Tobacco Control in Kentucky - Update

Tobacco Use in Kentucky

Adult smoking (1996)

Overall - 31.6%
- Men - 33.8%
- Women - 29.5%
- White - 30.0%
- Black - 25.6%
- <12 yrs. Education - 40.1%
- 12 yrs. Education - 35.2%
- >12 yrs. Education - 23.2
- 18-24 yrs. - 31.6%
- 25-44 yrs. - 36.9%
- 45-64 yrs. - 32.7%
- 65 + yrs. - 17.7%

Youth Tobacco Use (1997)

Past-month smoking (9-12 graders) - 47.0%
Past-month frequent users (9-12 graders; smoked cigarettes on 20 or more days in the past month) - 27.6%
Past-month smokeless tobacco use (9-12 graders) - 15.6%

Health Impact

Projected number of persons currently aged 0-17 who will die prematurely due to a smoking-related disease - 87,902

Environmental Tobacco Smoke Exposure

Number of children exposed to environmental tobacco smoke in the home (1996) - 363,937
Percentage of children exposed to environmental tobacco smoke in the home (1996) - 34.2%

Tobacco Control Program

Kentucky currently receives funding from the Centers for Disease Control and Prevention through the Initiatives to Mobilize for the Prevention and Control of Tobacco Use (IMPACT) program.

1997 Youth Risk Behavior Survey: Kentucky

In 1997, 77.3% of high school students (78.1% of boys and 76.3% of girls) in Kentucky reported that they had ever tried smoking (even one or two puffs).

In 1997, 47.0% of high school students (48.4% of boys and 45.3% of girls) in Kentucky reported that they had smoked cigarettes in the past month.

In 1997, 27.6% of high school students (30.0% of boys and 24.8% of girls) in Kentucky were frequent cigarette smokers (smoked cigarettes on $\geq$ 20 days in the past month).

In 1997, 15.6% of high school students (28.6% of boys and 2.3% of girls) in Kentucky reported using smokeless tobacco (chewing tobacco or snuff) in the past month.

The program basically keeps prices up by limiting supply through quotas. The government determines each year how much tobacco the companies expect to buy and how much will be sold overseas, and then divides up the right to grow that amount among the quota holders. A price-support system ensures that farmers get an acceptable price even when the companies buy less than they said that they would.

The settlement agreement with the Attorneys General did not outline a plan to compensate farmers for the diminished domestic tobacco sales that might result from comprehensive legislation. You, however, made protecting tobacco farmers and their communities one of the five key elements of his plan for comprehensive tobacco legislation.

- Producers of different kinds of tobacco vote in triennial referenda to determine if they wish to continue the federal tobacco program for their kind of tobacco.

- In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program.

- In 1997, over 600 million pounds of burley tobacco was produced in the United States, of which approximately 70 percent came from Kentucky.

- Including sales from flue-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of the crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

1 **<u>Background on Kentucky Tobacco Farmers</u>**

There are two main types of tobacco, flue-cured and burley. Burley tobacco is the primary crop in Kentucky, with revenues of more than $1 billion in 1997 for the 696,485,163 pounds grown. The majority of burley tobacco producers in Kentucky favor continuation of the federal price support program.

Large farms dominate Kentucky's burley tobacco business. Last year 125,000 Kentucky farms sold 474 million pounds of burley tobacco, but 70 percent of the total weight came from only 26 percent of the farms. Increasingly, small quota holders have leased or rented their rights to large farms. Some very large quota holders also lease out their quotas. Up to one-third of the tobacco grown in Kentucky is grown by someone other than the quota holder.

- Tobacco sales account for nearly 30 percent of the total crop revenue for Kentucky. Nearly $4 billion is generated annually from the production and sale of tobacco.

- The 1992 Ag Census listed more than 59,373 tobacco producing farms, with more than 268,140 acres planted with tobacco.

- Many Kentucky tobacco farms are very small. The average Kentucky tobacco farm plants only 4.5 acres of tobacco, while Alabama averages 23.9 acres of tobacco per farm, and South Carolina averages 25.5 acres per farm.

- Of the 151,668 tobacco quotas and allotments in 1996, 134,424 were for burley tobacco.

- In 1996, 167,695 owners were listed for burley quotas
  98.7 percent were listed as white
  1.2 percent as black
  66.7 percent as male
  31.7 percent as female
  1.6 percent as corporate entities

Kentucky Burley Tobacco Farms	**Estimate (1997 Burley Tobacco)**		
	Number of Farms	**Number of Pounds**	**Pounds per Farm**
Grows ONLY Farm Quota *(Does not lease in or out)*	27,183	122,137,986	4,493
Grows Farm Quota PLUS Leases in Pounds	24,340	196,015,410	8,053
Grow ONLY Farm Quota *(Quota Raised by Tenants)*	19,761	105,046,575	5,316
Grows Farm Quota PLUS Leases in Pounds *(Quota Raised by Tenants)*	15,843	133,538,504	8,429
Leases Away Entire Quota	57,544	139,746,688	2,429

3 **Legislative Background**

Last week, the Senate Commerce Committee voted 19-1 in favor of the comprehensive tobacco legislation. Senators Lott and McCain indicated that the bill probably will go to the floor during the week of May 18.

Previously, three types of legislative approaches have been discussed. First, Senator Lugar proposed legislation that would quickly "buy-out" quota owners from the governmental system at approximately $8 a pound. In Senator Lugar's plan, tobacco prices would then be subject to the free market. Second, Senator Ford proposed legislation that would maintain the current quota system, while also compensating farmers (up to $8 per pound) for the difference between the prices they would have enjoyed without legislation and the diminished prices they may experience. Senator Ford's bill also includes a $500 million a year transition fund for communities. Finally, Senator Robb has proposed legislation that would combine elements of both of the above approaches. He wants to buy-out farmers, but replace the quota system with a production control system based on licenses. Unlike quotas, licenses would be given only to those who actually grew tobacco and could not be bought or rented.

Senator Ford's proposal, the LEAF Act, appealed mostly to burley growers like those in Kentucky who have small farms and want to continue the quota program. Senator Robb's approach gained some support from flue-cured farmers (based mainly in North Carolina and Virginia) who believe the buy-out and license system better fits more capital-intensive flue-cured production. Senator Lugar's approach has not attracted widespread support; even tobacco-state senators like McConnell who philosophically favor this approach probably will not come out for it publicly.

Farmers' Legislation Included in McCain Tobacco Bill

Senators Ford, Frist, and Hollings, the three members of the Senate Commerce Committee from tobacco-growing states, joined together to include a broad-based farmer package in the McCain comprehensive tobacco legislation. While maintaining a production control system for all tobacco farmers, this packages sets up somewhat different systems for burley and flue-cured tobacco. For burley tobacco (grown mostly in Kentucky), the package includes an optional buy-out for quota holders at $8 per pound, and retains the quota system for those who do not take the buyout, but provides payments to both remaining quota holders, lessees, and tenants to the extent that quota prices decline. For flue-cured tobacco, the plan provides for a mandatory buyout of existing quota holders, and replaces the quota system with a permit system that gives the new no-cost permits to active producers, regardless of whether they previously held a quota. This transferring of quotas from inactive quota holders to actual producers was part of the Senator Robb's proposal. The McCain package also provides assistance to tobacco-producing communities. This package would cost $2.1 billion per year for the first ten years and $500 million for years 11-25 for a total of $28.5 billion. For the most part, tobacco farmers are very pleased with the proposal included in the McCain legislation.

Below is a table with the major provisions of the McCain tobacco farmers legislation.

Payments to Tobacco Farmers Under Proposed McCain Legislation		
	Burley, fire-cured, and dark air-cured tobaccos	**Flue-cured tobacco**
Buy-out	Optional one-time buy-out at $8/lb over 10 yrs or less	Mandatory buy-out of all quota holders at $8/lb over 10 yrs or less

	Burley, fire-cured, and dark air-cured tobaccos	Flue-cured tobacco
Those who remain in program --quota or permit	Those who do not take the optional buy-out retain their existing quota	~~Only~~ active producers will be at issued a new permit ~~for no~~ cost -- this changes the old quota system to a new permit system for flue-cured, ~~ensuring that~~ only active producers stay in program allowed
Payments to remaining quota holders who remain in system	Remaining quota holders get payments to the extent quota falls equal to $4/lb for every pound quota drops, with a lifetime limit of $8/lb times the entire quota	No remaining quota holders
Lessees (Burley), Renters (Flu-cured), and tenants (essentially sublessees)	Lessees and tenants get (1) option to acquire relinquished quota (if any), and (2) payments to the extent quota falls equal to $2/lb for every pound quota drops, with a lifetime limit of $4/lb times the entire quota	Renters and tenants get (1) permits limiting right to produce future crops, and (2) payments to the extent national quota falls equal to $2/lb for every pound quota drops, with a lifetime limit of $4/lb times the entire quota

Other Provisions:

Costs Incidental to the Program: All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs.

Farmer Opportunity Grants: Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and the program is administered by the Secretary of Education.

Benefits for Dislocated Workers: Up to $25 million annually for 10 years will be made available to provide benefits based on the NAFTA displaced workers program. This program will be administered by the Secretary of Labor.

Tobacco Community Economic Development Grants: Block grants to tobacco states will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farms employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to warehouse owners. At least 20 percent of the funds must be spent on agricultural activities, 4 percent on long-term technical assistance, and 6 percent on warehouse owners.

Total Costs: $2.1 billion per year for the first ten years, $500 million for years 11-25, for a total of $28.5 billion.

- Annual payments to tobacco farmers set at $1.65 billion.
- Economic development grants set at $375 million less administrative costs for first ten years.
- Assistance for dislocated workers set at $25 million annually for ten years.

Secretary Glickman's Trip to Kentucky

Last Friday, on April 3, Secretary Glickman traveled to Lexington, Kentucky to attend a Farm Forum at Gentry Tobacco Warehouse with 600 to 700 farmers, government officials, and agribusiness leaders. The farmers were generally supportive of the Administration. Their main concerns were that the tobacco program be kept in place and that small farmers not be adversely affected.

Attachments

- Local press clips from Secretary Glickman's visit to Kentucky on April 3
- Maps showing the distribution of tobacco production in Kentucky
- Background on the Tobacco Program (prepared by USDA)
- Background on General State of the Tobacco Industry (prepared by USDA)
- Background on Risk Management Agency (prepared by USDA)
- Background on Farmer Portion of the McCain Legislation (prepared by USDA)
- Press Release by Senator Ford with summary of major provisions
- Questions and Answers (Prepared by USDA)
- Highlights of Kentucky Tobacco Farmer Survey from February 10-19, 1998 (Campaign for Tobacco-Free Kids and the Kentucky Health and Agriculture Forum)

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Price-support program called crucial safety net

PHOTOS BY MICHAEL HAYMAN, THE COURIER-JOURNAL

Robert Richardson of Versailles, right, introduced U.S. Secretary of Agriculture Dan Glickman to other farmers.

Agriculture chief says president won't abandon tobacco farmers

By JOE WARD
The Courier-Journal

LEXINGTON, Ky. — U.S. Secretary of Agriculture Dan Glickman told farmers gathered in a tobacco warehouse in Lexington yesterday that the federal tobacco program has served as a safety net for the family farm — and that the stability it provides must be preserved.

He pledged that President Clinton will sign no tobacco bill that doesn't protect the farmers.

It was what the farmers wanted to hear.

