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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

URGENT

Monday, September 15, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Janet R. Forsgren (for) Assistant Director for Legislative Reference
OMB CONTACT: Robert J. Pellicci
PHONE: (202)395-4871 FAX: (202)395-6148

SUBJECT: **AGRICULTURE/CONG AFFAIRS Oversight Testimony on Attorneys General and Tobacco Industry Copy Report on Tobacco Settlement Plan**

DEADLINE: **3:00 p.m. Tuesday, September 16, 1997**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: Hearing is before the Senate Committee on Agriculture on Thursday, September 18th. Dallas Smith, Deputy Under Secretary for Farm and Foreign Agricultural Services is the witness.

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LEGISLATIVE REFERRAL
MEMORANDUM

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DRAFT

9/15/97

Statement of Dallas R. Smith
Deputy Under Secretary
Farm and Foreign Agricultural Services
U.S. Department of Agriculture
Before the
Senate Agriculture, Nutrition and Forestry Committee
September 18, 1997

Mr. Chairman and members of the Committee, my name is Dallas R. Smith and I am the Deputy Under Secretary for Farm and Foreign Agricultural Services, in the U.S. Department of Agriculture. I appreciate the opportunity to meet with you and share the USDA perspective on the proposed tobacco settlement. My hope today is to look toward the countryside and to place a human face on these tobacco discussions. I believe that to understand the implications of changing public policies related to tobacco, one needs to see the human faces.....an elderly widow with a tobacco quota, a young farmer, the local merchant, and even the rural community as a whole. They are the tobacco stories in rural America, and our decisions should be made with them in mind. Before we get to the economic story of these rural communities, please allow me to go over the background and specifics of USDA's historic involvement with the "tobacco program."

The Tobacco Program

Government tobacco programs began with passage of the Agricultural Adjustment Act of 1933 (the 1933 Act). Over the years, the major aims of the program have been to stabilize prices and to assure a balanced flow of tobacco. Growers have benefitted from the higher prices they have received because of the marketing quotas and price supports. Tobacco manufacturers have been assured adequate supplies of the types and qualities of leaf needed for

their particular products. The Agricultural Adjustment Act of 1938, which remains the foundation of today's tobacco program, authorized the implementation of marketing quotas. The quotas set specific limits on the amount of tobacco farmers can sell without penalty.

Many legislative changes have been made since 1938, but the authority for marketing quotas, which balance the flow of tobacco through marketing channels, continues. The Secretary of Agriculture is required to establish a national annual marketing quota for each kind of tobacco and hold a referendum every three years in which producers of these various kind of tobacco decide whether to continue the program. If two-thirds of the producers voting in a particular referendum approve their quotas, then marketing quotas are in effect and production of that kind of tobacco is eligible to be pledged as collateral for price support loans from the Commodity Credit Corporation (CCC).

The Agricultural Act of 1949 (1949 Act) authorizes the price support program for tobacco. A price support level is set for each kind and grade of tobacco. To be eligible for price support, growers must adhere to strict marketing quotas or constraints on production called acreage allotments, as well as other program requirements related to the proper use of pesticides and complying with the conservation requirements found in the Food Security Act of 1985.

Price support activities are administered by producer-owned cooperative associations through loan agreements with CCC. Under the agreements, the associations arrange for receiving, redrying, packing, storing, and, eventually, selling the tobacco under loan. The CCC loans these associations the money necessary to pay the support price to producers and to process and store the tobacco until it is sold. Thus, the tobacco becomes not only the

collateral, but also the means of repaying the loan.

Eligible producers receive the loan rate for their kind and grade of tobacco when a commercial buyer does not bid at least the loan level. Annual loan rates for each grade are determined by USDA, based on trends in market prices, and the share of particular grades under loan. The weighted average of various grade loan rates must equal the overall support level for each kind of tobacco.

The No-Net-Cost Tobacco Program Act of 1982 amended the 1949 Act to require that all producers who are eligible for price support, must pay no-net-cost program assessments into a CCC account or fund established by their cooperative association to cover potential program losses. Beginning with the 1982 crop, if proceeds from the sale of collateral securing the CCC loans are insufficient to repay fully the loan plus interest and other carrying charges, producers must make up the balance from their no-net-cost account or fund. On the other hand, when proceeds from the sale of the tobacco from a particular co-op exceed the loan amount, the CCC retains the the net gain and used to offset other crop loans or put in a CCC account to help pay for future losses.

Since 1994, importers of burley and flue-cured tobacco have also been required to pay no-net-cost assessments on imported tobaccos. Tobacco producers and purchasers of all kinds of tobacco, together with importers, are assessed non-refundable marketing assessments that Congress has in recent years established at 1 percent of the national price support level for the applicable kind of tobacco, paid equally by producers and purchasers. Collections from marketing assessments, including those from importers, totaled $22 to $34 million during the last four fiscal years.

The marketing assessment is a Federal budget deficit reduction program and does not directly fund program administration. However, the marketing assessment assures that tobacco producers and purchasers pay more through assessments than the administrative cost of the tobacco production adjustment and price support program.

USDA Tobacco Related Activities

Several USDA agencies have responsibilities related to tobacco including the Farm Service Agency, Risk Management Agency, Agricultural Marketing Service, Foreign Agricultural Service, Economic Research Service, National Agricultural Statistics Service, and the Cooperative State Research, Education, and Extension Service. These Agencies are responsible for an array of activities that range from information collection and dissemination to determining price supports, quota levels, and grading tobacco. The FY 1995 Agriculture and related Agencies Appropriations Act, prohibits the use of present and future Agricultural Research Service funds to carry out research on tobacco and tobacco products.

The Farm Service Agency (FSA) is responsible for establishing price supports and quota levels for different kinds of tobacco; conducting referenda to see if tobacco producers want to continue the tobacco program; establishing and collecting no-net-cost and tobacco marketing assessments; and monitoring compliance with the various provisions of the production control program.

The Risk Management Agency works with private insurance companies to provide tobacco farmers with crop insurance coverage, so important to the producers now that the ad hoc disaster assistance programs are no longer available. The Federal Government subsidizes

the cost of multiple peril crop insurance through direct premium subsidies and administrative reimbursement to companies. The Agricultural Marketing Service (AMS) is responsible for the independent inspection and grading of domestic leaf tobacco prior to sale in auction warehouses, the certification of leaf tobacco offered for import, and the designation of markets. AMS is also responsible for market news and stock reports. Most AMS tobacco program costs are covered by user fees.

The Foreign Agricultural Service collects, compiles, and publishes statistics and other vital information on the world tobacco situation. This information is used by a wide variety of organizations and is the only comprehensive, timely public source of international tobacco data in the world. In addition to the world tobacco industry, the academic community, the media and health groups are regular users of this data. The publication of the monthly circular "Tobacco; World Markets and Trade" is the vehicle used to deliver this information. The Foreign Agricultural Service also monitors world trade barriers and conditions, and seeks to ensure fair and equitable treatment of U.S. tobacco in international markets.

The Economic Research Service provides economic analysis on various aspects of the tobacco economy. The "Tobacco Situation and Outlook" circular, published three times a year, is the major agency publication on tobacco in which supply, demand and cost of production data are analyzed by the agency. Economic impact studies and demographic profiles of the sector are also periodically part of the assessment. The National Agricultural Statistics Service provides information about tobacco acreage, yields, production and prices by kind of tobacco on a timely basis. The Cooperative State Research, Education, and Extension Service, as the outreach arm of the Department, provides tobacco farmers with technical assistance and training, in the same

manner as it does for producers of other commodities.

Tobacco in the Economy

U.S. cigarette consumption, though stable since 1993, has declined nearly one-fourth since peaking at 640 billion cigarettes in 1981. Even with this decline, however, consumer spending for all tobacco products totaled about $50 billion in 1996. About 94 percent of total was for cigarettes, with cigars, snuff, chewing and smoking tobacco accounting for the remainder. In 1996, about $13.4 billion in taxes were collected on the sale of tobacco products, including $5.8 billion by the Federal Government and $7.6 billion by State and local governments.

Tobacco is in most years the sixth largest cash crop grown in the United States, behind corn, soybeans, wheat, hay and cotton. In 1997, farm sales value of tobacco totaled $2.85 billion, about 2 percent of the value of sales of all farm commodities and about 3.5 percent of crop sales. The United States exported nearly $1.4 billion worth of leaf tobacco and tobacco products valued at over $5.2 billion in 1996.

Tobacco is a major crop of economic importance in several States. According to the 1992 Census of Agriculture, about 124,000 U.S. farms produced tobacco (table 1). About 62 percent of the farms on which tobacco was produced are located in North Carolina and Kentucky, the major-producing states.

The Tobacco Farm. The average U.S. tobacco farm grew about 6.7 acres of tobacco. Tobacco acreage per farm varied geographically, ranging from 2.1 acres in West Virginia to 33.9 acres in Connecticut. Acreage also varies by kind of tobacco grown. In states where flue-cured tobacco predominates, average acreage varied from 16 acres to 26 acres. Among burley tobacco

producing states, acreage averages from 2 to 5 acres. The high average acreage in Connecticut comes from large vertically integrated cigar wrapper operations.

Tobacco farms are about one-fourth the size of the average U.S. farm and relatively small, averaging 126 acres of land with only 35 acres of harvested cropland in 1992. A fifth of these acres, or nearly 7 acres, are used to produce tobacco.

Tobacco Farm Income. Based on a 1994 survey of Kentucky and North Carolina farms that grow tobacco, these farms rely heavily on tobacco as a source of income. According to USDA's 1994 Farm Costs and Returns Survey (FCRS), tobacco accounts for an average of 51 percent of total farm value of production in Kentucky and 57 percent of total farm value of production in North Carolina.

