandemic closes processing facilities*, ASSOCIATED PRESS, May 1, 2020.

³⁰ Fern Editorial, *What Needs to Change in America's Food System*, FOOD & ENVIRONMENT REPORTING NETWORK, April 29, 2020.

local governments. In particular, The National Bureau of Economic Research has explained that unemployment insurance benefits have a powerful multiplier effect to the economy of as much as 1.9³¹ which means that every \$100 in unemployment insurance leads to as much as \$190 of gross domestic product.³² Provisions like extending Unemployment Insurance put money in the hands of middle income Americans who are likely to spend that money at main street businesses.

The HEROS Act also increases benefits and flexibility as millions of Americans continue to struggle with food insecurity in the face of the pandemic by (1) raising SNAP maximum benefits by 15 percent, and increase the nutrition assistance block grants to U.S. territories (2) suspend the three-month limit on benefits to jobless individuals, (3) strengthen and expand the Pandemic-EBT program that provides funding for children who are missing out on school meals due to school closures. These benefits, which provide monetary support to food insecure families and individuals, can also indirectly support businesses and retailers who serve these communities.

Conclusion

In the face of the ongoing pandemic, shutdowns and slowdowns across the food system have forced many businesses to shift their businesses models in an attempt to stay afloat. Small businesses across the food systems have had to innovate and adapt, often without federal support. For example, Midwestern commodity farmers have started to grow more fresh produce for their local community³³, seafood wholesalers have pivoted to support retail and delivery sales³⁴, craft distillers have started making alcohol-based sanitizers³⁵, and restaurants have shifted to take-out, batch cocktails, selling grocery staples.³⁶ Farmers markets, food hubs, and farmers and ranchers selling locally have pivoted their business models and proven to be one of the most resilient across the food system. Unfortunately, many of these changes are not able to fully account for losses in revenue, and small firms across the food system are experiencing significantly increased expenses and reduced sales, and are at risk of going under as COVID-19 cases continue to spike in different regions across the country. While short-term support from SBA, USDA and other programs will be necessary to help small firms struggling with the impacts of the COVID-19 pandemic, the road to a food and agricultural system that supports small firms and is resilient in the face of threats from climate change and global pandemics will be long.

³¹ Marco di Maggio and Amir Kermani, *The Importance of Unemployment Insurance as an Automatic Stabilizer*, NATIONAL BUREAU OF ECONOMIC RESEARCH, September 2016, online at www.nber.org/papers/w22625.pdf.

³² Washington Center for Equitable Growth, *Moving From Federal Pandemic Unemployment Compensation to a Job Losers' Stimulus Program Amid the Coronavirus Recession*, June 5, 2020, <https://equitablegrowth.org/moving-from-federal-pandemic-unemployment-compensation-to-a-job-losers-stimulus-program-amid-the-coronavirus-recession/>.

³³ Daphne Miller, *Most Farmers in the Great Plains Don't Grow Fruits and Vegetables. The Pandemic is Changing That.*, CIVIL EATS, May 12, 2020.

³⁴ Pete Wells, *A Quarantine Surprise: Americans are Cooking More Seafood*, NY TIMES, May 5, 2020.

³⁵ Andy Markowitz, *Craft Distillers Step In to Ease Hand Sanitizer Shortage*, AARP, March 24, 2020.

³⁶ *From Pandemic to Protests: How Food Businesses Nationwide are Responding*, BON APPETIT, June 8, 2020.