At the warehouse forum, attended by 600 to 700 farmers and government officials and employees, and during an earlier visit by Glickman to a Woodford County tobacco farm, the main thrust of farmer commentary was the same: Kentucky farmers need the tobacco price-stability program.

"We're not here to save tobacco," Daviess County farmer and Burley Co-op president Rod Kuegel said at the forum.

"We're here to save the family farm. What people need to realize is that you can't do one without the other here in Kentucky."

Earlier, as Glickman talked with farmers on a grassy slope on Robert and John Richardson's farm on Steele Road, Woodford County farmer Rusty Thompson told him the furor over tobacco in the Congress and the news media is wearing on tobacco farmers.

"As tobacco farmers, we're getting shot all to pieces every day," Thompson said.

"We've played by the rules all of our lives, and so did my father and grandfather," and don't believe punishment is in order, he said.

Richardson and Glickman examined weather-damaged leaf from last year's tobacco crop.

Glickman told the farmers that the aim of tobacco legislation pending in Congress is to reduce smoking among the nation's young people, which he said is a worthy goal.

But he said it also is important that the legislation protect the "tens of thousands of farmers" who have been the beneficiaries of the federal tobacco program — which he said has worked better over several decades than most other federal agriculture programs.

"We need a solution that provides stability and is fair to the farmers the small communities," he said.

Congress is considering a massive tobacco bill that would extract [illegible]al hundred billion dollars from the tobacco industry, and in exchange provide them with some limited protection against lawsuits from parties alleging

See GLICKMAN
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THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Glickman reassures growers

Continued from Page F 1

they were injured by smoking.

The legislation has been in the works since last June, when tobacco companies and attorneys general for 40 states worked out a tentative agreement involving payment of $368 billion by the industry and curbs on advertising.

Tobacco farmers have long believed that any time Congress considers any tobacco legislation, the federal tobacco program that keeps their prices stable is in jeopardy. The program long has been a target of anti-smoking forces.

The pending legislation also holds the potential of drastically reducing the amount of tobacco consumed, which could seriously cut farm income.

Farmers have had difficulty deciding among themselves what they should seek from Congress. Some favor a buyout that would give farmers who have depended on the program enough money to move to other crops.

Others say tobacco will be grown as long as it is legal, and they want to keep growing it, but they need the program to do it.

The program basically keeps prices up by limiting supply through quotas. The government finds out each year how much tobacco the companies expect to buy and how much can be sold overseas, and then divvies up the right to grow it among the farmers.

That way, the farmers don't overproduce and drive prices down. A price-support mechanism that involves government loans makes sure the farmers get an acceptable price even when the companies buy less than they said they would.

Kuegel and others — including U.S. Sen. Wendell Ford of Kentucky, who long has been tobacco's premiere champion in Congress — say the program enables families to make a living on much smaller farms than would otherwise support them.

Picking up that theme at yesterday's forum, Kentucky Gov. Paul Patton urged that Glickman, when dealing with tobacco and other farm issues, "take into account the cultural value of small farms."

"Tobacco is the reason we have so many family farms, and so Kentuckians enjoy the value of rural living," the governor said.

Glickman told reporters at a brief press conference after the forum that he assumes the President and legislators who champion tobacco will accept nothing less than a continuation of the program for farmers who want to keep growing tobacco, and a reasonable price for those who want out.

The pending legislation would do just that, buying quotas from those who want to opt out at $8 a [illegible] over 10 years.

Lexington Herald-Leader
Saturday, April 4, 1998

Finding facts firsthand about family farms

PHOTOS BY FRANK ANDERSON/STAFF

Agriculture Secretary Paul Glickman, with hand outstretched, addressed about 25 Woodford County tobacco farmers yesterday, during a visit to the farm of Robert Richardson. Later, he held a USDA forum in a tobacco warehouse in Lexington.

U.S. agriculture secretary visits farms, hosts forum

By Kit Wagar
HERALD-LEADER STAFF WRITER

U.S. Agriculture Secretary Dan Glickman came to Central Kentucky yesterday to take the pulse of American agriculture, and farmers let him know that Kentucky lives and dies by tobacco price supports.

"We are not here to save tobacco," said Owensboro tobacco grower Rod Kuegel. "We are here to save the family farm. But you can't do one without the other in Kentucky."

Kuegel's comments set the tone for yesterday's farm forum, the first of seven such meetings Glickman is holding across the country to see firsthand how new federal farm policies are working. Sitting in a warehouse filled with the pungent aroma of cut tobacco, officials could not have gotten away from tobacco if they had tried.

Kuegel, who is president of the Burley Tobacco Growers Cooperative Association, told Glickman and other federal agriculture officials that some farms in Kentucky have only 6 to 10 tillable acres.

"It's tobacco that makes them viable," Kuegel said.

Glickman said he understood the role that tobacco price supports had played in creating a nearly unique culture of small farms in Kentucky. He promised that tobacco farmers would not be left out of a national tobacco settlement.

"The president has said that a fair and reasonable settlement for tobacco farmers is a linchpin of any settlement," Glickman said.

But he declined to endorse a specific plan to protect farmers, saying only that the proposal by Democratic Sen. Wendell Ford of

See GLICKMAN, B2

Gov. Paul Patton, left, listened to Glickman speak at the USDA forum yesterday.

Lexington Herald-Leader
Saturday, April 4, 1998

GLICKMAN: Talk covers tobacco, hemp, ostriches

From Page B1

Kentucky was a positive step. The administration, he said, wants to see a consensus in Congress before endorsing a specific plan.

Ford has proposed a plan that would allow farmers to sell their tobacco quota to the government for $8 a pound, paid over 10 years. Growers who lease quota could receive $4 a pound. Farmers who chose to continue growing tobacco would still participate in a price-support system.

The farm forum, which attracted several hundred growers from across Kentucky, included questions that ran the gamut from ostrich farming to hemp growing.

Glickman said he was trying to end the Agriculture Department's traditional bias toward large operations by emphasizing research into ways that small and medium-size farms can be competitive.

He said he was concerned about overconcentration in the beef processing industry, where four firms have 80 percent of the market. In 1980, that portion of the market was shared by 12 firms. He said he is seeking tougher enforcement of antitrust laws to stop monopolistic practices.

He assured growers that the controversial proposed standards for organic foods would be changed. When the standards were issued for comment, he said, they generated some 15,000 responses, more than any other issue in modern history.

The proposed standards included many practices that organic farmers considered heresy. At $4 billion a year, the organic foods industry can no longer be considered a fringe business, he said.

One farmer asked why the government was not moving to help the U.S. hemp industry. Hemp is legal in Germany and Canada, which is providing $50 million in assistance to get the hemp industry up and running.

"That issue is to some extent above my pay grade," Glickman said, prompting laughter. He acknowledged that farmers in other states also had inquired about the possibility of growing hemp, a cousin of marijuana that lacks THC, the substance that causes smokers to get high.

He said the future of hemp is tied up in anti-marijuana issues, so the Agriculture Department has made no decision on whether hemp promotion would be a good idea.

"All I can tell you is: Keep the information flow coming," he said.

Earlier in the day, Glickman visited the Woodford County tobacco farm of Robert Richardson. He told local growers they need to make their voices heard. All of agriculture faces a tough political situation, he said, because farmers make up only 2 percent of the population.

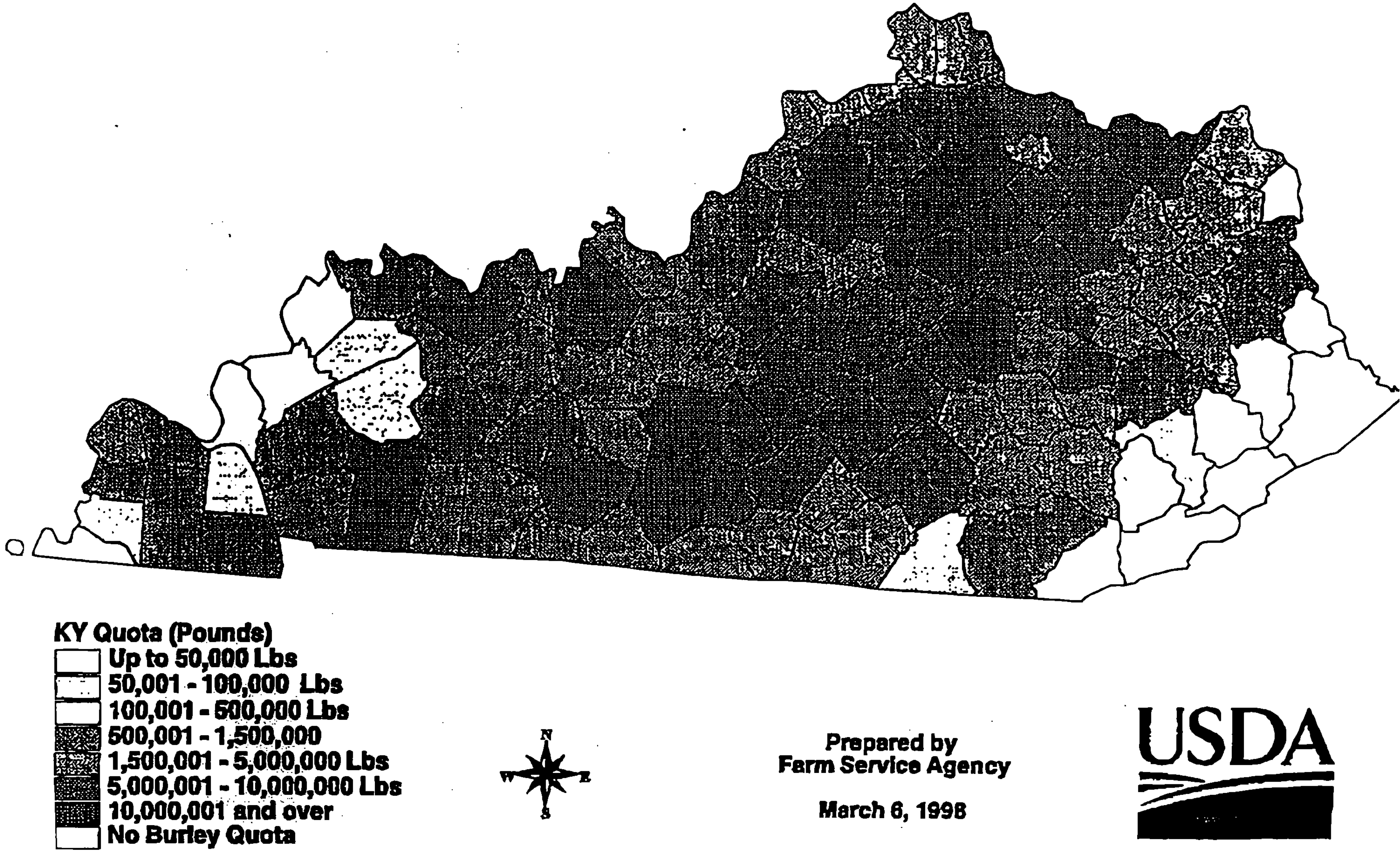
Under new farm policies, which phased out most price supports, the ultimate safety net is export markets, Glickman said. The Agriculture Department was trying to ensure that farm credit remained plentiful and that barriers to U.S. farm exports were eliminated. Farming, he said, is a growth industry because the world's population is exploding and people everywhere want U.S. farm products.

