

Testimony

Of Jasper Sanfilippo Jr.
President and Chief Operating Officer
John B. Sanfillippo & Son, Inc.

before Committee on Ways and Means
Subcommittee on Trade

on The Pending Free Trade Agreement with Panama

March 30, 2010

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WRITTEN TESTIMONY OF
JASPER SANFILIPPO JR.
JOHN B. SANFILIPPO & SON, INC.
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
MARCH 30, 2011

Good afternoon Chairman Brady, Ranking Member McDermott, members of the Subcommittee. I am Jasper Sanfilippo Jr., President and Chief Operating Officer of John B. Sanfilippo & Son Inc., and I am honored to testify before the Subcommittee on Trade regarding the benefits of the pending free trade agreement with Panama. My company strongly supports passage of the Panama Trade Promotion Agreement. We believe this agreement will help make us more competitive in Panama, allowing us to reach new customers by removing barriers to trade and investment, expanding U.S. export opportunities in the region.

Company Overview

Established in 1922, John B. Sanfilippo & Son (JBSS) began as a pecan shelling company in Chicago, Illinois. Over the last 85 years, our company has diversified production to include a wide variety of nut and other snack products. Our products reach consumers through retail, export, industrial, food service, airline catering and contract manufacturing distribution channels. These include private label customers and under our own well-known brands such as Fisher Nuts and Orchard Valley Harvest ®.

JBSS plays an important role in the grower to consumer supply chain as we handle nuts through shelling, blanching, roasting, canning, packaging and distribution. A critical part of our business also rests on our product and packaging innovation, as we strive to be the first in the market to respond to changing consumer tastes in snacks and candies.

We are a vertically integrated business, purchasing raw walnuts, almonds, pecans and peanuts from over 1,000 growers and suppliers in California and the Southern United States including California, Florida, Kansas, and Texas. We also offer the added value on raw imported fruits

and nuts such as, cashews, brazil nuts and macadamias by processing and packaging them in the United States for sale domestically and internationally.

Today, John B. Sanfilippo employs over 1,500 people and is headquartered in Elgin, IL. However, given the breadth of our domestic sourcing, the company has processing facilities strategically located in Gustine, California and Selma, Texas; Bainbridge, Georgia and Garysburg, North Carolina. JBSS is a public company with over \$600 million in annual sales.

International Growth and the Importance of Exports

Our company began as a small, storefront operation, but over the years our international business has grown significantly. While the majority of our nut products are destined for domestic consumption, we are now selling to over 50 countries worldwide. Like many American companies, JBSS sees exports as the greatest opportunity for growth. Today exports represent 10%, or \$60 million of our total sales. Our long-term corporate objective is to diversify globally, with exports increasing to represent twenty-five percent of total sales.

We believe that our brand, our reputation for quality, and product innovation will help us accomplish this goal. In addition, a key component of our export growth strategy has been to align our business with our large domestic partners, and to grow with them as they enter new markets. Walmart, for example, is one of our largest retail customers both within and outside the United States. With a retail presence in 14 international markets, Walmart offers a global platform for market penetration that otherwise does not exist in the nut industry. A longtime supplier to the retailer, JBSS partnered with the company in 1996 to supply its "Great Value" private brand snacks in addition to our branded products.

The impact of this relationship has been mutually beneficial. Walmart is confident that JBSS offers innovative, safe and quality products to meet customer needs. In return, Walmart offers JBSS direct access to consumers who would have otherwise been difficult to reach. In addition, partnering with a well-known retailer helps our company to add credibility to our reputation as we seek new customers in international markets. In some ways, our access through Walmart serves as a calling card to other retailers in foreign markets who often walk aisles to compare product assortment. For example, in addition to Walmart, in Mexico we also now sell to Comercial Mexicana and Chedraui, local Mexican retail chains that may not have considered

our products if they had not seen them on a Walmart shelf. A tribute to the value of our partnership, two years ago JBSS initially only had business with Walmart in Mexico. Today exports have grown exponentially to include Central America, Japan, China and Brazil.

As you might expect, the impact of our international growth has been positive for the company and has increased demand for our 1,000 growers and suppliers. Over the last 15 years we have increased our staff by 700 people and modernized 4 facilities. Our sourcing in the United States has also increased to meet this new overseas demand, helping to support farmers and their families.

Opportunities and Challenges to International Growth

As I have discussed, access to international markets are critical for the growth of our company. Our primary strategy is to follow our large domestic customers overseas. In this fashion, we can bring the quality and innovation we pioneered in the United States to customers in new markets. But as successful as we have been with this strategy, we continue to face barriers to exports that impede our ability to grow internationally.

Specifically, tariff and non-tariff barriers often affect our ability to compete against European and Asian competitors. Tariffs range from 15% in Panama to 14% in Brazil to over 50% for some products in China. These additional duties translate to a significant price premium on the retail shelf, making our products a luxury in some markets. Additionally, we are often challenged by packaging and labeling requirements as well as technical sanitary and phytosanitary standards that are often arbitrary and can add cost to business, without adding anything to the quality or safety of the product.

Benefits of the Panama Free Trade Agreement

We are pleased therefore, that the United States has negotiated a comprehensive free trade agreement with Panama. Panama is currently one of our best markets in Central America due largely to the purchasing power of our customers in the country, the lack of currency fluctuation due to dollarization, and the relatively strong recognition of the Fisher Brand. We have been in the market for 11 years, and currently export from \$500,000 to \$750,000 annually.

We are confident that the free trade agreement will be good for our business. As noted above, we currently face duties of between five and fifteen percent on our nut products. These duties will all be eliminated within ten years of the agreement going into force, and several categories (almonds, walnuts) will receive immediate duty free treatment. The duty reductions will allow us to price our products more competitively in the market and enable us to reach a new class of customers at that lower price point. Our experience in the Dominican Republic proves this point. After the implementation of the CAFTA-DR agreement, we were able to significantly grow our market presence. Since CAFTA-DR went into effect, our sales have grown around 20% annually.

The Panama agreement will also allow us to compete more effectively with our Asian competitors, who often enjoy a price advantage due to currency fluctuations or the cost of labor and other inputs. A similar argument could be made in Colombia as well. Our European competitors would enjoy a price advantage over U.S. exports, should the European Union implement their free trade agreements with Colombia and Panama before the United States.

We are also pleased the Panama agreement will eliminate restrictions on foreign direct investment on multi-brand retail. As you may be aware, foreign retailers are now prohibited from investing in the grocery/retail sector in Panama. Given that a significant portion of our business is in private label products, we are hopeful that removing this restriction will allow some of our business partners to open stores in Panama so we can grow our private label business with them.

Closing

Thank you for the opportunity to present our views before this committee. We strongly believe that free trade agreements will benefit JBSS by removing barriers to exports, helping us compete more effectively with our foreign competitors. We hope the Committee will have the opportunity to consider and pass the agreement this summer. I am happy to answer any questions you may have.

Attachment:

John B. Sanfilippo & Son, Inc.

Production and Distribution Center Locations