Tobacco growers grow a mix of other field and specialty crops such as corn, soybeans, cotton and wheat and vegetables, which are often cited as an alternative to tobacco production. Costs and return data among major crops indicate substantially larger acreages of other crops would be needed to generate the same return as tobacco (table 2). For most tobacco producers, however, no other legal farm commodity has the economic potential to replace income earned from the sale of tobacco.

Quota Distribution. About 98 percent of the tobacco grown in the United States is covered by the Federal tobacco program. The right to produce and sell tobacco has taken on a value that has been capitalized into land values, and thus, has become an integral part of the local tax base in tobacco producing areas.

Although the number of farms growing tobacco totaled about 124,000 in 1992 and probably has shrunk to a somewhat smaller number by now, the number of individual quotas is

about three times larger. Many of these quotas are leased or rented to actual producers, providing income to non-tobacco growing owners, many of whom are widows of farmers active in the program in the 1940's and 50's or retirees. In 1996, 338,523 tobacco quotas were distributed among 17 states (table 3). Seventy-one percent of the quotas were in Kentucky and Tennessee.

With a change in the law in 1982 allowing sales of quotas within counties, there has been considerable consolidation of flue-cured quotas. In addition, increased mechanization has allowed larger operating units. The average size of effective flue-cured quotas in 1996 was nearly 21,500 pounds, about 10.3 acres. In contrast, burley quotas averaged only 2,800 pounds or about 1.25 acres per farm. Lack of mechanization, a shorter time since quota sales have been permitted, smaller farms, and other factors have prevented greater consolidation of burley quotas. Most allotments for kinds of tobacco, other than flue-cured and burley, are also relatively small.

The distribution of individual tobacco quotas by size further reveals the fragmentation of the rights to produce tobacco. As indicated earlier, flue-cured tobacco quotas are much larger than other kinds of tobacco quotas. Still, 56 percent of flue-cured quotas are 5 acres or less, while only 11 percent are 20 acres or more (table 4).

Burley quotas are very small (table 5). Three-fourths of the burley quotas are 2,500 pounds or less. Burley quotas are implemented in pounds only, while flue-cured quotas are determined and implemented in acres and pounds. One-third of the burley quotas are 1,000 pounds or less and almost one-half of Tennessee's quotas are 1,000 pounds or less. Farms on average produce about 2500 pounds per acre. Most of the allotments for fire-cured, dark air-cured and cigar filler and binder tobaccos are less than 5 acres. These kinds of tobacco are grown

primarily in Kentucky, Tennessee, Virginia and Wisconsin.

About 65 percent of the quota or quota equivalent distributed to farms in the United States goes to Kentucky and Tennessee (table 6). Quotas are effective in 17 states and 4 additional States grow tobacco outside the quota program. Producers decide in triennial referenda if they want to have a price support-production control program for their kind of tobacco during the following three years.

Quota Ownership. Another measure that provides insight into the fragmentation and wide holdings of quota is the fact that about 463,000 individuals own quotas in the United States. Because of multiple ownership of individual quotas, this number is somewhat larger than the individual quota number. For 1996, about 113,000 people are listed as owners of flue-cured quota, about 2.6 persons per quota. Over time, as the original quota owners have died, the quotas have been divided among heirs (table 7).

Of the flue-cured quota owners, 15.3 percent were African-American, and 0.7 percent were Native Americans. South Carolina and Florida had the highest concentration of minority owners with more than 20 percent of he owners being African-American. In some counties, African-American ownership of tobacco quotas was much higher. For example, over 30 percent of the quota owners in Granville, Halifax and Warren counties in North Carolina and Marion, Sumter and Williamsburg counties in South Carolina were African-American. Most of the Native American quota owners were located in Robeson County, North Carolina, where almost 20 percent were Native American.

About 43 percent of the quota owners are female, with North Carolina having the highest proportion. Fifty-four percent of flue-cured quotas are owned by males and the remainder by

business entities such as corporations and partnerships.

In contrast to flue-cured tobacco, only 1.1 percent of the owners of burley quota are African-American (table 8). The ratio of ownership per quota was substantially smaller for burley, about 1.2 versus 2.6 for flue-cured. However, considerably less consolidation of quotas has occurred for burley tobacco in part due to the continuance of spring lease and transfer provisions (table 9).

Tenure Arrangements. An estimated 340,000 tobacco quota owners do not grow tobacco. Many of these owners are part-owners or partial owners of relatively small quotas. However, in many cases, the income from quota leasing or renting is an important component of their total income. Most tobacco producers own at least part of the quota they grow, but some own no quota. Although not sampling the entire flue-cured population, a survey of farms in 1991 showed only seven percent of the flue-cured operators owned the entire tobacco quota they produced, about 21 percent rented all their quota and the remaining 72 percent both owned and rented quota.

Based on a survey of farms in 1989 that may not reflect burley belt population averages, 48 percent of operators grew their entire tobacco acreage on quotas or allotments they owned. About 19 percent rented all their burley quotas, and the remaining 33 percent produced tobacco on acreage combining owned, rented, or leased quota in 1989. The lease and transfer of quota refers to an arrangement whereby the tobacco is grown on a farm other than the farm to which the quota is assigned. The lease and transfer of flue-cured quotas was eliminated in 1987, but reinstated to cover disaster conditions, in what is commonly called "fall transfers," beginning in 1988. Renting refers to growing the quota on the farm to which the quota is assigned.

Although farms producing tobacco with the largest proportion of owned quota tend to be smaller, these owners more frequently have off-farm jobs or are semi-retired. Producers with larger acreages tend to rent more quota and are more vulnerable to changes in the marketplace.

Tobacco Farmer Borrowing. In 1996, USDA made 6,155 direct operating loans to tobacco producers totaling $456.5 million (tables 10 and 11). About 53 percent of the loans were made to Kentucky producers and 67 percent were made to Kentucky and Tennessee producers.

About 7.2 percent of the producers who borrowed directly were of a minority race and 5.9 percent were female. The proportion of minority direct borrowers was lower than the proportion of minority quota owners in flue-cured States but was the reverse in burley producing States. This likely reflects the tendency for flue-cured quotas to be divided among several heirs and the relatively small number of minority owners of burley quota. Many banks now require crop insurance as collateral in order to secure operating loans. If the subsidized crop insurance program was eliminated, loans might not be available to tobacco producers

The Farm Service Agency is involved in two types of operating loan programs, direct and guaranteed. With direct borrowing, USDA is the lender whereas with guaranteed loans the funds are loaned by banks with a percentage of the repayment guaranteed by the Department. Direct borrowers usually have no other options for borrowing and are the most financially vulnerable of tobacco producers.

Proposed Tobacco Settlement

Tobacco represents a lifetime of investments and the main source of income for many people, especially in North Carolina, Kentucky, Tennessee, Virginia, South Carolina and Georgia,

and they are concerned about the proposed tobacco settlement and the potential negative affects it could have on the rural economies of their states.

Although the final form of the settlement will not be known until Congress approves legislation codifying the agreement, the economic affects are expected to be significant, affecting tobacco farmers, quota owners, hired workers, input suppliers, other merchants, and local governments. The affect could be greater for marginal producers and production areas.

Based on an analysis by USDA, the price of cigarettes is likely to increase under the proposed settlement. And a 50-cent per pack increase, for example, could reduce annual flue-cured marketings 3 to 9 percent and burley marketings 2 to 9 percent. The amount of decline depends on assumptions relative to how much cigarette prices would increase and how much consumption would decline given a specific amount of price increase. In addition, the net present value of quotas would decline producing a corresponding decline in the property tax base.

Helping Tobacco Farming Areas

We believe that a varied mix of rural enterprises, including different types and sizes of farms, contributes to the economic well-being of rural America.. Through the USDA Commission on Small Farms that Secretary Glickman recently established, the Department is working to promote the economic strength and financial vitality of small farmers across the nation. The tobacco producer is a primary example of the economically successful small farmer, and we are committed to making sure those interests are reflected in any final tobacco agreement.

Tobacco quota owners, tobacco farmers, and rural areas where tobacco is concentrated should receive a part of the proposed tobacco settlement monies. Many scenarios can be

envisioned, including continuing the current program. If the current program is discontinued, we will work with Congress to determined an appropriate level of compensation.

We believe that, to be acceptable in tobacco-growing areas, an economic assistance program would need to recognize a quota owner's claim for a continued, though finite, income stream from the capitalized value of the quotas; recognize that some tobacco producers own little if any quota, but have specialized tobacco production investments with few viable alternative income opportunities; and compensate other legitimate stakeholders for losses from reduced or anticipated reductions in tobacco production.

Financial assistance to tobacco growing areas could be universal or selective. A universal assistance program would permit all stakeholders to receive some form of assistance because of reduced demand and uncertainty about the future of the tobacco industry. A selective assistance program would target specific numbers or groups for eligibility for assistance. Payments under an assistance program could be all-at-once or spread over several years. Spreading the payments over several years is generally preferable so that a smoother transition can take place.

Much discussion has centered around the Federal Government's involvement in the current tobacco program. This discussion has heightened as the affects of the proposed tobacco settlement are being evaluated. One option relative to financial assistance for tobacco producing regions would be for the Federal Government to eliminate the program by purchasing all tobacco quotas, removing CCC form the responsibility of supporting tobacco prices.

Impact of Eliminating the Program

If the tobacco program was eliminated, tobacco prices would probably decline. The

decline might be in the 30 to 40 cents per pound range, probably reflecting the current payment for the privilege to grow tobacco. Tobacco production would likely increase as large efficient producers expand production while small inefficient producers contract. However, the amount of increase is uncertain because competitor countries might lower their prices to remain competitive with the United States. Tobacco production would likely shift to more efficient production regions within the United States. Flue-cured production would probably move away from the higher-cost Piedmont regions of Virginia and North Carolina to the Coastal Plain of North Carolina, South Carolina, Georgia and Florida. Higher wage rates because of greater competition for workers in factories and the uneven terrain of the Piedmont are major reasons for movement away from this region.