John Richardson, who raises cattle and with his brother grows 120 acres of tobacco, was unimpressed.

"It was about the same thing they say all the time," Richardson said.

"They talk more about grain farmers than tobacco farmers. It gets them off the subject of tobacco."

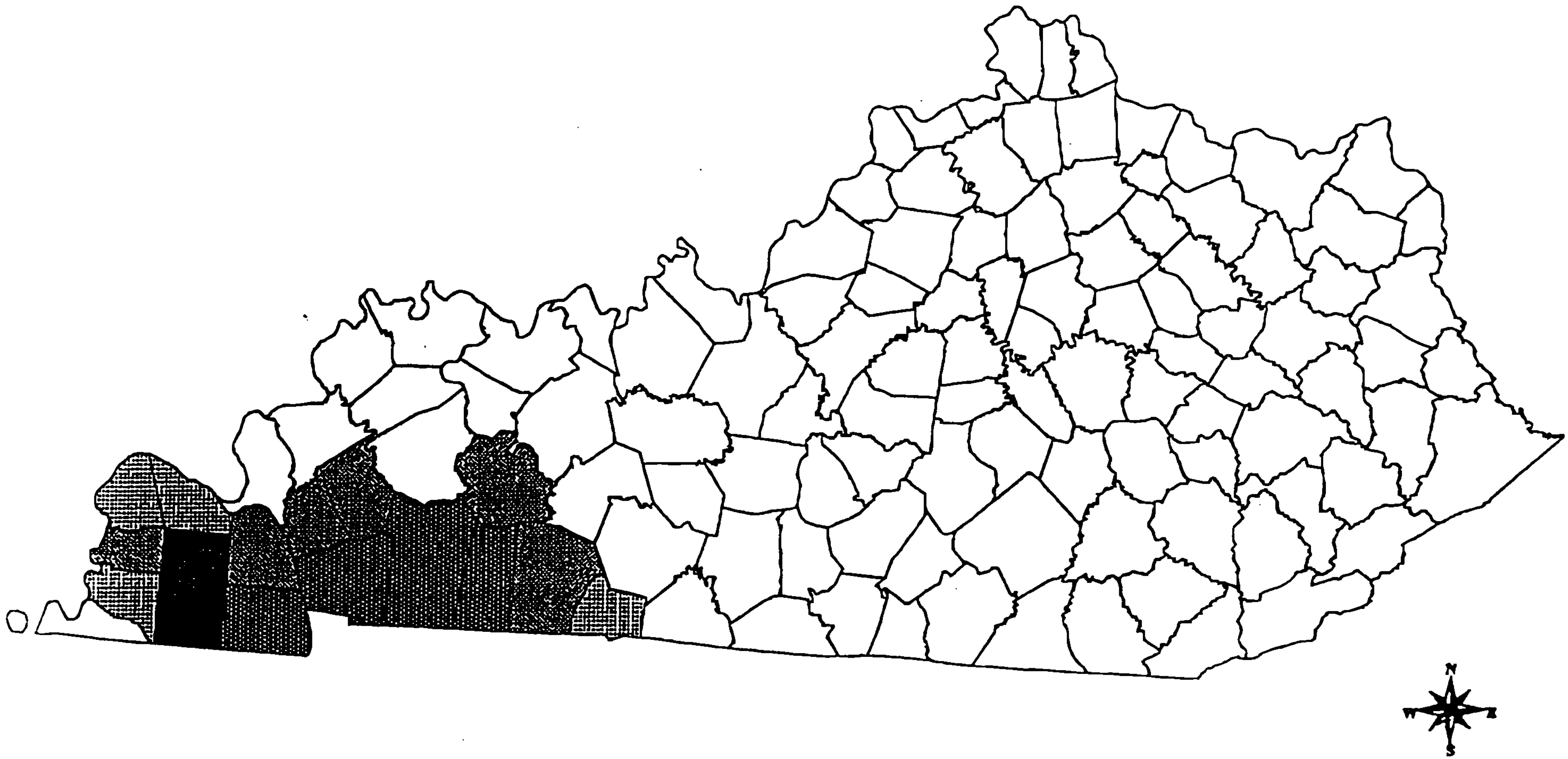
1997 Burley Quota - Kentucky



Prepared by
Farm Service Agency

March 6, 1998

1997 Fire-Cured (Types 22-24) Tobacco Pounds
Kentucky



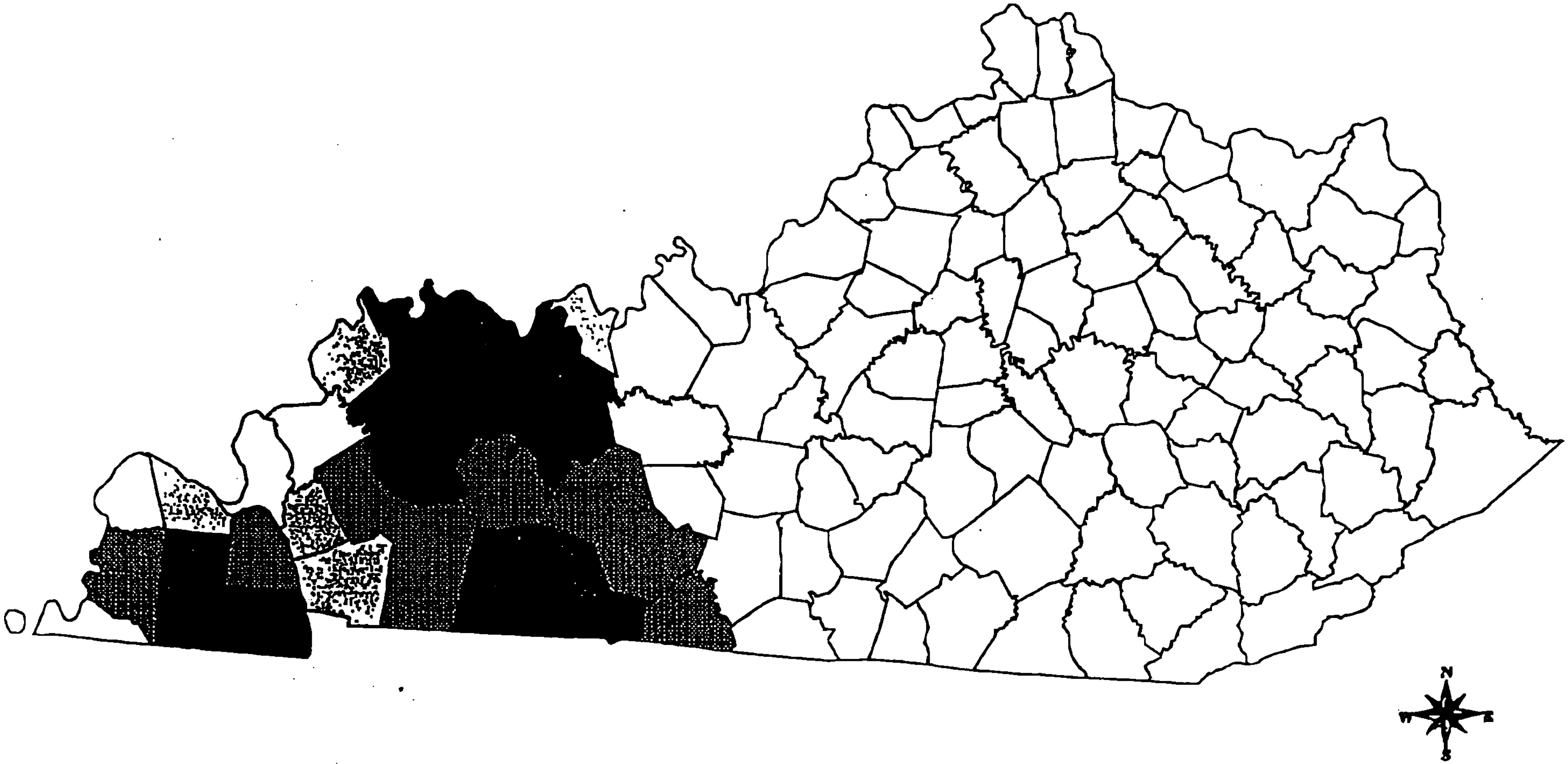
Ky Fire Cured (Types 22-24)
- Up to 20,000 lbs
- 20,001 to 300,000 lbs
- 300,0001 to 1,000,000 lbs
- 1,000,001 to 5,000,000 lbs
- Over 5,000,001 lbs
- No Fire-Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by
Farm Service Agency

1997 Dark Air-Cured (Types 35-36) Tobacco Pounds
Kentucky



Ky Dark-Air Cured (Types 35-36)

- Up to 5,000 lbs
- 5,001 -50,000 lbs
- 50,001 - 150,000 lbs
- 150,001 - 1,000,000 lbs
- Over 1,000,001 lbs
- No Dark Air Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by

THE TOBACCO PROGRAM

ISSUE:

Most tobacco produced in the United States is under the Federal price support-production control program. The tobacco program operates under permanent legislation, and does not have to be renewed by 5- or 7- year Farm Bills.

IMPORTANCE:

Tobacco provides $3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

TALKING POINTS:

- Producers of different kinds of tobacco vote in triennial referenda to determine if they wish to continue the Federal tobacco program for their kind of tobacco.

- In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program, as they have for many years.

- In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.
- Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

BACKGROUND:

In spite of the controversy surrounding the Federal program, tobacco-state congressmen were able to obtain permanent legislation. However, numerous changes have been made to the program via amendments to Farm Bills or other legislation. The most notable is the No-Net-Cost Tobacco Program Act of 1982, which requires the tobacco price support program to operate at no-net-cost to taxpayers. This program is currently under additional criticism as the Congress acts on the tobacco settlement.

SUMMARY:

The Federal tobacco program is under permanent legislation, which has provided production and income stability for tobacco producers since the late 1930's. Tobacco is a key source of income for several states, especially Kentucky.

CONTACT: Verner Grise, Tobacco and Peanuts Division, FSA 202-720-5291; home 703-354-1887

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

Assessment of the general state of the tobacco industry.

IMPORTANCE:

Tobacco provides $3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

BACKGROUND:

Sales of tobacco products reached a record $50 billion in 1997. Although consumption of tobacco products have declined, exports of cigarettes reached a record high in 1996 before declining a little in 1997. In 1997, tobacco production totaled 1.7 billion pounds with a value of over $3 billion, the highest production and crop receipts since 1992.

Most tobacco is under a price support production control program that guarantees producers a minimum price in exchange for limiting production and works to stabilize supply and prices. In a referendum in late February, 97.5 percent of burley producers (the majority of tobacco grown in Kentucky) voted to continue the price support-production control program, as they have for many years.

FARM AND FOREIGN AGRICULTURAL SERVICES

KENTUCKY

ISSUE:

The Risk Management Agency (RMA) helps stabilize the agricultural economy by providing a sound system of crop insurance. The program leverages scarce federal resources by using the expertise and resources of 18 crop insurance companies and 15,000 private insurance agents to provide producers superior products and services. Primary issues are the RMA budget request and sales related issues like association marketing.

IMPORTANCE:

Risk management programs, such as crop insurance, are USDA's primary means of helping farmers survive a crop loss. Since enactment of the Federal Crop Insurance Reform Act of 1994, participation has nearly doubled. In 1997, crop insurance provided producers over $25 billion in protection through 1.3 million policies on more than 181 million acres. Participation has remained high despite modification of the requirement that producers obtain crop insurance in order to participate in most USDA farm and credit programs.

