

June 21, 2021

Mr. Bruce Summers
Administrator
Agricultural Marketing Service
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

RE: *Supply Chains for the Production of Agricultural Commodities and Food Products; Docket No. AMS-TM-21-0034; April 21, 2021; 86 Fed. Reg. 20652.*

Dear Mr. Summers:

The Pet Food Institute (PFI) appreciates the opportunity to provide the United States Department of Agriculture (USDA, or the Department) with information in response to its request for comment (Docket No. AMS-TM-21-0034) on food and agriculture supply chain weaknesses and vulnerabilities exposed by the coronavirus (COVID-19) pandemic.

Established in 1958, PFI is the trade association and the voice of U.S. cat and dog food and treat manufacturers. Our members account for the vast majority of dog and cat food and treats made in the United States. Domestic dog and cat food sales were approximately \$40 billion last year, with about \$1.7 billion in exports to more than 90 countries. PFI members employ approximately 25,000 Americans in 32 states, providing stable jobs in rural and urban cities and towns across the country. PFI members are also proud of the role they play in making U.S. agriculture more sustainable through our ingredient sourcing and packaging.

In providing complete and balanced nutrition for the more than 180 million dogs and cats in U.S. households, as well as many millions abroad, America's dog and cat food makers take special care to formulate foods that provide more than 40 essential nutrients in the proportions appropriate for different life stages. These formulations must meet federal and state regulations for safety and they must also comply with labeling requirements set forth by the U.S. Food and Drug Administration (FDA), as well as the ingredient term, definition and labeling standards developed by the Association of American Feed Control Officials (AAFCO) and enforced by states. PFI members take these responsibilities and their commitment to product safety very seriously.

U.S. Pet Food Production Boosts the U.S. Food and Agriculture Economy

PFI members are an important part of the U.S. food and agriculture system, using by-products of human food production to create nutritionally balanced food for America's dogs and cats.

Recently, PFI partnered with the American Feed Industry Association and the North American Renderers Association to co-fund a [study](#) of the economic impact of U.S. dog and cat food production. That [study](#) provided first-of-its kind insight and quantification of how U.S. pet food makers intersect with American food and agriculture.

The [economic impact study](#) showed that the overall value of the ingredients used in U.S. dog and cat food production in 2020 was \$6.9 billion, representing farm-based products such as commodity crops, meat and poultry products, rendered animal protein and fishery products. Pet food makers sourced whole grains, chicken, meat by-products, fruits and vegetables and numerous essential vitamins and minerals to produce almost 10 million tons of food for America's dogs and cats. These ingredients were sourced from around the country, with farmers, ranchers and processors in these five states – Missouri (\$999 million), Kansas (\$574 million), Pennsylvania (\$571 million), Iowa (\$422 million) and Ohio (\$367 million) – selling almost \$3 billion in ingredients to U.S. pet food makers.

COVID-19 Revealed a Fragile Supply Chain for U.S. Pet Food

Even as many people faced unemployment over the past year due to the COVID-19 pandemic, all families and pets still needed access to food. Like our partners in human food production, those working to feed America's pets were deemed essential and U.S. pet food makers took extraordinary steps to ensure the safety of their employees. From social distancing, mask requirements and temperature checks, to paid time off for vaccinations, U.S. pet food makers stepped up to protect their valued employees and make sure America's dog and cat food bowls were full.

While the pandemic has certainly revealed cracks in America's supply chains, the effects are far-reaching and have in some respects intensified even as the pandemic's effects begin to recede. The United Nations (UN) Food and Agriculture Organization (FAO) reports that corn prices have jumped 67% this year compared with 2020 and prices for cooking oil have doubled during that time. USDA's Economic Research Service (ERS) analysis shows that consumer food prices rose 3.4% last year, including a 6.3% increase in the cost of meats, poultry and fish. Those increased costs directly impact the costs of animal- and fish-origin ingredients used in dog and cat food. USDA ERS forecasts a further 2.0-3.0% increase in the consumer food price index for all food this year, including a further 1.5-2.5% increase in the price of meats, poultry and fish. By using by-products from human food production, U.S. pet food makers add significant value to each fish or animal raised for human food, but it also means the costs are linked.