For burley tobacco, marginal production regions in Tennessee, North Carolina, and eastern Kentucky would lose production to central and western Kentucky. The biggest losers would be marginal producers in all the regions. Producers with little quota, high costs and much debt would be especially vulnerable. Many of these producers would default on loans.

If private insurance companies were to assume the full unsubsidized underwriting of tobacco policies, the potential affect on producers would likely be significant. We could expect an immediate price increase to the grower to at least cover the cost of the current premium subsidy. Small and limited resource farmers would likely be most affected in a totally private insurance market due to the high cost of insurance. The affect of tobacco crop insurance availability is significant and eliminating the "safety net" for tobacco producers could have a negative influence on the economies of entire communities.

In the 1996 crop year, crop insurance covered 554,352 acres of legally grown tobacco

representing over $1.15 billion in liability protection, and returned over $90 million back to the farm economy in the form of indemnity payments for crop losses (Table 12). Without crop insurance, these are losses that farmers themselves would have had to absorb, and continue to support their families' livelihood. Since many growers rely on tobacco to pay their bills, without crop insurance many of these farming operations would collapse under such losses.

Minority farmers would likely be the most severely affected by the elimination of crop insurance on tobacco. For example, the Raleigh Regional Service Office, which covers the east coast from North Carolina to Maine, services about 20 percent of all African-American operated farms. On this group of farms, tobacco accounts for more than half of total crop sales on nearly 33 percent of these farms

The affect on world tobacco trade of eliminating domestic program controls and maintaining our current trade policy with regard to both exports and imports, is somewhat unclear. U.S. production will increase, farm prices fall, and production to become concentrated on large farms. Small farms and communities in the traditional tobacco producing regions would likely suffer economically.

The results would include an increase in lower priced U.S. exports and a downward pressure on tobacco prices in other countries. Some countries would see production fall, but total world tobacco production would not likely change. Although trade patterns would change, it is unclear who the winners and losers would be. It is likely the U.S. would see imports decline and exports expand as U.S. prices fall. However, selected low cost foreign producers may be able to take advantage of the shifting patterns to increase their share of the U.S. and world market.

The affect of a policy that eliminated the domestic program controls, removed barriers to

imports into the United States, such as the tariff rate quota currently in place, and that did not aggressively pursue equitable treatment for U.S. exports is also difficult to access. But it can be assumed that it would not result in the reduction of total world production and consumption.

World tobacco prices would fall and production in the high cost producing countries would decline. Many developing countries that depend heavily on tobacco as a source of foreign exchange would suffer lost revenue. The affect on world tobacco trade would depend on the relative change in prices and the actions individual countries took to protect their domestic tobacco producers.

World tobacco consumption would likely increase as world prices fall. In the United States, imports may fall as domestic tobacco became more price competitive. U.S. exports could, in some cases, be completely at the mercy of trade barriers imposed on U.S. tobacco by importing and consuming countries such as China, the largest producing and consuming country in the world.

One can see that the affects of eliminating Federal Government support for tobacco would go beyond small marginal producers. Input suppliers, warehouse operators, and the property tax base of local communities would suffer in marginal production areas unless sufficient economic activity replaced that currently generated by tobacco. Let's take a closer look at the communities and people we are talking about.

Southside Virginia

Southside Virginia is a region containing the largest flue-cured tobacco producing counties in Virginia. This area borders North Carolina and its major tobacco producing region,

and could be argued as typical of all the many rural communities that are dependent upon tobacco for economic vitality. An excellent study entitled Tobacco's Important Role in the Economy of Southside Virginia by William Wise and Dixie W. Reaves of Virginia Tech focuses on six counties that include Brunswick, Charlotte, Halifax, Lunenburg, Mecklenburg, and Pittsylvania. The following comments borrow from their work.

How important is tobacco to these counties? In 1992, of the farms with sales over $10,000, tobacco sales accounted for 68 percent of the region's total agricultural sales. Farms with sales less than $10,000 represent 23 percent of the farms producing tobacco, but they account for just over 2 percent of total tobacco sales. For the counties, tobacco represents 67 percent of agricultural sales in Lunenburg County, 72 percent in Pittsylvania County, and 79 percent in Halifax County. In Lunenberg and Halifax Counties, 10 percent of all household income is generated from tobacco. In the six county area, the total annual regional output attributed to tobacco totals $756 million.

In general, this region has a higher percentage of persons in poverty, a higher unemployment rate, and a lower per capita income than the rest of Virginia. The population of the region also tends to be more elderly and less well educated than the population in other parts of the state. These conditions, in general, are fairly typical of tobacco growing areas throughout the country. Given the above, the importance of tobacco's contribution to the local economies of these areas takes on added significance. The ability to move to new economic activities is rather limited in these regions, and decisions made regarding the future of tobacco production have the potential to impact negatively.

The Human Faces

In his recent trip to tobacco country, Secretary Glickman met many tobacco quota owners and farmers. The Secretary met an elderly widow who owns a quota. She is a typical quota holder, married to a tobacco farmer in the 1940's, she became the owner of the quota when he died. She is now highly dependent on the lease amount she gets from the quota, indicating that it makes the difference in her quality of life, as it complements her Social Security check helping to pay for food, housing, and decent clothing.

Many of the producers the Secretary met were limited resource and minority farmers, and typical of the group that the he wants to help by the work of the recently established Commission on Small Farms. It is interesting to note that while African-American operated farms are about as likely as all U.S. farms to harvest corn and soybeans, they are twice as likely to harvest tobacco. In tobacco growing states, the proportion of African-American operated farms harvesting tobacco is nearly three times that of all farms in the region. These facts, coupled with the fact that nearly 90 percent of farms operated by African-Americans nationally had total sales of less than $25,000, further highlight the impact of tobacco on minority owned farms.

The Secretary also met a young entrepreneurial producer who owns no quotas, but has managed to piece together 75 leases, from quota owners like the woman described above. Annual production of 600,000 pounds of quota tobacco returns over $200,000 to the quota owners. What we have is a highly successful small farmer contributing to the incomes and taxes of the whole community.

The local merchant is another important part of the picture, as tobacco farmers put cash on the barrel head, purchasing needed inputs and other products needed for family and farm.

Typical of the local businesses impacted by tobacco was an implement dealer who explained to the Secretary's party just how critical the tobacco farmer is to his business

As local merchants maintain and increase business, the whole community benefits with increased economic activity and a larger level of sales and property taxes paid. It is estimated that a 100 acre producer generates $450,000 in annual sales, which in turn, using a standard multiplier effect of five, generates $2.25 million in economic activity for a community. In tobacco dependent areas, one can readily see that these tobacco sales are critical.

Conclusion

We are at an historic crossroads regarding public policy and tobacco. In closing, I hope that we are leaving you with a sense of what tobacco means to the rural economies of many of our counties. We hope we have succeeded in putting a human face on these difficult discussions. Our rural tobacco growing communities will need our help, as we transition to new public policies on tobacco. USDA stands ready to work with you to make sure the citizens of these rural communities are not left behind.

Table 1--Number of farms, acres, and average acres of tobacco on farms growing tobacco, 1992

State	Farm	Tobacco average	Average tobacco acreage per farm
	Number	Acres	
Alabama	14	335	23.9
Connecticut	43	1,456	33.9
Florida	233	6,928	29.7
Georgia	1,658	40,403	24.4
Indiana	2,946	9,170	3.1
Kansas	12	37	3.1
Kentucky	59,373	268,140	4.5
Maryland	951	8,470	8.9
Massachusetts	27	400	14.8
Missouri	454	1,846	4.1
North Carolina	17,625	283,900	16.1
Ohio	3,487	11,006	3.2
Pennsylvania	1,348	8,445	6.3
South Carolina	1,965	50,194	25.5
Tennessee	22,953	75,621	3.3
Virginia	8,444	55,419	6.6
West Virginia	1,003	2,072	2.1
Wisconsin	1,729	7,379	4.3
Other States	5	12	2.4
United States	124,270	831,233	6.7

Source: Census of Agriculture, Bureau of the Census.

Table 2--Estimated average costs and returns for selected vegetable and field crops in North Carolina, 1994

Crop	Gross revenue 1/	Cash variable expenses 2/	Net above cash variable expenses
	Dollars per acre		
Sweet potatoes	1,627.50	1,118.92	508.58
Cucumbers, Processing	992.00	1,041.62	95.63
Cucumbers, Fresh market	440.00	466.61	-26.61
Bell peppers, Fresh market	717.50	864.81	-62.56
Snap beans, Fresh market	983.50	600.06	383.44
Watermelon	675.00	485.86	190.63
Cabbage, Fresh market	1,900.00	1,016.36	883.64
Tomatoes, Fresh market	4,332.00	3,735.50	596.50
Corn	278.20	157.86	120.34
Soybeans	170.91	95.10	75.81
Cotton	623.80	291.70	331.90
Flue-cured tobacco	4,089.80	1,884.68	2,205.12

1/ Average price times average yield per acre. Source: USDA, NASS.
2/ Vegetable expenses are based on Extension enterprise budgets from North Carolina State University. Budgets modified to represent average production practices for 1994. Field crop expenses are from USDA's cost-of-production accounts.