BACKGROUND:

Kentucky experienced a very abnormal year with their 1997 burley tobacco crop. Adverse weather conditions resulted in tobacco with high moisture content that either receives a low grade and price or no grade at all. RMA has addressed this situation with Bulletin No: MGR-98-06 dated March 16, 1998. This provides a deviation in loss adjustment procedures for the 1997 crop year only and is currently being used to complete the 1997 claims for indemnity.

TALKING POINTS:

- Kentucky is second only to North Carolina in total tobacco production and is the largest producer of burley tobacco. Cash value is excess of $700,000,000 a year.

- This issue involves burley - type 31 tobacco. This is one of five types of tobacco that is grown in Kentucky. The other types are dark fired - types 22 and 23, and dark air cured - types 35 and 36. Burley tobacco accounts for 92% of the total tobacco production in Kentucky.

- There are 26,642 tobacco crop policies in Kentucky for the 1997 crop year. This provides protection (liability) of $177,115,750 and covers 48% of the total crop.

- Loss Adjustment is currently ongoing to settle the remaining 1997 crop year claims for indemnity. The end of the insurance period was February 28, 1998, and the policy allows claims to be submitted for sixty days after the end of the this period. Early reports from the companies indicate the new loss procedures are being well received by the insureds.

SUMMARY:

Strengthening the agricultural safety net is critical to our Nation's farmers. To ensure that producers have the knowledge and tools they need to manage their risks, USDA has launched a risk management education initiative and made new products like revenue insurance widely available. Similar efforts are expected to continue and intensify in the future.

CONTACT:

Larry Whitford, Director, Jackson, Mississippi, Regional Service Office, (601)-965-4771.

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

Proposed provisions to help tobacco farmers in the Ford Bill ("Leaf Act") section of the McCain Bill in relation to the proposed National Tobacco Settlement.

DISCUSSION:

The tobacco settlement will have a wide reaching impact on all segments of the tobacco industry, but a disproportionate effect on small and minority tobacco quota owners and producers. Of the 338,000 individual tobaccos quotas nationwide, nearly 66 percent are considered small farm operations. Five percent of all quotas are owned by minorities, the majority of which run small and family-sized operations. If a settlement is reached, cigarette prices would increase sharply because of manufacturer payments or increased taxes, and tobacco production would decline with a concomitant reduction in income. Limited resource farms would be especially vulnerable because of their already low level of income and significant dependence on tobacco as a source of family income.

BACKGROUND:

Several bills have been introduced to compensate tobacco quota holders and producers for the reduced income resulting from a tobacco settlement. The three bills that received the most attention were the Ford Bill (as known as the Leaf Act), the Lugar Bill, and the Robb Bill. The Leaf Act would continue the current program with payments for lost production, the Lugar Bill would buy out quotas and eliminate the current program, and the Robb Bill would shift the program from a Federal to privatized program. The tobacco farm leadership has adopted the Ford Bill/Leaf Act as a model and incorporated some provisions of the Robb Bill, especially for flue-cured tobacco.

The Ford Bill has been incorporated in the McCain Bill (S.1415) as the farmer portion of the McCain Bill. On April 1, the Senate Commerce Committee approved the bill, 19 to 1, and Senator McCain said he hoped the Bill would be before the full Senate before Memorial Day. A few modifications were made during the markup, but the thrust of the farmer portion of the Ford Bill remained intact.

TALKING POINTS:

As we understand the current compromise, the following are the main points included in the farmer portion of the McCain Bill:

- **Payments to Farmers for:**

  - **Burley, fire-cured, and dark air-cured tobaccos** - (in Kentucky, more than 95 percent of the quotas are for burley tobacco).

    - All quota holders given a one-time option to relinquish quota and get $8.00 per pound over 10 years or less.

    - Remaining quota holders get payments to the extent quota falls below the base level equal to $4 per pound for every pound quota drops, with a lifetime limit of $8 per pound times the entire base quota.

    - Quota lessees and tenants get (1) option to acquire relinquished quota and (2) payments to the extent quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the base quota.

  - **Flue-cured tobacco** - (Not produced in KY, but produced in NC, SC, GA, FL, VA, and AL)

    - All quota holders relinquish quota and get $8 per pound over 10 years or less.

    - Active quota holders will be issued permits limiting right to produce future crops.

    - Quota renters and tenants get (1) permits limiting right to produce future crops and (2) payments to the extent national quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire base quota.

- **Base Quota Years** - Years upon which payments will be based are the average of 1996 through 1998 crop years.

  - Burley - base quota 657 million pounds.

  - Flue-cured - base quota 885 million pounds.

- **Costs Incidental to the Tobacco Program** - All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary of Agriculture.

- **Farmer Opportunity Grants** - Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.

- **Benefits for Displaced Workers** - Up to $25 million annually for 10 years will be made available to provide benefits for displaced workers program. The program is administered by the Secretary of Labor.

- **Tobacco Community Economic Development Grants** - Block grants to tobacco States will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to auction warehouse owners.

- **Total Costs of the Farmer Portion of the McCain Bill** - $28.5 billion total over 25 years, $2.1 billion per year for the first ten years, $500 million for years 11-25.

  - Annual payments to tobacco farmers set at $1.65 billion for up to ten years.

  - Economic development grants set at $375 million minus administrative costs for first ten years. Six percent of economic development funding is earmarked for auction warehouse owners for ten years.

- **Total Cost to Industry/Cigarette Price Increase** -

  - Total cost to tobacco manufacturers over the 25 year period are projected to be $506 billion.

  - An increase in cigarette prices of $1.10 per pack over five years was anticipated. However, in the markup of the Bill, more than half --65 cents per pack would become effective in 1999.

  - The 65 cent increase would result in a more abrupt drop in cigarette consumption and thus demand for U.S. grown leaf than originally anticipated.

  - Consumption would fall nine to ten percent because of the 65 cent cigarette price increase. Demand for U.S. flue-cured and burley would decline by a similar amount or even more as manufacturers attempted to trim costs by using greater quantities of cheaper imported leaf.

- **Other Provisions of the McCain Bill -**
    - Civil liabilities damages capped at $6.5 billion per year.
    - Marketing and advertising would be curtailed considerably.
    - Goals of reducing youth smoking of 15 percent in three years and 45 percent in 10 years were established.
    - The Food and Drug Administration would be given broad latitude in regulating tobacco products.

NEWS RELEASE
WENDELL H. FORD of KENTUCKY
UNITED STATES SENATE

173-A Russell Senate Office Building
Washington, D.C. - 202/224-4343

FOR IMMEDIATE RELEASE
March 27, 1998

Contact: Mark L. Day
(202) 224-1156

FORD MAKES MODIFICATIONS TO STRENGTHEN "LEAF ACT"; EXPECTS PROPOSAL TO BE IN PACKAGE FOR SENATE DEBATE

WASHINGTON-- Bringing together burley and flue-cured growers, U.S. Senator Wendell Ford (D-KY) today said he has made some modifications to his "LEAF Act" that will "solidify and broaden the support" necessary to have Congress pass the proposal.

With the Senate Commerce Committee set to begin marking-up the proposed tobacco settlement legislation next week, Ford said it was imperative to have the strongest broad-based farmer protection package ready for inclusion in the final bill.

Ford noted that he fully expects the Committee to include his proposal in legislation that will be debated on the Senate floor in the coming weeks.

"These modifications to the LEAF Act broaden and strengthen our support while still holding to the principles we've always fought for: maintaining the quota program, fair compensation for lost quota, and providing a safety net if the program is threatened or eliminated in the future, all while remaining fiscally realistic," Ford said.

The modified LEAF Act incorporates some changes in the flue-cured program as advocated by Senator Charles Robb (D-VA) and other flue-cured representatives, such as transferring quotas from inactive quota holders to actual producers.

For burley growers, the LEAF Act would allow a quota holder to relinquish their quota in exchange for $8/pound, payable over a period of ten years or less. Unlike a proposal by Senator Richard Lugar (R-IN), that quota could then be reallocated to a farm owned by a quota lessee or tenant if they were the principal producer of the tobacco.

Another modification would specifically earmark a portion of economic development funding for tobacco warehouse owners.

"I've listened very hard over the last several weeks to growers and have tried to incorporate every constructive idea, so long as it didn't run into unrealistic funding requirements.

Congressional approval. I think this is that package, and I'm going to do all I can to see that it becomes law," Ford said.

In addition to Ford, Senators Ernest Hollings (D-SC) and Bill Frist (R-TN), the other two tobacco-state members of the Senate Commerce Committee, are supporting the legislation.

###

Summary of Proposal

I. Payments to Farmers

- TYPES OF TOBACCO OTHER THAN FLUE-CURED
  - √ All quota holders given one-time option to relinquish quota and get $8 per pound over 10 years or less
  - √ Remaining quota holders get payments to the extent quota falls equal to $4 per pound for every pound quota drops, with a lifetime limit of $8 per pound times the entire quota (as under original LEAF Act)
  - √ Lessees and Tenants get (1) option to acquire relinquished quota (if any), and (2) payments to the extent quota falls equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire quota
- FLUE-CURED
  - √ Quota holders relinquish quota and get $8 per pound over 10 years or less
  - √ Active quota holders will be issued permits limiting right to produce future crops
  - √ Renters and Tenants get (1) permits limiting right to produce future crops, and (2) payments to the extent national quota falls equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire quota (as under LEAF Act)

II. Costs Incidental to the Program

All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary.

III. Farmer Opportunity Grants

Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.

IV. Benefits for Displaced Workers

Up to $25 million annually for 10 years will be made available to provide benefits based on the NAFTA displaced workers program. The program is administered by the Secretary of Labor.

V. Tobacco Community Economic Development Grants

Block grants to tobacco states will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to warehouse owners. At least 20% of funds must be spent on agricultural activities, 4% on long-term technical assistance, and 6% on warehouse owners.

VI. Total Costs

$2.1 bil. per year for the first ten years, $500 mil. for years 11-25, $28.5 bil. total.

Su ry of LEAF Act Modificati

General:

1. **Base Years:** Base years upon which payments are made changed from 1994-96 to 1996-98.

2. **Funding:**

a. Annual payments to tobacco farmers raised to $1.65 billion from $1.6 billion. Total payments to farmers raised to $16.5 billion from $16 billion.

b. Economic Development grants set at $375 million minus administrative costs for first ten years; unchanged for years 11-25.

c. Assistance for dislocated workers set at $25 million annually for ten years.

3. **Optional Buyout:** For all types of tobacco other than flue-cured, quota holders are given a one-time optional buyout at $8 per pound, in exchange for relinquishing their quota. Payments will be made over a period of up to ten years, depending on (1) how many take a buyout, and (2) how far national quota falls. Remaining quota holders who stay in the program will be eligible for LEAF Act payments as under the original bill.

4. **Reallocation of quota:** For all types of tobacco other than flue-cured, when an optional buyout is taken, quota lessees or quota tenants who were the principal producer of tobacco under the quota will be given the option of having the quota reallocated to a farm they own. Otherwise, the quota is redistributed among remaining quota holders in the county (or in states with cross-county leasing like Tennessee, redistributed throughout the state.)