The pandemic has not only hit U.S. pet food makers with higher costs and reduced availability of key ingredients, it has also impacted feeding habits as families spent more time at home or

acquired a new pet, creating increased demand for dog and cat food. The change in shopper habits is now further complicating an already stressed supply chain, as our points will illustrate.

Immediate and Long-Term Supply Chain Disruptions Threaten U.S. Pet Food Makers' Ability to Feed America's Dogs and Cats

As much as U.S. pet food makers could do to ensure their employees were safe and their facilities able to operate during the pandemic, they had less control over other factors, including the supply of ingredients, which is inextricably linked to human food production. The disruptions to human food production, beginning in March 2020, quickly led to the reduced availability or unavailability of plant- and animal-origin ingredients that pet food makers require to make a variety of safe, nutritious pet food products.

Many U.S. pet food makers rely on higher-end human food by-products, including some that result from the production of foods for the hotel, restaurant and institutional (HRI) market. For example, many pet food makers source poultry by-products from the cuts preferred by the HRI sector. Production of these cuts ceased almost entirely as the pandemic shut down the HRI sector, making it nearly impossible for some pet food makers to source the key animal protein in many of their formulations. This in turn directly impacted some pet owners' ability to find their pet's preferred brand, as evidenced by media coverage highlighting the scarcity of some pet food products around the country.

These ingredient shortages have not abated as the pandemic began receding. PFI members report all ingredient costs have risen 8-20%, with dramatic price increases for corn and soybean derivatives, which are key ingredients in many dog and cat food formulations. PFI members also report huge difficulties sourcing major equipment and components. Lead times and pricing are rising astronomically, and many PFI members report never having seen such aggressive and sustained price increases for basic equipment and components (valves, motors, pumps, couplings, stainless steel, piping, etc.). These unprecedented price increases for ingredients and equipment jeopardize U.S. pet food makers' ability to plan and execute strategies that will ensure America's dog and cat food bowls are filled.

Beyond these ingredient availability factors, a more pressing concern emerged this year: increasingly fierce competition for animal- and plant-based oils and fats caused by federal and state mandates and incentives promoting renewable fuel production. Renewable fuel demand has caused prices for animal- and plant-based oils and fats to double, drastically increasing the cost of critical ingredients on which pet food makers rely to ensure the nutrition and palatability of complete and balanced pet foods. These ingredients provide essential fatty acids that perform key functions in dog and cat immune and visual systems, as well as supporting a healthy skin and coat. Palatants, including chicken fat, beef tallow and choice white grease,

have doubled in price this past year, eclipsing the price of key animal origin protein sources. PFI members also report steep price increases for soybean and other virgin vegetable oils, attributing these price spikes to government credits for renewable fuels, particularly renewable diesel, leading to raw material product allocations (supplier-imposed-limits on how much of a particular ingredient a pet food maker can purchase).

While other industries benefit from tax credits for their commodity's use in renewable fuel, the animal food industry is facing significant cost and sourcing challenges for these essential ingredients. Our members report facing an unprecedented increase in the price of plant-origin ingredients, such as soybean oil, that we believe is attributable to the competition for grains from renewable fuel producers. Our members are forecasting dwindling access to these ingredients by the end this year. Left unchecked, these incentives and drivers for growth of demand for renewable fuels will continue to distort markets for food inputs, effectively making these critical pet food inputs inaccessible for many pet food makers and forcing companies to develop product formulations primarily based more on ingredient access than on ideal complete and balanced formulation considerations.

PFI supports responsible efforts to address climate change, including government efforts to encourage the development and use of renewable fuels. However, we urge the Biden administration to consider that renewable fuel mandates and incentives create an unfair government-driven market advantage to the energy sector and a disadvantage to companies sourcing ingredients for pet food. Tax credits that favor fuel production over food production create market distortions, creating one problem in a heavy-handed attempt to address another.

U.S. Pet Food Makers Face Unprecedented Transportation and Infrastructure Challenges

The supply chain challenges for U.S. pet food makers are not limited to access to and cost of ingredients. Media reports throughout the pandemic have shown empty supermarket shelves where dog and cat food should be, forcing frustrated pet owners to find food alternatives for their dog or cat, many of whom are considered family members. In addition to an incredibly tight ingredient supply, additional systemic factors further complicated efforts to deliver finished products to pet owners here and around the world.