Table 3--Tobacco: Quota Summary Table--1996

State	Number of Quotas and Allotments	Flue-cured Quotas	Burley Quotas	Other Allotments
Alabama	32	29	3	0
Arkansas	4	0	4	0
Florida	310	310	0	0
Georgia	2,710	2,668	42	0
Illinois	2	0	2	0
Indiana	8,819	0	8,799	1/ 20
Kansas	26	0	26	0
Kentucky	151,668	0	134,424	1/ 17,244
Minnesota	39	0	0	1/ 39
Missouri	1,389	0	1,389	0
North Carolina	44,488	31,541	12,947	0
Ohio	9,332	0	8,777	1/ 555
South Carolina	4,840	4,840	0	0
Tennessee	88,457	0	79,319	1/ 9,138
Virginia	19,724	4,311	13,814	1/ 1,599
West Virginia	3,124	0	3,124	0
Wisconsin	3,559	0	0	1/ 3,559
TOTAL	338,523	43,699	262,670	32,154

1/ Dark air-cured in Indiana, fire-cured and air-cured in Kentucky and Tennessee, cigar filler and binder in Minnesota, Ohio and Wisconsin and Virginia fire-cured and sun-cured in Virginia.

Table 4--Distribution of flue-cured quotas by size, 1996

Acreage allotment	North Carolina	South Carolina	Georgia	Virginia	Florida	All States 1/
Acres	----------Percent----------					
.01-1.00	6.3	9.6	5.0	8.6	12.7	6.9
1.00-3.00	32.3	26.9	21.6	32.2	13.3	30.9
3.01-5.00	19.5	17.8	14.1	17.2	7.7	18.6
5.01-10.00	20.3	19.5	20.8	18.1	11.3	19.9
10.01-20.00	11.9	12.8	16.1	11.9	12.7	12.3
20.01-50.00	7.3	10.0	15.2	9.1	25.7	8.4
50.01- 100.00	1.8	2.6	5.6	2.3	12.7	2.3
100.01- 199.9	0.4	0.8	1.4	0.5	3.3	0.5
200.01 and over	0.1	0.1	0.2	0.1	0.7	0.1
	----------Number----------					
Number of quotas 2/	31,541	4,840	2,668	4,311	310	43,699

1/ Includes Alabama's 29 quotas.

Table 5--Distribution of burley quotas by size, 1996

Poundage quota 1/	Kentucky	Tennessee	Ohio	Indiana	Virginia	North Carolina	All States 2/
Pounds	----------Percent----------						
1 to 1,000	27.4	47.4	33.0	35.2	30.8	38.2	34.9
1,001 to 1,300	10.9	16.1	15.2	13.8	16.3	16.5	13.5
1,301 to 2,500	27.0	24.8	27.2	31.7	36.8	32.5	27.2
2,501 to 5,000	18.1	8.9	15.4	13.2	12.7	10.5	14.2
5,001 to 10,000	10.4	2.2	6.8	4.6	2.8	1.9	6.7
10,001 to 25,000	5.1	0.5	2.2	1.2	0.5	0.4	2.9
25,001 to 75,000	1.0	0.1	0.2	0.3	0.1	0.0	0.5
75,001 and over	0.1	0.0	0.0	0.0	0.0	0.0	0.1
	----------Number----------						
Number of quotas	134,424	79,319	8,777	8,799	13,814	12,947	262,670

1/ About 2,100 pounds is equivalent to an acre.
2/ Includes Missouri and West Virginia.

Table 6--Tobacco quota volume summary--1996

State	Quota or equivalent (1996) pounds
Alabama	831,964
Arkansas	6,296
Florida	19,786,497
Georgia	108,982,940
Illinois	2,076
Indiana	18,719,913
Kansas	86,171
Kentucky	469,182,917
Minnesota	57,442
Missouri	6,386,692
North Carolina	655,687,269
Ohio	21,339,960
South Carolina	112,023,099
Tennessee	169,008,880
Virginia	115,241,896
West Virginia	6,239,970
Wisconsin	9,116,800
Total	1,722,676,576

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Table 7--Flue-cured quota ownership, 1996

State	Number of Owners	Race				Sex		
		White	Black	Indian	Other	Male	Female	Corporation
	Number	Percent						
North Carolina	78,556	85.9	8.6	1.0	0.1	52.6	43.8	3.6
South Carolina	16,580	77.9	22.0	0.0	0.1	54.9	41.1	4.0
Georgia	6,519	93.8	6.2	0.0	0.0	60.3	35.0	4.7
Virginia	10,758	73.3	26.6	0.0	0.1	56.2	41.9	1.9
Florida	537	75.2	24.8	0.0	0.0	64.4	25.5	10.1
Alabama	62	91.9	8.1	0.0	0.0	72.6	22.6	4.8
United States	113,012	84.0	15.3	0.7	0.0	53.8	42.6	3.6

Table 8--Burley quota ownership, 1996

State	Number of Owners	Race			Sex		
		White	Black	Other	Male	Female	Corporation
	Number	Percent					
Kentucky	167,695	98.7	1.2	0.1	66.7	31.7	1.6
Tennessee	86,211	98.8	1.2	0.0	70.4	28.5	1.1
Ohio	11,819	99.6	0.3	0.1	63.4	35.3	1.3
Indiana	9,687	99.8	0.1	0.1	75.8	21.9	0.3
North Carolina	15,588	99.6	0.3	0.1	63.3	35.1	1.6
Virginia	18,614	99.8	0.2	0.0	58.8	39.6	1.6
Missouri	1,573	99.4	0.5	0.1	71.9	22.0	6.1
West Virginia	3,513	99.9	0.1	0.0	70.5	28.6	0.9
Other States 1/	88	98.9	1.1	0.0	72.7	27.3	0.0
United States	314,788	98.9	1.0	0.1	67.3	31.2	1.5

1/ Includes Alabama, Arkansas, Georgia, Illinois and Kansas.

Table 9--Number of quota owners that do not grow tobacco 1/

State	Number
Alabama	50
Florida	304
Georgia	4,908
Indiana	6,741
Kansas	21
Kentucky	126,381
Missouri	1,119
North Carolina	76,519
Ohio	8,332
South Carolina	14,615
Tennessee	71,485
Virginia	23,519
West Virginia	2,510
Wisconsin	4,077
United States	340,581

1/ Number of persons who own or partly own tobacco quota. These are estimates derived by subtracting the number of census tobacco producing farms from the number of people who have any ownership interest in quota.

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Table 10--Tobacco producers who borrowed money directly from the U.S. Department of Agriculture, 1996

State	Total	Minority Race	Females
	Number	----------Percent----------	
Alabama	1	0.0	0.0
Connecticut	5	0.0	0.0
Florida	38	26.3	5.3
Georgia	127	10.2	3.1
Illinois	1	0.0	0.0
Indiana	118	0.8	5.1
Kentucky	3,265	3.8	6.2
Maryland	18	22.2	5.6
Massachusetts	7	0.0	0.0
Missouri	17	11.8	5.9
North Carolina	900	16.9	6.4
Ohio	109	3.7	2.8
Pennsylvania	79	0.0	0.0
South Carolina	170	15.9	2.4
Tennessee	836	5.0	5.4
Virginia	385	15.8	8.6
West Virginia	61	3.3	6.6
Wisconsin	18	11.1	11.1
United States	6,155	7.2	5.9

Table 11--Tobacco producer borrowing directly from the U.S. Department of Agriculture, 1996

State	Total	Minority race or female
	Thousand dollars	- - - - Percent - - - -
Alabama	140	0.0
Connecticut	662	0.0
Florida	5,191	9.4
Georgia	11,483	16.4
Illinois	72	0.0
Indiana	11,257	5.8
Kentucky	235,451	4.7
Maryland	985	25.0
Massachusetts	607	0.0
Missouri	1,083	12.4
North Carolina	65,775	13.3
Ohio	9,202	4.2
Pennsylvania	7,997	0.0
South Carolina	18,920	11.7
Tennessee	54,397	8.6
Virginia	30,170	17.6
West Virginia	1,784	12.1
Wisconsin	1,345	1.5
United States	456,524	7.9

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Table 12--Crop insurance experience, 1996

State	Active Policies	Premium Subsidy	Producer Paid Premium	Liability
Alabama	8	8,794	22,159	813,484
Connecticut	50	254,783	163,810	8,323,047
Florida	202	170,877	95,365	11,048,167
Georgia	1,507	1,322,145	1,638,577	85,940,583
Indiana	826	181,954	154,735	6,255,038
Kentucky	30,688	5,440,093	1,971,111	180,142,413
Maryland	49	11,786	1,611	481,151
Massachusetts	36	110,498	20,344	3,389,363
Missouri	393	101,859	30,790	2,114,169
North Carolina	15,264	6,938,560	11,199,528	597,300,547
Ohio	1,670	297,747	118,359	6,974,524
Pennsylvania	17	3,916	1,721	149,276
South Carolina	1,814	1,532,377	2,066,857	112,598,552
Tennessee	9,356	2,042,685	1,090,157	48,109,306
Virginia	5,440	1,236,464	1,745,789	88,030,035
West Virginia	542	94,160	29,493	1,364,780
Wisconsin	557	58,756	98,263	3,978,546
United States	68,419	19,807,454	20,448,719	1,157,012,981

November 5, 1997

Dear Congressman Etheridge:

Thank you for sharing with me your concern for the economic well-being of this nation's tobacco farmers and the communities in which they live.

As I have stated publicly, I am committed to the financial well-being of America's tobacco farmers, their families, and their communities. I will not support or sign any legislation that does not provide American tobacco farmers with a safe, sound, and secure future.

In response to the points you have raised with me, I agree with you that American tobacco farmers must have a stable and realistic price for the product they produce. I trust in the abilities of you and your colleagues to determine that price.

I also agree with the principle espoused by several of your colleagues on both sides of the aisle which assures American tobacco farmers a fair level of production which is based upon world market share of American cigarette companies, and a sound share of their own domestic market. I understand that this principle will involve adopting a new thought process as it affects grower production, but I believe this idea is soundly based in principles of equity, thus deserving my support. Further, I appreciate the points you have raised regarding our ability to enforce this provision, and I can assure you that I will work with you to achieve your stated objectives.