5. **Flue-cured permits.** All flue-cured quotas will be relinquished, in exchange for an $8 per pound payment over ten years. Inactive quota holders are out of the program. Active quota holders will be issued individual tobacco production permits. Quota renters or tenants who were principal producers of flue-cured tobacco during 1998 will also be issued individual tobacco production permits. Quota renters or tenants remain eligible for LEAF Act payments to the extent national quota declines. Permit holders must remain active producers to maintain permits. Permits may not be sold or leased, but may be transferred to descendants.

6. **Warehouse owners:** Six percent of economic development funding is earmarked for warehouse owners for ten years.

Technical:

1. Definition of "active tobacco producer" changed to "participating tobacco producer"
2. Dark tobacco poundage conversions to be based on actual farm yield, not county yield.
3. Funding for farmer payments divided between flue-cured and all other types of tobacco.
4. Reallocation of leased quotas where a tenant is the primary producer is split between quota lessee and quota tenant.
5. If the program is voted out by referendum, this does not trigger accelerated LEAF Act payments.
6. Flue-cured permit holder must invest at least 100 percent of the costs of production in the crop in order to be considered an "active" producer.
7. Flue-cured tobacco must still be grown in the same county under a permit as it was under previous quotas.
8. Flue-cured permits must be assigned to a farm within the same county.

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

The importance of the tobacco settlement, and the effect on small farmers.

Q. How important is tobacco as an agricultural crop?

A. In 1997, tobacco production totaled 1.7 billion pounds with a value of over $3 billion, the highest production and crop receipts since 1992. Sales of tobacco products reached a record $50 billion in 1997.

Q. How important is tobacco to Kentucky producers and the overall economy?

A. Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.

Q. How important is tobacco to small farmers?

A. Tobacco is a high value crop that generates receipts of $4,000 to $5,000 per acre. Profits from 1 acre of tobacco are equivalent to between 15 and 20 acres of corn or soybeans. On small farms in Kentucky, with an average of 22 acres of harvested cropland in 1992, tobacco is vital to the economic survival of farmers. (source: 1992 Ag Census)

Q. Who will be affected by a settlement?

A. The tobacco settlement will have a wide-reaching impact on all segments of the tobacco industry, but a disproportionate effect on small and minority tobacco quota owners and producers. Of the 338,000 individual quotas, about 66 percent are considered small farm operations. Five percent of all quotas are owned by minorities, the majority of which are small producers.

Q. Is anyone in Washington concerned about the impact a tobacco settlement could have on tobacco farmers and on the rural communities where tobacco is grown?

A. The Administration supports the concept of compensation to quota owners, along with producers, and of course the rural communities. USDA's Farm Service Agency, is providing analysis and interpretation of various proposals that have been made, to ensure that tobacco farmers, and their rural communities, are included.

Q. What is the likelihood of Congress approving a settlement?

A. There appears to be considerable movement in the Senate. Senator McCain's bill was passed by the Senate Commerce Committee on April 1. They have not agreed on all the details, but the Senate is moving toward approval of a settlement. The House has not made as much progress.

Q. When might the settlement legislation happen?

A. I don't know how soon it may happen. I would like to see Congress approve a bill before the House and Senate adjourn for the Fall campaigns.

Q. Will you sign the national tobacco settlement legislation?

A. I cannot commit to that without knowing the terms the bill will contain. I will not sign any bill that fails to provide for the economic losses which will be sustained by tobacco farmers and by the rural communities in which tobacco is grown.

FARM AND FOREIGN AGRICULTURAL SERVICES

Crop Insurance Statistics in Kentucky

In Kentucky, there were 20,782 active burley tobacco policies in 1997. Based on 1996 data, 75% of the policyholders reported 5 or less acres (less than $10,000 in liability and probably received less than $20,000 in average income).

In Ohio, there were 1,189 active burley tobacco policies in 1997. Based on 1996, 85% of the policyholders reported 5.00 acres or less.

HIGHLIGHTS OF KENTUCKY TOBACCO FARMER SURVEY

A new survey of 400 Kentucky tobacco farmers shows strong support for provisions of a national tobacco plan to discourage tobacco use by young people and to provide assistance to tobacco-dependent communities. While most of the farmers would prefer to continue growing tobacco as they have for years under the current tobacco program, they express some uncertainty about the future of tobacco farming and are therefore willing to explore alternatives. The farmers surveyed also question how concerned the tobacco companies are about the well-being of tobacco farmers.

Support for National Tobacco Control Measures

Almost three-fourths of Kentucky tobacco farmers support establishing a national minimum age of eighteen for buying tobacco products, with the requirement that retailers check identification of all young buyers. Just 15 percent oppose this provision as part of a national tobacco policy. Sixty-four percent support prohibiting tobacco companies from marketing or advertising to children, with just 22 percent opposed.

The farmers are also want consumers to know what is in tobacco products. Eighty-three percent support a requirement that tobacco companies provide accurate information about the ingredients of their products.

The tobacco farmers clearly believe they should be part of any national tobacco policy. Nearly three-fourths (73%) of those surveyed say a national tobacco policy should provide economic development assistance to tobacco-dependent communities. Sixty-eight percent support allocating a portion of revenues from a federal excise tax on tobacco products to tobacco-dependent communities.

This level of support for public health measures is somewhat surprising given that large majorities of the farmers surveyed agree that health groups (84%) and restrictions on smoking (76%) are a threat to tobacco farmers.

Opinions on the Tobacco Program

While most Kentucky tobacco farmers (82%) agree Congress should leave the tobacco program alone, a majority (59%) believe the program will be eliminated within the next five years. Thus, it is not surprising that just 41 percent of the farmers surveyed say it is very likely that they or someone in their family will be growing tobacco on their farm in ten years; another 19 percent say it is somewhat likely. Fifty-nine (59%) say that if they had children, they would encourage them to grow tobacco.

This uncertainty about the tobacco program leads 57 percent of Kentucky tobacco farmers to favor a voluntary buyout, where they could either decide to keep their quota or sell it. Another 7 percent support a mandatory buyout that would end the current quota and price support system for everyone. About one-fourth (27%) oppose a burley buyout of any kind, saying the current program should be maintained. When asked what a fair buyout price would be, the median response was $12, although almost 20 percent offered no response.

Forty-eight percent of the tobacco farmers said they are very (16%) or somewhat (31%) interested in trying additional non-tobacco activities on their farms. Forty-three percent said they are somewhat (8%) or very (35%) uninterested. Reflecting this split, 43 percent said they would use money from a buyout to expand or diversify their farming operation. The most popular uses of the funds were to invest in a savings or retirement plan (71%) and pay off debts (69%).

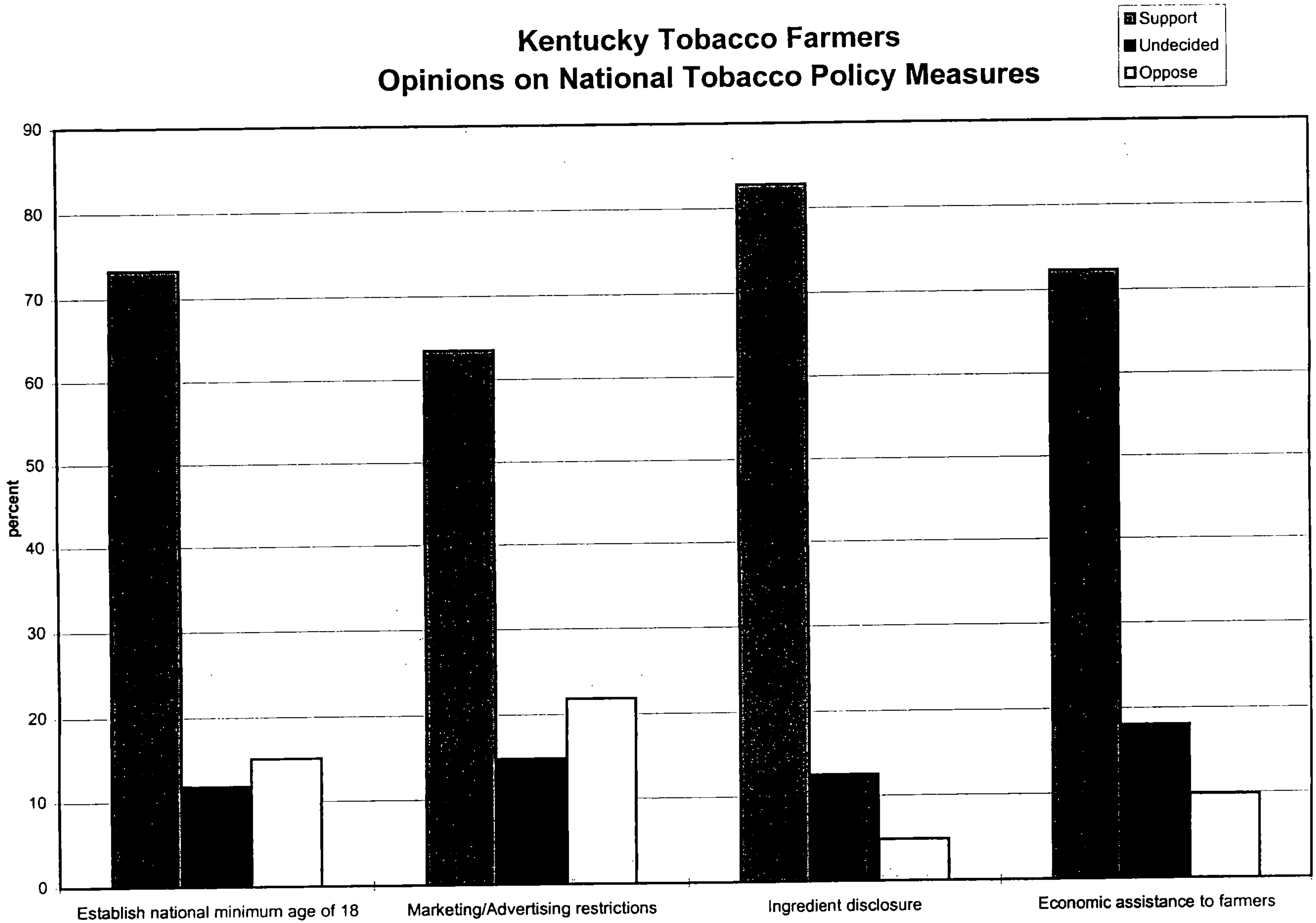
Opinions of Tobacco Companies

The uncertainty on the part of tobacco farmers about the future of the enterprise may reflect, in part, their apparent ambivalence toward the tobacco companies. One-half of those surveyed disagree strongly (32%) or somewhat (18%) that tobacco companies are concerned about the well-being of tobacco farmers, while 41 percent agree strongly (19%) or somewhat (23%) that the tobacco companies are concerned about them.

Fifty-nine percent of the tobacco farmers agree that if tobacco companies do well, tobacco farmers do well. Thirty-seven percent disagree with this assertion.