U.S. pet food makers are proud of the fact that their products consist almost entirely of ingredients sourced from U.S. farmers and ranchers. But American pet food has both a global presence and some pet food makers rely on key foreign inputs. Our global exports exceeded \$1.7 billion last year. Thanks in part to new and meaningful Chinese market access, our exports are poised to increase dramatically in the coming years, creating more jobs for hard-working Americans around the country. Some ingredients must be sourced from abroad, owing to third country import requirements or the simple fact that some ingredients, notably minerals and

vitamins, are more abundant in some countries than in others. The success of U.S. pet food makers relies on reliable international export and import channels.

Bottlenecks at key U.S. ports now threaten pet food makers' ability to serve export markets and source key ingredients. Offloading delays at U.S. ports of entry have created price wars for available imported raw materials, which have in turn led to plant production and scheduling challenges, driving inefficiencies that result in higher costs for both ingredients and finished products. U.S. pet food makers are not immune to the serious problem of access to ports and containers, especially for trade with lucrative markets in Asia. PFI members report hearing from their international suppliers that they cannot secure the needed containers and if they can, they are at such prices that it makes them almost unattainable.

Transportation challenges continue here at home, with a crumbling infrastructure and driver shortages making it difficult for pet food makers to secure trucks, drivers and even pallets. The shortage of drivers and available transportation companies, along with the significantly increased rates, is causing some real hardship all along the supply chain. PFI members report a lack of availability of labor and turnover as high as 15% every month. Availability of trucks to ship products is a major issue, with one PFI member reporting more than 10% of trucks failing to show up daily. Even pallets for shipping are in short supply, so if a pet food maker manages to secure a truck, driver and container, they may still find themselves unable to ship if no pallets are available.

Systemic failings of infrastructure are profoundly impacting the ability of food and agriculture producers to operate. The critical condition of the U.S. riverways, for example, requires immediate and comprehensive attention. Earlier this year, a cracked bridge on U.S. Interstate 40 shut down critical barge traffic on the river system for several days and disrupted the flow of food and feed ingredients. There are similar examples along the lock and dam system.

The fragility of the U.S. power generation, transmission and distribution network was exposed by winter storms that wreaked havoc on U.S. food and agriculture producers' ability to keep their facilities up and running. One PFI member reported dozens of its facilities were down for several days this past winter due to the severe weather. Their experience is an indication of the tremendous cost and strain on the food and feed network caused by these outages. Our nation's inability to share electric power and natural gas across the national grid in its entirety is an acute weakness and vulnerability and it calls out the urgent need for massive investment to update and secure the nation's power grid.

Finally, U.S. pet food makers in particular and U.S. food and agriculture producers generally face extreme challenges finding and retaining skilled workers. U.S. pet food makers seeking to maintain current production levels, or increase production to meet new demand, now face a

perfect storm that poses a legitimate risk to the viability of the manufacturers, both large and small, who employ more than 25,000 Americans in 32 states.

Conclusions

2020 was a very difficult year and 2021 continues to present significant challenges for manufacturers, especially U.S. pet food makers. As the U.S. economy begins to exit this dark period, we have an opportunity to take stock of the strengths and weaknesses of our nation's food and agriculture supply chain.

U.S. food and agriculture producers endured and persevered through an unprecedented time of hardship and uncertainty. U.S. pet food makers look to the Biden administration to implement policies that leverage the strengths of the U.S. work force to ensure America's food and agriculture sector is the engine propelling the economy. Our members need solutions that meet supply chain challenges and labor shortages, while at the same time doing our part to leave our country and the world in a better place for future generations.

We thank you for allowing us to highlight the supply chain challenges U.S. pet food makers are facing and how these challenges are impacting their ability to maintain and grow their businesses. U.S. pet food makers welcome the opportunity to discuss these challenges, with a focus on identifying policy solutions that will benefit U.S. food and agriculture.

Sincerely,

A handwritten signature in cursive script that reads "Dana Brooks".

Dana Brooks
President & CEO

cc: Dr. Melissa R. Bailey