I am committed to supporting an independent source of funding for all costs associated with the operation of a successful tobacco farm program. As I understand the concept you have shared with me, you believe that tobacco farmers should be entitled to a portion of a dedicated source of revenue for the purpose of ensuring financial stability in tobacco communities, compensating tobacco farmers for any negative economic effect from the tobacco settlement, maintaining the economic viability of farmers' investments in tobacco, and for the purpose of covering all administrative and other costs associated with the Tobacco Program.

I understand that the House of Representatives has a record of previously supporting this concept in a bipartisan manner. This kind of prior bipartisan support leads me to believe that the solution which you discussed will be one which I can ultimately wholeheartedly support.

Further, I agree with you and other tobacco Members that tobacco farmers and other facets of the tobacco community should share in any immunity from liability which cigarette manufacturers receive in any settlement legislation.

Additionally, I will work with you and other Members of Congress to reform the system of "duty drawback" so that this system does not provide an economic incentive to purchase foreign tobacco, in preference to American grown leaf. Duty drawback should never be used to undermine the price or sales of American grown tobacco.

As I said when I announced my plan for tobacco legislation, we have an important moral responsibility to American tobacco farmers. These farmers are not the source of the problem, but rather, an important part of America's farming community. As you and I have discussed in the past, American tobacco farmers grow commodities other than tobacco. To ignore this fact, is to ignore the security of this nation's food supply.

I thank you for this opportunity to share with you my commitment to comprehensive tobacco legislation. The points you discussed with me are worthy of my support, particularly because of the bipartisan nature in which they were originally developed. Your proposal demonstrates the commitment we share to maintaining American tobacco farmers' livelihood and income, and I look forward to working with you and all tobacco Members to achieve these goals.

THE WHITE HOUSE

WASHINGTON

November 7, 1997

Dear Bob:

Thank you for sharing with me your concern for the economic well-being of this nation's tobacco farmers and the communities in which they live.

As I have stated publicly, I am committed to the financial well-being of America's tobacco farmers, their families, and their communities. I will not support or sign any legislation that does not provide American tobacco farmers with a safe, sound, and secure future.

In response to the points you have raised with me, I agree with you that American tobacco farmers must have a stable and realistic price for the product they produce. I trust in the abilities of you and your colleagues to determine that price.

I also agree with the principle espoused by several of your colleagues on both sides of the aisle that assures American tobacco farmers a fair level of production based upon the world market share of American cigarette companies, and a sound share of their own domestic market. I understand that this principle will involve adopting a new thought process as it affects grower production, but I believe this idea is soundly based in principles of equity, and thus deserving of my support. Further, I appreciate the points you have raised regarding our ability to enforce this provision, and I can assure you that I will work with you to achieve your stated objectives.

I am committed to supporting an independent source of funding for all costs associated with the operation of a successful tobacco farm program. As I understand the concept you have shared with me, you believe that tobacco farmers should be entitled to a dedicated portion of the current tobacco excise tax for the purposes of: ensuring financial stability in tobacco communities; compensating tobacco farmers for any negative economic effect from the tobacco settlement; maintaining the economic viability of farmers' investments in tobacco; and covering all administrative and other costs associated with the tobacco program.

I understand that the House of Representatives has a record of previously supporting this concept in a bipartisan manner. This kind of prior bipartisan support leads me to believe that the solution which you discussed will be one which I can ultimately wholeheartedly support.

Further, I agree with you and other tobacco Members that tobacco farmers and other facets of the tobacco community should share in any immunity from liability which cigarette manufacturers receive in any settlement legislation.

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Sincerely,

Bill Clinton

The Honorable Bob Etheridge
House of Representatives
Washington, D.C. 20515

CAMPAIGN for TOBACCO-FREE Kids

July 9, 1997

BY MESSENGER

TO: Elizabeth Drye
Chief of Staff
Domestic Policy Council

FROM: Scott D. Ballin
Senior Policy Consultant

SUBJECT: TOBACCO SETTLEMENT ----**Tobacco Farmers and International Issues**

I wanted to first introduce myself and second, provide you with some background materials and recommendations for your consideration as the White House moves forward with its review of the tobacco settlement.

I have for the last fifteen years served as the VP for Public Affairs and Legislative Counsel of the American Heart Association and just recently have left the AHA to do some consulting for the Campaign for Tobacco Free Kids, focusing particular attention on the tobacco farming issue. I also served on the Steering Committee (as well as Chairman) of the Coalition on Smoking OR Health (AHA,ACS,ALA) and had a major hand in petitioning and pushing for FDA regulation of tobacco products.

I wanted to provide some background materials for your use and consideration on two areas- the tobacco farming issue, as well as the international issue.

1. **Tobacco Farmers:** The public health community has been working to develop an ongoing honest and open dialogue with the farming groups to see if there are areas of common interest. It is our position that the tobacco farmers are in many ways "tobacco dependent" just as smokers in this country are addicted to nicotine. We have indicated to them that we are not out to disrupt their economic livelihood but that we do and will support efforts that will hopefully wean them off of the production of tobacco. We regard this as a five to ten year effort at a minimum and we have recommended that a National Commission on the Future Growth and Production of Tobacco be established to seriously look at a wide spectrum of issues

NATIONAL CENTER FOR TOBACCO-FREE KIDS
1707 L STREET, NW • SUITE 800 • WASHINGTON, DC 20036
PHONE (202) 296-5469 • FAX (202) 296-5427

surrounding tobacco farming and to make recommendations to Congress and the Administration on how things can be altered. We did talk with Secretary Glickman about this last fall and have talk with the Vice President's office as well. Many on the public health side as well as on the tobacco growing side support this as a meaningful way of looking at the future of the tobacco growing communities. We have also made it clear to the farmers (as well as to the public) that we are not out to "kill" the tobacco program and will support its continuation (at least on the short term)in that it can provide stability for them but that options and alternatives away from tobacco must be considered. But in order to do it there must be a careful review of both the domestic as well as the international situation, and that we believe the farmers and their communities must actively participate in this process. Attached you will find a copy of a backgrounder I and Rich Hamburg with the AHA have written and which was used as part of the Koop/Kessler Advisory Committee assessment. I have also enclosed a copy of draft legislation (not yet introduced) that would establish the National Commission. This could obviously also be turned into an Executive Order. The establishment of the National Commission is one of the recommendations that will be contained in the Koop/Kessler recommendations (due out July 9).

2. **International Tobacco Control:** There's has been a great deal of concern about what the settlement might mean to public health on an international level. There's also been a great of discussion about what actually can be. What in my mind is most critical to the future of protecting global public health is creating a structure and organization that can operate at the international level. No such structure presently exists, although there is unanimous agreement that in order to effectively take on the tobacco companies on an international scale there must be an international organization. What I propose for your consideration is the establishment of an international Center funded by the tobacco companies as part of any settlement. This Center would operate independently and be governed by a board composed of representatives from the international health and consumer organizations. (i.e. the international counterparts to the American Heart Association, American Cancer Society, American Lung Association, etc.) This Center would for the first time give the international health community the tools and the power to take on the tobacco industry on a global level. I have enclosed a copy of the proposal for your consideration and use.

Interestingly enough these two issues are tied together in that what the US companies and US tobacco leaf dealers are doing overseas are not only impacting on international public health but the US tobacco farmer as well.

There is no "ownership" of these suggestions so please feel free to use them in any way you wish. And please call me if I can be of any assistance. You can contact me at the Campaign or at my personal business number **202 686-8898.**

CURTAILING TOBACCO PRODUCTION AND USE
New Approaches for Reducing America's Dependence on Tobacco in the 21st Century

Scott D. Ballin JD
Richard Hamburg

Except for efforts made in recent years, and following some ground breaking efforts by President Jimmy Carter and the Carter Center in 1985, the public health community has all but ignored the tobacco farmer and the difficult situation that many of the tobacco farmers have found themselves in. The public health community has to a large extent viewed the farmers as part of the tobacco "family" carrying out the political agenda of the tobacco companies. Although the farmers have often defended the industry and the production and marketing of tobacco, their motivations, their beliefs, and reasons are in many cases significantly different than those of the tobacco companies.

Over the years the economic stability of the tobacco farmer has continued to decline while the tobacco companies have continued to flourish both domestically and internationally. There is no reason to believe that this scenario will change in the future, although the tobacco companies can be expected to continue to provide economic incentives to the growers to keep them allied with the companies interests. Several examples support this conclusion of a continuing long term decline in spite of tobacco company efforts to assure the farmers of economic stability. In 1969, US manufactured cigarettes contained 90% American grown tobacco. By the 1990's, that figure has dropped to barely 60%. The number of US tobacco farms have also dropped dramatically, from 512,000 in 1954 to 124,000 in 1992. And the contribution that tobacco makes to the various tobacco producing states, though while significant, has also been dropping. In North Carolina for example, tobacco's contribution to the economy has dropped from 11.3 % in 1960 to 7.8 % in 1993.

Farmers and tobacco allotment holders are increasingly aware of these realities. A 1997 survey of tobacco growers and tobacco allotment owners conducted by the Bowman Gray School of Medicine in North Carolina and the Center for Sustainable Systems in Berea, Kentucky found that over 70 % of the respondents have taken steps to learn about on-farm alternatives to tobacco. Fully 66 % have discovered that on-farm alternatives can be profitable. But the survey also noted important barriers. Between 64 % and 79 % of those surveyed said that few processing plants connecting farmers to consumers, lack of capital for new business ventures, no places to sell new products, and few low-interest loans or grants for new business ventures were just some of the barriers to change.

And finally, the poll indicated that 66% of those surveyed believed that the federal government should actively help farmers find other ways of making a living.