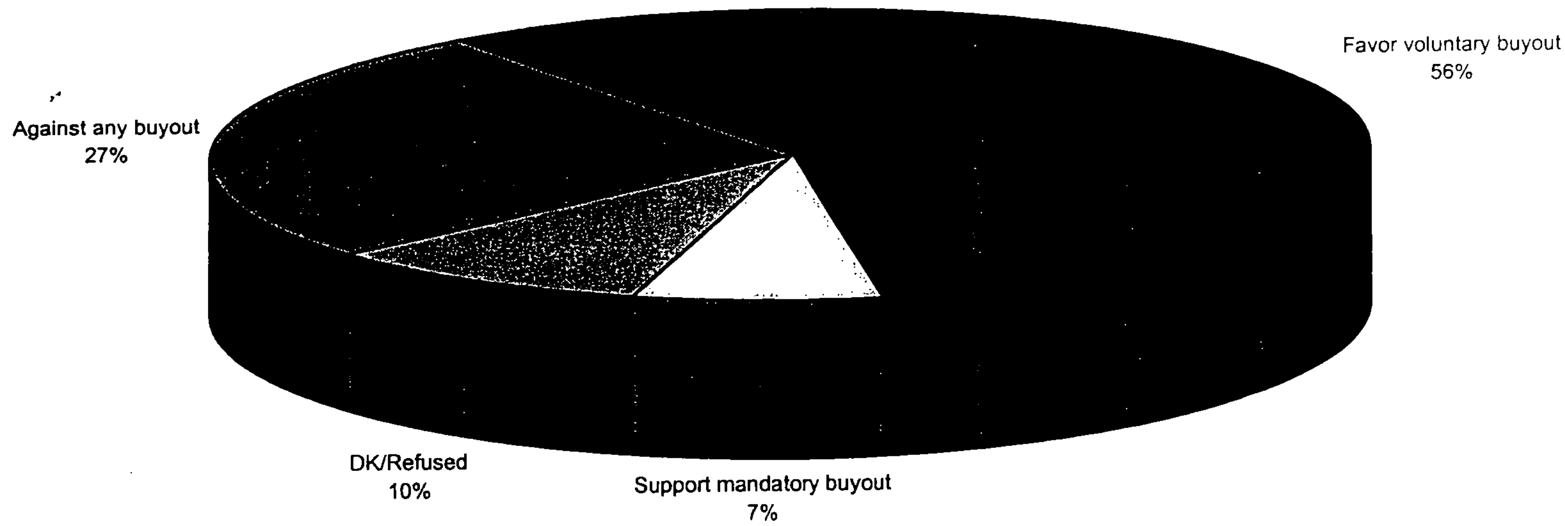
The Survey

The telephone survey of 400 Kentucky tobacco farmers was a cooperative effort between the Campaign for Tobacco-Free Kids and the Kentucky Health and Agriculture Forum. It was conducted by Global Strategies, Inc. with a random sample of burley quota holders from a list provided by the United States Department of Agriculture. Qualified respondents live in the state of Kentucky and have an effective burley quota of 2200 pounds (roughly one acre) or more. The sample of 400 has a margin of error of plus or minus 4.9 percentage points.



Campaign for Tobacco-Free Kids survey of 400 Kentucky Tobacco Farmers, February 1998

Kentucky Farmers' Opinions on a Burley buyout



Campaign for Tobacco-Free Kids survey of 400 Kentucky Tobacco Farmers, February 1998

FAX COVER SHEET

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Office of the Under Secretary
Farm and Foreign Agricultural Services
14th Street and Independence Avenue, S.W.
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TO: Tom Freedman / Mary Smith

FAX NO: 456-7028

PAGES: 13
(including cover)

FROM:

- ☐ AUGUST SCHUMACHER
- ☒ DALLAS R. SMITH
- ☐ JIM SCHROEDER
- ☐ TERESA GRUBER
- ☐ JOHN WINSKI
- ☐ BUTCH MAY
- ☐ KATHY BLYTHE
- ☐ JACKIE BURRELLO

COMMENTS:

FARM AND FOREIGN AGRICULTURAL SERVICES

KENTUCKY

ISSUE:

The Risk Management Agency (RMA) helps stabilize the agricultural economy by providing a sound system of crop insurance. The program leverages scarce federal resources by using the expertise and resources of 18 crop insurance companies and 15,000 private insurance agents to provide producers superior products and services. Primary issues are the RMA budget request and sales related issues like association marketing.

IMPORTANCE:

Risk management programs, such as crop insurance, are USDA's primary means of helping farmers survive a crop loss. Since enactment of the Federal Crop Insurance Reform Act of 1994, participation has nearly doubled. In 1997, crop insurance provided producers over $25 billion in protection through 1.3 million policies on more than 181 million acres. Participation has remained high despite modification of the requirement that producers obtain crop insurance in order to participate in most USDA farm and credit programs.

BACKGROUND:

Kentucky experienced a very abnormal year with their 1997 burley tobacco crop. Adverse weather conditions resulted in tobacco with high moisture content that either receives a low grade and price or no grade at all. RMA has addressed this situation with Bulletin No: MGR-98-06 dated March 16, 1998. This provides a deviation in loss adjustment procedures for the 1997 crop year only and is currently being used to complete the 1997 claims for indemnity.

TALKING POINTS:

- Kentucky is second only to North Carolina in total tobacco production and is the largest producer of burley tobacco. Cash value is excess of $700,000,000 a year.
- This issue involves burley - type 31 tobacco. This is one of five types of tobacco that is grown in Kentucky. The other types are dark fired - types 22 and 23, and dark air cured - types 35 and 36. Burley tobacco accounts for 92% of the total tobacco production in Kentucky.
- There are 26,642 tobacco crop policies in Kentucky for the 1997 crop year. This provides protection (liability) of $177,115,750 and covers 48% of the total crop.

- Loss Adjustment is currently ongoing to settle the remaining 1997 crop year claims for indemnity. The end of the insurance period was February 28, 1998, and the policy allows claims to be submitted for sixty days after the end of the this period. Early reports from the companies indicate the new loss procedures are being well received by the insureds.

SUMMARY:

Strengthening the agricultural safety net is critical to our Nation's farmers. To ensure that producers have the knowledge and tools they need to manage their risks, USDA has launched a risk management education initiative and made new products like revenue insurance widely available. Similar efforts are expected to continue and intensify in the future.

CONTACT:

Larry Whitford, Director, Jackson, Mississippi, Regional Service Office, (601)-965-4771.

RISK MANAGEMENT AGENCY

STATE INSURANCE PROFILE

KENTUCKY

1997 CROP YEAR

TOTAL POLICIES	TOTAL INSURED ACRES	TOTAL PREMIUM	TOTAL LIABILITY
39,122	1,069,109	14,932,125	273,911,014

PERCENT OF CROPS INSURED

Barley	17%	Soybeans	31%
Corn	32%	Tobacco	48%
Grain Sorghum	6%	Wheat	28%

9 INSURABLE CROPS

Barley	Corn	Grain Sorghum
Nursery	Popcorn	Peaches
Soybeans	Tobacco	Wheat

TYPES OF INSURANCE AVAILABLE

Standard MPCI
Group Risk Plan
Crop Revenue Coverage

NAMES OF INSURANCE COMPANIES OPERATING IN THE STATE

American Growers Insurance Company
CNA/Continental Casualty Company
Fireman's Fund Insurance Company
Great American Insurance
ITT Hartford
IGF Insurance Company
Keystate Crop Insurance Company
Rain & Hail L.L.C
Rural Community Insurance Services

TOTAL NUMBER OF AGENTS

210

RISK MANAGEMENT AGENCY

STATE INSURANCE PROFILE

KENTUCKY

KENTUCKY ISSUES

- **Growing Season(as of March 23rd)**
  Kentucky experienced a very abnormal year with their 1997 burley tobacco crop. Adverse weather conditions resulted in tobacco with high moisture content that either receives a low grade and price or no grade at all. RMA has addressed this situation with Bulletin No: MGR-98-06 dated March 16, 1998. This provides a deviation in loss adjustment procedures for the 1997 crop year only and is currently being used to complete the 1997 claims for indemnity.

CONTACTS (ATTENDING THE FORUM)

RMA
Name: Larry Whitford, Director, Jackson Regional Service Office
Phone: 601-965-4771
Fax: 601-965-4517

Insurance Company
Name: Nelson Archer/American Agricultural Insurance
Phone: 606-223-3608

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

Proposed provisions to help tobacco farmers in the Ford Bill ("Leaf Act") section of the McCain Bill in relation to the proposed National Tobacco Settlement.

DISCUSSION:

The tobacco settlement will have a wide reaching impact on all segments of the tobacco industry, but a disproportionate effect on small and minority tobacco quota owners and producers. Of the 338,000 individual tobaccos quotas nationwide, nearly 66 percent are considered small farm operations. Five percent of all quotas are owned by minorities, the majority of which run small and family-sized operations. If a settlement is reached, cigarette prices would increase sharply because of manufacturer payments or increased taxes, and tobacco production would decline with a concomitant reduction in income. Limited resource farms would be especially vulnerable because of their already low level of income and significant dependence on tobacco as a source of family income.

BACKGROUND:

Several bills have been introduced to compensate tobacco quota holders and producers for the reduced income resulting from a tobacco settlement. The three bills that received the most attention were the Ford Bill (as known as the Leaf Act), the Lugar Bill, and the Robb Bill. The Leaf Act would continue the current program with payments for lost production, the Lugar Bill would buy out quotas and eliminate the current program, and the Robb Bill would shift the program from a Federal to privatized program. The tobacco farm leadership has adopted the Ford Bill/Leaf Act as a model and incorporated some provisions of the Robb Bill, especially for flue-cured tobacco.

The Ford Bill has been incorporated in the McCain Bill (S.1415) as the farmer portion of the McCain Bill. On April 1, the Senate Commerce Committee approved the bill, 19 to 1, and Senator McCain said he hoped the Bill would be before the full Senate before Memorial Day. A few modifications were made during the markup, but the thrust of the farmer portion of the Ford Bill remained intact.

TALKING POINTS:

As we understand the current compromise, the following are the main points included in the farmer portion of the McCain Bill:

- **Payments to Farmers for:**
  - **Burley, fire-cured, and dark air-cured tobaccos** - (in Kentucky, more than 95 percent of the quotas are for burley tobacco).
    - All quota holders given a one-time option to relinquish quota and get $8.00 per pound over 10 years or less.
    - Remaining quota holders get payments to the extent quota falls below the base level equal to $4 per pound for every pound quota drops, with a lifetime limit of $8 per pound times the entire base quota.
    - Quota lessees and tenants get (1) option to acquire relinquished quota and (2) payments to the extent quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the base quota.
  - **Flue-cured tobacco** - (Not produced in KY, but produced in NC, SC, GA, FL, VA, and AL)
    - All quota holders relinquish quota and get $8 per pound over 10 years or less.
    - Active quota holders will be issued permits limiting right to produce future crops.
    - Quota renters and tenants get (1) permits limiting right to produce future crops and (2) payments to the extent national quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire base quota.
- **Base Quota Years** - Years upon which payments will be based are the average of 1996 through 1998 crop years.
  - Burley - base quota 657 million pounds.
  - Flue-cured - base quota 885 million pounds.
- **Costs Incidental to the Tobacco Program** - All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary of Agriculture.

- **Farmer Opportunity Grants** - Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.

- **Benefits for Displaced Workers** - Up to $25 million annually for 10 years will be made available to provide benefits for displaced workers program. The program is administered by the Secretary of Labor.

- **Tobacco Community Economic Development Grants** - Block grants to tobacco States will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to auction warehouse owners.

- **Total Costs of the Farmer Portion of the McCain Bill** - $28.5 billion total over 25 years, $2.1 billion per year for the first ten years, $500 million for years 11-25.

  - Annual payments to tobacco farmers set at $1.65 billion for up to ten years.

  - Economic development grants set at $375 million minus administrative costs for first ten years. Six percent of economic development funding is earmarked for auction warehouse owners for ten years.

- **Total Cost to Industry/Cigarette Price Increase** -

  - Total cost to tobacco manufacturers over the 25 year period are projected to be $506 billion.

  - An increase in cigarette prices of $1.10 per pack over five years was anticipated. However, in the markup of the Bill, more than half --65 cents per pack would become effective in 1999.

  - The 65 cent increase would result in a more abrupt drop in cigarette consumption and thus demand for U.S. grown leaf than originally anticipated.

  - Consumption would fall nine to ten percent because of the 65 cent cigarette price increase. Demand for U.S. flue-cured and burley would decline by a similar amount or even more as manufacturers attempted to trim costs by using greater quantities of cheaper imported leaf.

- **Other Provisions of the McCain Bill -**
  - Civil liabilities damages capped at $6.5 billion per year.
  - Marketing and advertising would be curtailed considerably.
  - Goals of reducing youth smoking of 15 percent in three years and 45 percent in 10 years were established.
  - The Food and Drug Administration would be given broad latitude in regulating tobacco products.

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

Assessment of the general state of the tobacco industry.

IMPORTANCE:

Tobacco provides $3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

BACKGROUND:

Sales of tobacco products reached a record $50 billion in 1997. Although consumption of tobacco products have declined, exports of cigarettes reached a record high in 1996 before declining a little in 1997. In 1997, tobacco production totaled 1.7 billion pounds with a value of over $3 billion, the highest production and crop receipts since 1992.

Most tobacco is under a price support production control program that guarantees producers a minimum price in exchange for limiting production and works to stabilize supply and prices. In a referendum in late February, 97.5 percent of burley producers (the majority of tobacco grown in Kentucky) voted to continue the price support-production control program, as they have for many years.

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

The importance of the tobacco settlement, and the effect on small farmers.

Q. How important is tobacco as an agricultural crop?

A. In 1997, tobacco production totaled 1.7 billion pounds with a value of over $3 billion, the highest production and crop receipts since 1992. Sales of tobacco products reached a record $50 billion in 1997.

Q. How important is tobacco to Kentucky producers and the overall economy?

A. Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.

Q. How important is tobacco to small farmers?

A. Tobacco is a high value crop that generates receipts of $4,000 to $5,000 per acre. Profits from 1 acre of tobacco are equivalent to between 15 and 20 acres of corn or soybeans. On small farms in Kentucky, with an average of 22 acres of harvested cropland in 1992, tobacco is vital to the economic survival of farmers. (source: 1992 Ag Census)

Q. Who will be affected by a settlement?

A. The tobacco settlement will have a wide-reaching impact on all segments of the tobacco industry, but a disproportionate effect on small and minority tobacco quota owners and producers. Of the 338,000 individual quotas, about 66 percent are considered small farm operations. Five percent of all quotas are owned by minorities, the majority of which are small producers.

Q. Is anyone in Washington concerned about the impact a tobacco settlement could have on tobacco farmers and on the rural communities where tobacco is grown?

A. The Administration supports the concept of compensation to quota owners, along with producers, and of course the rural communities. USDA's Farm Service Agency, is providing analysis and interpretation of various proposals that have been made, to ensure that tobacco farmers, and their rural communities, are included.

Q. What is the likelihood of Congress approving a settlement?

A. There appears to be considerable movement in the Senate. Senator McCain's bill was passed by the Senate Commerce Committee on April 1. They have not agreed on all the details, but the Senate is moving toward approval of a settlement. The House has not made as much progress.

Q. When might the settlement legislation happen?

A. I don't know how soon it may happen. I would like to see Congress approve a bill before the House and Senate adjourn for the Fall campaigns.

Q. Will you sign the national tobacco settlement legislation?

A. I cannot commit to that without knowing the terms the bill will contain. I will not sign any bill that fails to provide for the economic losses which will be sustained by tobacco farmers and by the rural communities in which tobacco is grown.

FARM AND FOREIGN AGRICULTURAL SERVICES

Crop Insurance Statistics in Kentucky

In Kentucky, there were 20,782 active burley tobacco policies in 1997. Based on 1996 data, 75% of the policyholders reported 5 or less acres (less than $10,000 in liability and probably received less than $20,000 in average income).

In Ohio, there were 1,189 active burley tobacco policies in 1997. Based on 1996, 85% of the policyholders reported 5.00 acres or less.

FAX COVER SHEET

U.S. DEPARTMENT OF AGRICULTURE
Office of the Under Secretary
Farm and Foreign Agricultural Services
14th Street and Independence Avenue, S.W.
Washington, D.C. 20250-0105

Fax No: (202) 720-8254
Telephone: (202) 720-3111

Date: 4/6/98

TO: TOM FREEDMAN
456-5587

FAX NO: 456-~~7503~~ 7028

PAGES:
(including cover)

FROM:

- ☐ AUGUST SCHUMACHER
- ☐ DALLAS R. SMITH
- ☐ JIM SCHROEDER
- ☐ TERESA GRUBER
- ☒ JOHN WINSKI
- ☐ BUTCH MAY
- ☐ KATHY BLYTHE
- ☐ JACKIE BURRELLO
- ☐ VICKIE PAIGE

COMMENTS: KY TOBACCO INFORMATION

John W.

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COMMENTS: KY TOBACCO INFORMATION

John W.

Secretary Glickman Visits Kentucky - April 3, 1998

Secretary Dan Glickman during his visit to Central Kentucky on Friday, April 3, 1998:

- met with 25 farmers at the Woodford County tobacco farm of Robert Richardson II
- attended a Farm Forum at Gentry Tobacco Warehouse in Lexington with 600 to 700 farmers, government officials and agribusiness leaders.

Farm Forum - April 3, 1998 - Lexington, Kentucky

Location	Gentry Tobacco Warehouse
Estimated Number of Producers Attending	600 to 700
Major Players Participating in Forum	• Governor Paul Patton • Congressman Scotty Beasler (D., 6th District) • Under Secretary Jill Long Thompson • Deputy Under Secretary Dallas Smith • Tom Freedman, White House Domestic Policy Advisor • Billy Ray Smith, Kentucky Commissioner of Agriculture • Hampton Henton, Jr., USDA Farm Service Agency State Executive Director (KY) • Tom Fern, USDA Rural Development State Director (KY) • David Sawyer, USDA Natural Resources Conservation Service State Conservationist (KY)
# 1 Issue	**Tobacco** - Inclusion of the farmer in any potential tobacco settlement. "We are not here to save tobacco. We are here to save the family farm. But you can't do one without the other in Kentucky." *(Rod Kuegel, tobacco farmer and President of the Burley Tobacco Growers Cooperative Association)*

Continued on next page

Farm Forum - April 3, 1998, *Continued*

#1 Issue *Continued*

Picking up on the theme, Governor Patton urged that when dealing with tobacco and other farm issues, "take into account the cultural value of small farms. Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living." *(The Courier-Journal*, April 4, 1998) Governor Patton announced at the Forum the creation of a Commission on Family Farms to focus on implementation of a federal tobacco settlement.

General Mood at the Forum

The general mood of those attending the Farm Forum was upbeat. However, some tobacco farmers feel USDA focuses on grain farmers and forgets the small tobacco farmer. Farmers are concerned that "they are setting on a fence (with the pending tobacco settlement) and they do not know which direction they will fall". One farmer expressed frustration that USDA does not provide crop insurance on "new" crops (crops not traditionally grown commercially in the area); however, the push is for tobacco farmers to diversify.

Hottest Questions

- **TOBACCO**: Will the administration support continuation of the federal supply management program for tobacco, with no costs to the tax payer (i.e. tobacco settlement)?

- **HEMP**: Why is the government not moving to help the U.S. hemp industry (i.e. conflict between agriculture and the anti-marijuana issue)?

- **$ TO CORPORATIONS:** Why USDA gave $7.1 million dollars to one corporation? (Federal Empowerment Zone - Clinton County: USDA grant to the city of Albany to expand their water treatment plant to allow Cagle, Inc. to build a 275,000 square foot chicken processing plant.)

Continued on next page

Secretary Glickman Visits Kentucky - April 3, 1998

Dallas Smith Meeting with African American Farmers *April 2*	Deputy Under Secretary Dallas Smith met with 7 African American farmers and government officials in Brandenburg, Kentucky on April 2, concerning the pending tobacco settlement legislation.
	Hottest Question: Will we be discriminated in the buyout, like before?

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Price-support program called crucial safety net

PHOTOS BY MICHAEL HAYMAN, THE COURIER-JOURNAL
Robert Richardson of Versailles, right, introduced U.S. Secretary of Agriculture Dan Glickman to other farmers.

Agriculture chief says president won't abandon tobacco farmers

By JOE WARD
The Courier-Journal

LEXINGTON, Ky. — U.S. Secretary of Agriculture Dan Glickman told farmers gathered in a tobacco warehouse in Lexington yesterday that the federal tobacco program has served as a safety net for the family farm — and that the stability it provides must be preserved.

He pledged that President Clinton will sign no tobacco bill that doesn't protect the farmers.

It was what the farmers wanted to hear.

At the warehouse forum, attended by 600 to 700 farmers and government officials and employees, and during an earlier visit by Glickman to a Woodford County tobacco farm, the main thrust of farmer commentary was the same: Kentucky farmers need the tobacco price-stability program.

"We're not here to save tobacco," Daviess County farmer and Burley Co-op president Rod Kuegel said at the forum.

"We're here to save the family farm. What people need to realize is that you can't do one without the other here in Kentucky."

Earlier, as Glickman talked with farmers on a grassy slope on Robert and John Richardson's farm on Steele Road, Woodford County farmer Rusty Thompson told him the furor over tobacco in the Congress and the news media is wearing on tobacco farmers.

"As tobacco farmers, we're getting shot all to pieces every day," Thompson said.

"We've played by the rules all of our lives, and so did my father and grandfather," and don't believe punishment is in order, he said.

Richardson and Glickman examined weather-damaged leaf from last year's tobacco crop.

Glickman told the farmers that the aim of tobacco legislation pending in Congress is to reduce smoking among the nation's young people, which he said is a worthy goal.

But he said it also is important that the legislation protect the "tens of thousands of farmers" who have been the beneficiaries of the federal tobacco program — which he said has worked better over several decades than most other federal agriculture programs.

"We need a solution that provides stability and is fair to the farmers and the small communities," he said.

Congress is considering a massive tobacco bill that would extract [illegible]ral hundred billion dollars from the tobacco industry, and in exchange provide them with some limited protection against lawsuits from parties alleging

See GLICKMAN
Page 7, col. 1, this section

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Glickman reassures growers

Continued from Page F 1

they were injured by smoking.

The legislation has been in the works since last June, when tobacco companies and attorneys general for 40 states worked out a tentative agreement involving payment of $368 billion by the industry and curbs on advertising.

Tobacco farmers have long believed that any time Congress considers any tobacco legislation, the federal tobacco program that keeps their prices stable is in jeopardy. The program long has been a target of anti-smoking forces.

The pending legislation also holds the potential of drastically reducing the amount of tobacco consumed, which could seriously cut farm income.

Farmers have had difficulty deciding among themselves what they should seek from Congress. Some favor a buyout that would give farmers who have depended on the program enough money to move to other crops.

Others say tobacco will be grown as long as it is legal, and they want to keep growing it, but they need the program to do it.