Serious efforts to reduce the use and consumption of tobacco products in the United States must address the issue of the tobacco farmers, their families and the economic viability of their communities. Not unlike many smokers who know the dangers of tobacco but got seduced and "hooked" on the product and cannot quit , the American tobacco farmer and the economic infrastructures of tobacco states are and have been for a long time " tobacco dependent". They are a part of the deeply imbedded economic and political system that the tobacco companies have established and maintained to protect the companies' interests. In many of these communities tobacco is a way of life, often the only way of life, going back generations. As organizations concerned about public health and the general well being of our society we must be willing to recognize and accept our responsibilities in helping to reduce this dependence as part of our overall efforts to reduce tobacco use as a public health matter. The public health community, religious organizations and other civic organizations need to work cooperatively and collaboratively to effect positive change.

It is not enough to suggest that tobacco farmers merely transition to an alternative crop. There are complex issues that must be assessed before any short term or long term strategies are implemented, taking into account both domestic as well as international considerations. Tobacco production, size of plots, type of land, and product, varies significantly from state to state. The public health community's role should be to provide the necessary vision and leadership and to serve as a catalyst for effecting the necessary

short term and long term change that must occur in order us to be successful in helping wean the tobacco farmer and their communities off their tobacco dependence. We must make the tobacco farmer, his family and his community a part of the "solution" not the problem. A significant side benefit in establishing a short term and long term plan to deal with these issues is that politically, the power of the tobacco companies can be significantly reduced, and that policy decisions could therefore be made that benefit public health and the tobacco growers rather than the tobacco industry. Tobacco state politicians and policy makers who have often carried out the agenda of the tobacco companies under the pretense of protecting their tobacco farming constituencies have in some ways done more harm than good in maintaining the "status quo". They also should begin to provide new visionary thinking and leadership for effecting change.

In discussions and dialogues with farmers, organizations representing the interests of the tobacco farmer as well as public health groups in the primary tobacco growing states, there is a cautious optimism that there can be productive solutions that seek to reduce tobacco use in this country as a major public health problem while at the same time working to ensure the economic viability and vitality of those states and those communities. But it must be stressed that finding the various options and implementing them will take time.

Intrinsically tied to the future fate of the tobacco farmer is what happens not only in the domestic growing arena but in the international growing, manufacturing and marketing arena as well. It is clear that agricultural production and marketing of tobacco is increasing world wide and that the quality of the crop in foreign countries is increasingly comparable to the quality of US product -- often the result of US companies and leaf dealer technological assistance. American tobacco companies and leaf dealers are increasingly doing business in those countries including buying and importing foreign leaf into the United States, and pumping up the economies and dependency of those countries through intensifying investments. It makes good business sense for the companies but represents a serious threat to the health of the rest of the world as well as to the US tobacco farmer. The high priority and attention that such companies as Philip Morris and RJ Reynolds are giving to the expansion of their international headquarters and operations out of Switzerland attests to their long term motives and plans. While the industry continues to provide the

US farmers "incentives" and "assurances" for staying in the business and remaining loyal to the tobacco companies it is clear that such commitments from the companies are transitory and can easily be abandoned or curtailed. We have a chance to change the "status quo" in a positive visionary way.

Whether or not there is an agreement or settlement with the tobacco companies, the public health community must now be willing to provide the leadership at the national, state and local level to assist in reshaping the agricultural systems and structures in the tobacco growing states. The tobacco farmers are not looking for handouts but looking for assistance and opportunities to make changes. This effort should be viewed as a five to ten year initiative and commitment.

The public health community, religious organizations, and other civic organizations should insist and support the following (either as part of any settlement or not):

A) The establishment of a high level blue ribbon panel either appointed as an Executive Order or mandated through legislation. Such a panel should have as its mandate a thorough review of the domestic and international tobacco growing, manufacturing and marketing operations and trends of the US tobacco companies and US leaf dealers; a review of the current tobacco program as administered by the Department of Agriculture; and a thorough review and understanding of the economies of the tobacco growing states and their communities, including issues related to sustainable agriculture and land protection. The panel would be required to conduct extensive field hearings to ensure extensive involvement of the tobacco growing communities in the process. The panel would be required to report back to the Congress, the President and the Governors of the tobacco growing states with specific recommendations for short term and long term strategies for reducing the tobacco growing states and communities dependence on tobacco, including funding recommendations for providing short term and long term economic development assistance.

B) The establishment of an "economic assistance and development fund" funded by the tobacco companies and administered by the tobacco growing groups that in the short term assists tobacco farmers and their communities to implement model and pilot projects and programs for supplementing the production of tobacco with other on-farm activities as well as other means of reducing the growing of tobacco. These pilot projects could provide

critical information and recommendations to the task force established under (A) above. The fund could then be used to implement some of the longer term objectives and recommendations made by the blue ribbon panel established under (A).

C) Elimination of the federal government's economic involvement and support for programs and projects that relate to maintenance and expansion of tobacco production. Funds presently being expended to maintain and support the programs and activities could at least for the short term be allocated for funding the aforementioned blue ribbon panel as well as funding pilot projects and programs for economic development, creation of alternative economic infrastructures and agricultural supplementation and diversification.

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H.R.

In the House of Representatives

A Bill

A bill to establish a national Commission on the Future Growth and Production of Tobacco in America, to assess and make recommendations on the future alternatives to tobacco growing and production in the United States and for other purposes.

Short title: This Act may be cited as the, "The Tobacco Farmer Families and Communities Future Economic Viability and Stabilization Act of 1997"

Findings: The Congress finds that -

a) the use of tobacco products are a major cause of cancer, heart disease, emphysema, stroke, chronic obstructive lung disease and other conditions and that new efforts must take place to reduce the disease and death caused by tobacco use, including the use of such products in tobacco growing states.
b) the role of American-grown tobacco in the world markets has greatly diminished.
c) the amount that the US tobacco farmer earns per package of cigarettes was about 3 cents to the dollar in 1991 as opposed to 16 cents in 1957.
d) the tobacco companies have increasingly moved their growing and production operations overseas.
e) new economic alternatives are needed to be provided to tobacco growing regions and communities that will offer the opportunity for those farmers wanting to transition out of the tobacco growing business to do so
f) public attitude surveys of tobacco farmers, particularly farmers under the age of 45 have shown that approximately 67% of such farmers have expressed a strong interest in trying other on-farm ventures to supplement or replace tobacco.
g) public attitude surveys of tobacco farmers have also shown that while willing to look at supplementing or replacing tobacco they are concerned about lack of processing facilities for other crops as well lack of capital and loan interest loans.

h) a 1994 Lexington Herald Leader poll showed that 75% of tobacco farmers polled would be interested in alternatives to growing tobacco.
i) emerging technologies offer new opportunities to diversify the nation's agricultural base and to seek other uses for tobacco,
j) New opportunities and options should be considered both in the short term as well as long term that will provide tobacco farmers and their families with stable economic alternatives to the production of tobacco.

Section 1. The Secretary of Agriculture shall establish a national Commission on the Future of Tobacco Production and Growth in the United States (hereinafter referred to as the "Commission").

Section 2. Members of the Commission

a) (1) The Secretary shall appoint twelve persons to serve as members of the Commission. Such members of the Commission shall include:

1) two members representing the interests of the flue-cured and burley growers
2) a member with expertise in agricultural economics
3) a member with expertise in small business
4) a member with expertise in issue related to sustainable agriculture
5) a member with expertise in venture capital
6) a member who has developed or implemented a diversification program
7) a member who represents the interests of the public health community
8) two members representing state and local governments where tobacco is produced.

9) two additional members deemed by the Secretary to be qualified to provide the necessary expertise in assisting the Commission in carrying out its responsibilities.

(2) Appointment of Chairman---The Secretary shall appoint the Chairman of the Commission

(3) No individual who is a full-time officer or employee of the United States may be appointed as a member of the Commission. The Secretary of Agriculture, the Secretary of Department of Health and Human Services shall appoint a designee to provide liaison with the Commission.

(4) Meetings - Seven members of the Commission shall constitute a quorum but a lesser number may conduct hearings. The Commission shall meet at the call of the Chairman or at the call of a majority of its members.

(b) (1) Compensation - Members of the Commission shall each be entitled to receive the daily equivalent of the annual rate of basic pay in effect for grade GS-18 of the General Schedule for each day (including travel time) during which they are engaged in the actual performance of duties vested in the commission.

(2) While away from their homes or regular places of business in the performance of services for the Commission, members of the Commission shall be allowed travel expenses , including per diem in lieu of subsistence, in the same manner as persons employed intermittently in the Government service are allowed expenses under section 5703 of title 5 of the United States Code.

Section 3. Scope Purpose and Duties of the Commission

a) The Commission shall develop and recommend both short term and long term strategies that seek to reduce or eliminate the production of tobacco in tobacco growing states and communities while ensuring short term and long term economic stability and development. In carrying out its responsibilities the Commission shall at a minimum conduct:

(A) A review of the tobacco program as authorized and administered by the Department of Agriculture
(B) A review of the role that tobacco and tobacco production has played in the tobacco producing states, focused primarily on the six major producers.
(C) A review of the production and marketing trends of tobacco and tobacco products in the United States.
(D) A review of the effects of international tobacco and tobacco production on the domestic production and marketing of tobacco and tobacco products.
(E) A review of economic models, demonstration and or pilot projects that might be used for providing tobacco growing states alternatives to growing tobacco and or other uses of tobacco,
(F) A review of health and ethical issues surrounding the production and marketing of tobacco products both in the United States and in other international markets.

b) (1)In carrying out its duties the Commission shall conduct a minimum of two hearings in each of the six major tobacco producing states. Such hearings shall be held in communities that are involved in the growing and production of tobacco. The Commission shall provide the communities with an open forum to present testimony, ideas and recommendations about the future production of tobacco including ideas and recommendations for diversification, economic development needs, environmental impact concerns and any other issue related to the agricultural production of tobacco.

(2) The Commission may undertake an investigation or study of any other appropriate matter which relates to the Commission's duties or is consistent with the Commission carry out its responsibilities.

(3) Upon completion of its study, investigation, and hearings the Commission shall report its findings (including recommendations for legislative or administrative action) to the President, the Congress, each federal agency to which a recommendation in the report applies as well as to the Governors of each of the six major tobacco producing states.

c) The Commission shall complete its duties, responsibilities and report its recommendations as required under subsection b)(3) no later than 18 months after its appointment.

Section 4. Administrative Provisions

a) Staff --- (1) The Commission may appoint and fix the pay of such staff personnel as it deems desirable. Such personnel shall be appointed subject to the provisions of title 5, United States Code, governing appointments in the competitive service and shall be paid in accordance with the provisions of Chapter 51 and subchapter 53 of such title relating to classification and General Schedule pay rates.

(2) The Commission may procure temporary and intermittent services to the same extent as is authorized by section 3109(b) of title 5 of the united States Code, but at rates for individuals not to exceed the daily equivalent of the annual rate of basis pay in effect for grade GS-18 of the General Schedule.

(3) Upon the request of the Commission, the head of any Federal agency is authorized to detail, on a reimbursable basis, any of the personnel of such agency to the Commission to assist in carrying out its duties.

b) Contracts. --- The Commission in performing its duties and functions may enter into contracts with appropriate public or nonprofit private entities.

c) Information.---(1) The Commission may secure directly from any federal agency information necessary to enable it to carry out it duties.

(2) The Commission shall not disclose any information reported to it or otherwise obtained which is exempt from disclosure under subsection(a) of section 552 of title 5, United States Code.

d) Support Services.--- The Administrator of General Services shall provide the Commission on a reimbursable basis such administrative support services as the Commission may request for carrying out its duties and responsibilities.

Section 5. Termination

The Commission shall terminate after filing its report and recommendations as required under Section 3(c).

DO AMERICAN TOBACCO COMPANIES AND INTERNATIONAL LEAF DEALERS REALLY CARE ABOUT U.S. FARMERS ?

Let's see what some of the tobacco industry's own trade journals are saying——

- "In a sense, Mexican tobacco farmers have it made. International leaf dealers working in the country - Universal, DIMON and Vaughn Tobacco Co. as well as the leaf divisions of domestic companies Cigarrera La Moderna and Cigatam, finance the growers 100%.The North American Free Trade Agreement helped make Mexican tobacco more attractive to U.S. cigarette manufacturers.... The two factors (NAFTA and a devaluation of the peso) boosted Mexico's visibility. Its traditional European and Japanese customers saved money on exchange rates and because of NAFTA Mexican tobacco didn't apply to the TRQ requirement in the US. NAFTA is very important. Two crops ago no American cigarette companies came here. Last year they all came. They're getting a 30% rebate on duties.....The duty rate on Mexican leaf entering the US will be eliminated in 2003.....Leaf dealers see potential for increasing tobacco production, especially flue-cured in the southern state of Chiapus."

"The Promise of Mexico"
TOBACCO REPORTER, May 1997

- "Brazil can turn it on and turn it off. The force here is very dynamic, marvels Derek Vaughn, chairman of Santa Cruz based Continental Tobacco Alliance (CTA). An increase of 100 million kilos from one year to the next –there aren't many crops that can do that....Certainly no other major tobacco exporting nation matches Brazil's elasticity. And this season brilliantly illustrates the unique ability of the country's tobacco growers to expand and shrink the crop according to world demand. .....But Brazil alert to opportunity grew its volume for this season by about **one third** over last year's volume."

BRAZIL " TURNS IN ON", Volume up (way up) and prices down
in the World's most elastic leaf market
TOBACCO REPORTER
May 1997

- "Shanghai – As a result of two years of meetings between China National Tobacco Corporation and the Philip Morris (China) Group Company, the quality of flue-cured, burley, and aromatic tobacco in this nation has improved markedly. Tobacco plants have grown well, and their leaves have enlarged.....In 1995, CNTC signed an "Agreement on Technological Cooperation in Tobacco Production" with Philip Morris. The document was aimed further to improve the nation's tobacco-growing technology, flue-curing quality, and tobacco leaf maturity in order for China to produce tobacco leaves that met international standards."

"CNTC and Philip Morris Create a Better Crop"
TOBACCO INTERNATIONAL
April 1997

- Zomba, Malawi – Experts forecast burley exports here to reach about 90,000 tons in 1997. Such an increase would be 10% greater than the tonnage last year. Tobacco exports are critical to this country's economic well-being, because it annually puts about 95% of its crop into the export market and sees roughly 70% of its foreign exchange rate earnings generated by tobacco. The leading export markets for Malawi's leaf include Europe, Asia, and the United States. Along with an increase in burley production by the nation's small-holder growers, an expected surge in foreign demand is likely to raise burley output to nearly 125,000 metric tons, which would be 6% more than 1996.

"Burley Increase Means Meeting Export Demands (Malawi)"
TOBACCO INTERNATIONAL
April 1997

- From January to December 1996, tobacco exports (Brazil) totaled US$1.51 billion, 29% more than 1995. Selling tobacco abroad was good business in 1996. Leaf exports were again at the top, totaling US$1.034 billion, a performance which is 35% above 1995...The leading product exported by the state of Rio Grande do Sul last year was flue-cured Virginia. Moreover, four out of the ten major export companies in the state are the tobacco giants Dimon de Brazil, Universal Leaf Tobacos. Souza Cruz, and Philip Morris.

Company). Competitors included Rothmans, BAT and, at an earlier stage Philip Morris. RJR paid US $55 million for its share in the factory, making it the biggest single foreign investment in the private sector since independence in 1961, A decade ago, such international economic development would have been unthinkable in Tanzania.

"POTENTIAL- RJR sees Tanzania as launch pad into eastern Africa"
TOBACCO REPORTER
June 1997

"Southern Brazil- With the Threat of Oversupply Looking, Brazil Grows Steady-with Caution and Care"
TOBACCO INTERNATIONAL
April 1997

- Argentina exported 53,049 tons of unmanufactured tobacco in 1996 at an FOB value of US$ 136,304,534. This is an increase of 13,525 tons from 1995. Flue-cured tobacco is the leading tobacco type exported by Argentina and exports were up almost 50% to 35,972 tons. Burley exports rose by 62% to 12,896 tons. The United States regained its position as the leading importer of Argentine tobacco in 1996 with 20,995 tons.

"Argentina - Expanding Economy, Exports and Plantings"
TOBACCO INTERNATIONAL
April 1997

- Tanzania is a place to watch these days. Farmers have significantly increased production of flue-cured tobacco over the last few years and anticipate further growth in the future....Already tobacco is a major cash crop in Tanzania, accounting for more than 6% of the country's exports. "Tobacco is the success story of economic reforms in this country," says Collin J. Higgins, managing director of Tanzania Leaf Tobacco Co. Ltd., a subsidiary of Universal.

"RISING STAR - Economic liberalization boosts Tanzanian tobacco production"
TOBACCO REPORTER
June 1997

- Natwar P. Gotecha, vice president Eastern Africa with R.J. Reynolds Tobacco International, is excited about his company's first year in Tanzania. "This country has the potential to become a major supplier of cigarettes to the sub-Saharan continent," he says enthusiastically. .....Indeed things are changing rapidly in Tanzania. The country , transforming from a socialist-based economy to a free market system, is opening up to foreign investment and creating a business-friendly environment. In December 1995, RJR won a tender to purchase 51% of TCC (Tanzanian Cigarette

Washington Business

TOBACCO'S OTHER ROAD

U.S. cigarette sales may be declining but the industry's middlemen aren't suffering from withdrawal. They're taking their business elsewhere. **Page 10**

BREAKUP

After five years, a much-heralded Rockville-based

WASHTECH

Picture this: having a photo lab download your snapshots

WASHINGTON INVESTING

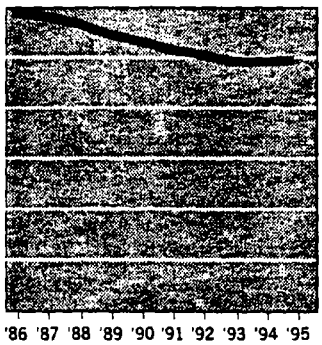
Despite a strong second quarter, local stocks were

GLOBAL MARKET

obacco Production, onsumption

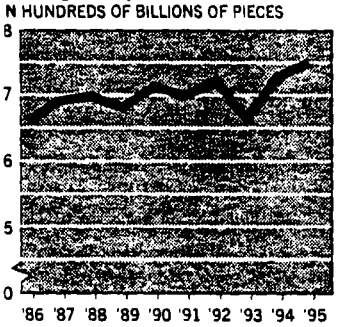
spite declining U.S. cigarette nsumption ...

S. cigarette consumption
HUNDREDS OF BILLIONS OF PIECES



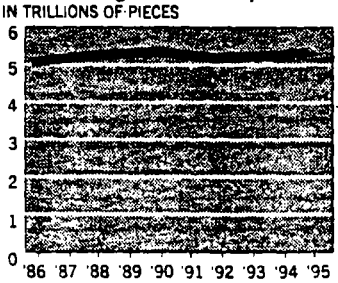
... U.S. cigarette production is on the rise again ...

J.S. cigarette production
N HUNDREDS OF BILLIONS OF PIECES

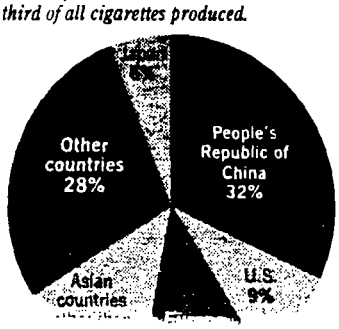


... in part to keep up with steady, if slow, growth in cigarette consumption worldwide ...

Worldwide cigarette consumption
IN TRILLIONS OF PIECES



... led by the Chinese, who consume a third of all cigarettes produced.



Two on Top of the World

BY JAMES M. THRESHER—THE WASHINGTON POST

The first day of Maryland's tobacco auction in Hugheaville last March. Richmond-based Universal says it buys most of its tobacco at local auctions.

The Largest Independent Tobacco Merchants Are Based in Va. but Their Growth Is Abroad

By Frank Swoboda and Martha M. Hamilton
Washington Post Staff Writers

RICHMOND

The faint, pungent smell of tobacco leaf is the first thing you notice when you enter the second-floor executive offices of Universal Corp., the world's largest independent tobacco leaf merchant.

At Universal, as at the Danville, Va., headquarters of its largest rival, Dimon Inc., the smell of tobacco is the smell of money.

The two companies (and their only other major competitor, Standard Universal Corp. of North Carolina) are the middlemen in the world tobacco industry. They don't make cigarettes or other consumer tobacco products. Instead, they buy, ship, process, pack, store and finance leaf tobacco for sale to cigarette manufacturers.

Together the two had $5.7 billion in revenue in 1996 from operations in locations that included the United States, Brazil, Tansumption even further, there is no sense of panic in the corridors of these tobacco merchants. Universal and Dimon know the world market—it's enormous and still growing.

"The world market is where the bulk of the growth is," said Universal Vice President James H. Starkey III. Worldwide tobacco consumption has been rising by 1.2 percent to 1.5 percent a year, providing Universal with a consistent 18 percent to 19 percent annual return on equity.

About a third of the tobacco grown in the United States is exported. Last year, that came to 340 million tons of flue-cured tobacco, which is harvested over a several-week period and cured by heat, and about 160 million tons of burley tobacco, which is hung to dry and cure, according to Randy Weber, associate administrator for the Farm Service Agency of the U.S. Department of Agriculture.

"I don't see us shifting away from tobacco. We have continued to reinvest in tobacco as opportunities arise. We're continually look-

strong, although there are going to be short-term ripples because of the cigarette settlement and the imposition of higher prices," said David A. Goldman, an industry analyst with Robinson-Humphrey in Atlanta.

Universal noted in its annual report to stockholders that "demand for leaf continues to increase in response to an estimated 1 percent annual growth in world cigarette consumption and consumption of American-blend cigarettes is increasing by 3 to 4 percent annually."

There is a growing global market for the mild tobacco mixture known as "American blend" and for American-style cigarettes, of which Universal is a major supplier. More and more of the leaf that goes into those products is being harvested abroad, putting pressure on U.S. growers but increasing profitability for processors by lowering the price of tobacco. As an example of the shift, Starkey points to France, where, he said, the public is beginning to move away from "dark tobacco" cigarettes such as the well-known Gaulois to milder, American blend cigarettes as manufacturers introduce low-cost, gener-

around the globe. It first went into China in the 1920s, and there and elsewhere it has survived civil wars, communist takeovers political unrest. "The one thing we've good at is managing through instability. We stick to our knitting. We don't get involved in politics," Starkey said.

Karen W.L. Whelan, Universal's treasurer, said the company keeps "liaison people" at its headquarters who travel back and forth to var countries to help it keep track of changes overseas.

The h for new markets has taken Universal from Eastern Europe to the ing nations of Africa. In the early , Universal and Philip Morris pur- the largest tobacco processing company in Kazakhstan from the government. In China—the world's largest tobacco producer, growing more than half the world's supply of flue-cured tobacco—Universal manages a new leaf processing plant near Bengbu for the Shanghai Tobacco Co.

Universal buys the leaf processed at the Chinese and has agreed to export a minimum of 70 percent of the tobacco. "It's the export operation in China managed by a foreign company," Starkey said.

The company first entered China in 1925. it remained until the communist takeover. It returned to China when the Nixon administration reopened relations with the Asian nation in the 1970s.

Like st all the other U.S.-based multinationals, America's tobacco merchants are watching the vast Chinese market closely, for an obvious reason: Smokers in China consume approximately 1.7 trillion cigarettes a year, far more than the 450 billion a year smoked by U.S. consumers, according to Scott & Stringfellow analyst John F zak.

More than just a tobacco merchant, Universal's interests include lumber and building products distribution in the Netherlands Belgium. It also buys, processes and distributes tea, rubber, sunflower seeds dried fruits and seasonings as part of a joint venture with COSUN, a Dutch sugar cooperative. But tobacco is by far its biggest accounting for 71 percent of the company's revenues and 83 percent of its operating profits.

Rival Dimon Inc. is also enjoying an up-curve, reaching almost $2.2 billion in sales Dimon operates in 36 coun and like its Richmond competitor its is not one-dimensional: It ranks as the world's largest exporter and distributor of cut flowers. Dimon was formed in by a merger of 120-year-old Dibrell Bros. Inc. of Danville with tobacco processor Monk-Austin of Farmville, N.C. That union created a company that ranked second in its industry to Universal; a deal consummated ea this year in which Dimon acquired Bi Intabex Holdings Worldwi SA narrowed the gap between the two companies.

Intabex a privately-owned company that the fourth-largest leaf tobacco dealer in the world. It owned tobacco buying processing and exporting operations in the United States, Brazil, Argentina, Malawi Italy Thailand and was affiliated with a Zimbabwe company that Dimon also acquired. Its acquisition will offer Dimon considerable opportunity to cut costs, Kasprzak said, by consolidating operations and financing Intabex's considerable debt.

Officials from Dimon declined to

the past several years cut the number of major leaf merchants from eight to three. But that same consolidation has hurt U.S. tobacco growers, said Jerry Jenkins, a grower in Lunenberg County, Va., who is also chairman of Tobacco Associates, the export promotion organization for the nation's flue-cured growers.

"The problem with the recent mergers and consolidations in the industry is that they reduce competition," said Jenkins, who farms about 30 acres of flue-cured tobacco and 3.5 acres of dark fire-cured tobacco. "It's generally not to the benefit of the seller of the product."

Virginia farmers grow flue-cured tobacco on approximately 40,000 acres and burley tobacco on about 10,000 acres. Maryland is also a tobacco-growing state but on a much smaller level. Only about 8,000 acres there are devoted to tobacco cultivation, according to the USDA's Weber.

The increasing worldwide demand for tobacco that is filling the coffers of Universal and Dimon may not be the long-term salvation of these farmers. Although the world's smokers are developing a taste for American blend, U.S.-grown tobacco is simply too expensive for many world markets. U.S. tobacco is still as much as 30 percent higher in price than competitive tobacco products from Brazil and Zimbabwe, according to Universal's Starkey.

Perhaps an even greater problem for American growers is the financing role the processing companies play in overseas markets. According to analyst Goldman, companies like Dimon contract with a cigarette maker like R.J. Reynolds Tobacco Co. to deliver a certain grade of tobacco a year from now and ask for a down payment. They then use that down payment to provide cash advances to growers in countries such as Brazil, helping to finance farmers there without putting their own funds at risk.

"When you're loaning a man money to grow a crop or underwriting his loan and furnishing technical advice, it only seems natural that you're going to want to buy his crop first to recoup that investment," said tobacco grower Jenkins. To compete, tobacco growers in Virginia have had to cultivate larger acreages to achieve efficiencies of scale, he said.

"We don't like to buy without having an order," said Universal's Whelan, adding that most of the company's tobacco purchases are made at local auction, which is how tobacco is sold in this country. She said that in only a handful of countries does Universal have advance contracts with growers, in countries such as Brazil, Guatemala, Mexico and Italy.

The next possible target for expansion for Universal, Dimon and Standard may be processing tobacco for U.S. cigarette manufacturers who now do their own processing, said Scott & Stringfellow's Kasprzak. In recent years Lorillard Tobacco and RJR turned over their leaf purchasing and some processing to Dimon's predecessors, and others may follow suit.

In the meantime, Virginia's tobacco merchants can look forward to doing business in a world that every year consumes more cigarettes with no sign of slowing down. ■

IN PROFILE

Tobacco's Big Two

The nation's two largest leaf manufacturers, Universal Corp. and Dimon Inc., are based in Virginia. Despite recent upheavals with cigarette producers, the leaf processors see little downside for their business. Here is a look at the two companies.

UNIVERSAL CORP.

Business: Universal, the world's largest independent tobacco leaf seller, buys, stores, processes and sells leaf grown in the United States and across the world for use in cigarettes and other tobacco products.

Headquarters: Richmond

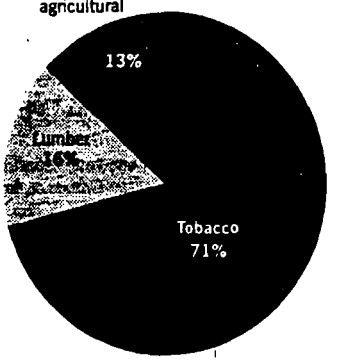
Chairman, chief executive: Henry H. Harrell

1996 revenue: $3.57 billion

1996 profit: $72.2 million

Employees: 30,000

Products, by share of 1996 revenue



DIMON INC.

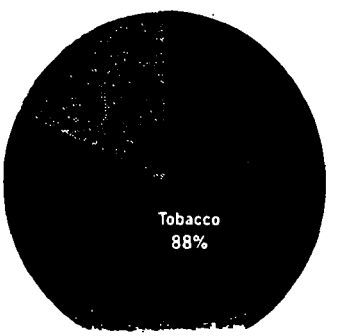
Business: Dimon purchases, processes and sells leaf tobacco as well as importing and exporting fresh flowers

Headquarters: Danville

Chairman, chief executive: Claude B. Owen

1996 revenue: $2.17 billion

1996 profit: $41.3 million

Employees: 2,800

Products, by share of 1996 revenue