The program basically keeps prices up by limiting supply through quotas. The government finds out each year how much tobacco the companies expect to buy and how much can be sold overseas, and then divvies up the right to grow it among the farmers.

That way, the farmers don't overproduce and drive prices down. A price-support mechanism that involves government loans makes sure the farmers get an acceptable price even when the companies buy less than they said they would.

Kuegel and others — including U.S. Sen. Wendell Ford of Kentucky, who long has been tobacco's premiere champion in Congress — say the program enables families to [illegible]e a living on much smaller farms than would otherwise support them.

Picking up that theme at yesterday's forum, Kentucky Gov. Paul Patton urged that Glickman, when [illegible]ing with tobacco and other farm issues, "take into account the cultural value of small farms."

"Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living," the governor said.

Glickman told reporters at a brief press conference after the forum that he assumes the President and legislators who champion tobacco will accept nothing less than a continuation of the program for farmers who want to keep growing tobacco, and a reasonable price for those who want out.

The pending legislation [illegible]d do just that, buying quotas from those who want to opt out at $8 a [illegible]d over 10 years.

Lexington Herald-Leader
Saturday, April 4, 1998

Finding facts firsthand about family farms

PHOTOS BY FRANK ANDERSON/STAFF

Agriculture Secretary Paul Glickman, with hand outstretched, addressed about 25 Woodford County tobacco farmers yesterday, during a visit to the farm of Robert Richardson. Later, he held a USDA forum in a tobacco warehouse in Lexington.

U.S. agriculture secretary visits farms, hosts forum

By Kit Wagar
HERALD-LEADER STAFF WRITER

U.S. Agriculture Secretary Dan Glickman came to Central Kentucky yesterday to take the pulse of American agriculture, and farmers let him know that Kentucky lives and dies by tobacco price supports.

"We are not here to save tobacco," said Owensboro tobacco grower Rod Kuegel. "We are here to save the family farm. But you can't do one without the other in Kentucky."

Kuegel's comments set the tone for yesterday's farm forum, the first of seven such meetings Glickman is holding across the country to see firsthand how new federal farm policies are working. Sitting in a warehouse filled with the pungent aroma of cut tobacco, officials could not have gotten away from tobacco if they had tried.

Kuegel, who is president of the Burley Tobacco Growers Cooperative Association, told Glickman and other federal agriculture officials that some farms in Kentucky have only 5 to 10 tillable acres.

"It's tobacco that makes them viable," Kuegel said.

Glickman said he understood the role that tobacco price supports had played in creating a nearly unique culture of small farms in Kentucky. He promised that tobacco farmers would not be left out of a national tobacco settlement.

"The president has said that a fair and reasonable settlement for tobacco farmers is a linchpin of any settlement," Glickman said.

But he declined to endorse a specific plan to protect farmers, saying only that the proposal by Democratic Sen. Wendell Ford of

See GLICKMAN, B2

Gov. Paul Patton, left, listened to Glickman speak at the USDA forum yesterday.

Lexington Herald-Leader
Saturday, April 4, 1998

GLICKMAN: Talk covers tobacco, hemp, ostriches

From Page B1

Kentucky was a positive step. The administration, he said, wants to see a consensus in Congress before endorsing a specific plan.

Ford has proposed a plan that would allow farmers to sell their tobacco quota to the government for $8 a pound, paid over 10 years. Growers who lease quota could receive $4 a pound. Farmers who chose to continue growing tobacco would still participate in a price-support system.

The farm forum, which attracted several hundred growers from across Kentucky, included questions that ran the gamut from ostrich farming to hemp growing.

Glickman said he was trying to end the Agriculture Department's traditional bias toward large operations by emphasizing research into ways that small and medium-size farms can be competitive.

He said he was concerned about overconcentration in the beef processing industry, where four firms have 80 percent of the market. In 1980, that portion of the market was shared by 12 firms. He said he is seeking tougher enforcement of antitrust laws to stop monopolistic practices.

He assured growers that the controversial proposed standards for organic foods would be changed. When the standards were issued for comment, he said, they generated some 15,000 responses, more than any other issue in modern history.

The proposed standards included many practices that organic farmers considered heresy. At $4 billion a year, the organic foods industry can no longer be considered a fringe business, he said.

One farmer asked why the government was not moving to help the U.S. hemp industry. Hemp is legal in Germany and Canada, which is providing $50 million in assistance to get the hemp industry up and running.

"That issue is to some extent above my pay grade," Glickman said, prompting laughter. He acknowledged that farmers in other states also had inquired about the possibility of growing hemp, a cousin of marijuana that lacks THC, the substance that causes smokers to get high.

He said the future of hemp is tied up in anti-marijuana issues, so the Agriculture Department has made no decision on whether hemp promotion would be a good idea.

"All I can tell you is: Keep the information flow coming," he said.

Earlier in the day, Glickman visited the Woodford County tobacco farm of Robert Richardson. He told local growers they need to make their voices heard. All of agriculture faces a tough political situation, he said, because farmers make up only 2 percent of the population.

Under new farm policies, which phased out most price supports, the ultimate safety net is export markets, Glickman said. The Agriculture Department was trying to ensure that farm credit remained plentiful and that barriers to U.S. farm exports were eliminated. Farming, he said, is a growth industry because the world's population is exploding and people everywhere want U.S. farm products.

John Richardson, who raises cattle and with his brother grows 120 acres of tobacco, was unimpressed.

"It was about the same thing they say all the time," Richardson said.

"They talk more about grain farmers than tobacco farmers. It gets them off the subject of tobacco."

TOBACCO IN KENTUCKY

ISSUE:

The majority of burley tobacco producers in Kentucky favor continuation of the federal price support program.

IMPORTANCE:

Burley tobacco is the primary crop in the state, with revenues of more than $1 Billion in 1997, on the 696,485,163 pounds grown. Producers are happy with the federal price support program, and are worried about the future of the program.

TALKING POINTS:

- Tobacco sales account for nearly 30 percent of the total crop revenue for the state. Nearly $4 billion is generated annually from the production and sale of tobacco.

- The 1992 Ag Census listed more than 59,373 tobacco producing farms, with more than 268,140 acres planted to tobacco.

- Kentucky tobacco farms average 4.5 acres planted to tobacco, far lower than many surrounding states. Alabama averages 23.9 acres of tobacco per farm and South Carolina has an average of 25.5 acres per farm.

- Of the 151,668 tobacco quotas and allotments in 1996, 134,424 were for burley tobacco.

- In 1996, 167,695 owners were listed for burley quotas
  98.7 percent were listed as white
  1.2 percent as black
  .1 percent as other
  66.7 percent male
  31.7 percent female
  1.6 percent corporate entity.

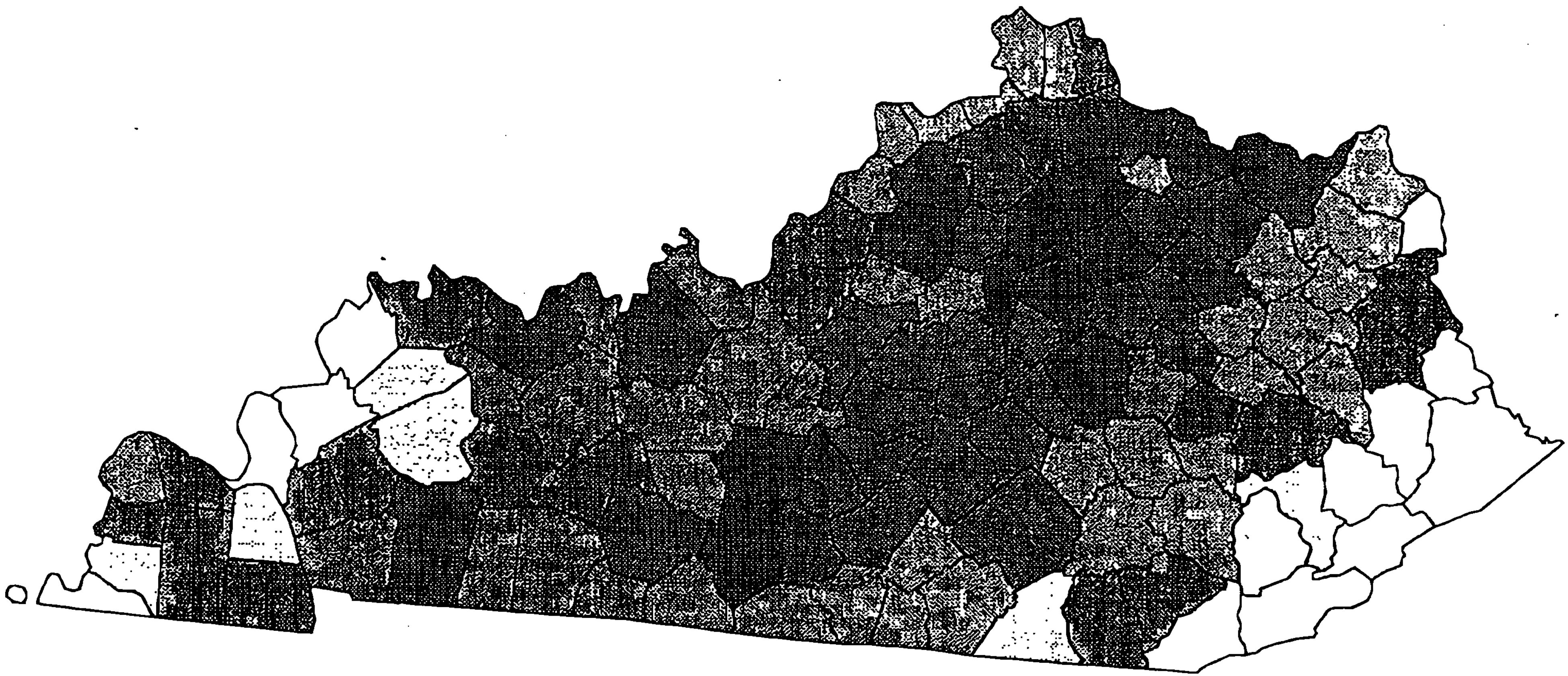
BACKGROUND:

Large farms dominate Kentucky's burley tobacco business. Last year 125,000 Kentucky farms sold 474 million pounds of burley tobacco, but 70 percent of the total weight came from just 26 percent of the farms. Increasingly, small quota holders have leased or rented their rights to large farms. Some very large quota holders, such as the horse farms near Lexington, also lease out their quotas. Up to a third of the tobacco grown in Kentucky is grown by someone besides the quota owner. There is much support for the LEAF Act proposed by Senator Wendell Ford.

Kentucky Burley Tobacco Farms	Estimate (1997 Burley Tobacco)		
	Number of Farms	Number of Pounds	Pounds per Farm
Grows ONLY Farm Quota *(Does not lease in or out)*	27,183	122,137,986	4,493
Grows Farm Quota PLUS Leases in Pounds	24,340	196,015,410	8,053
Grows ONLY Farm Quota *(Quota Raised by Tenants)*	19,761	105,046,575	5,316
Grows Farm Quota PLUS Leases in Pounds *(Quota Raised by Tenants)*	15,843	133,538,504	8,429
Leases Away Entire Quota	57,544	139,746,688	2,429

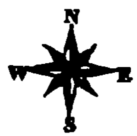
<u>CONTACT:</u> Verner Grise, Tobacco and Peanuts Division (Office) 202-720-5291; (Home) 703-354-1887 or Sue Austin, Chief Tobacco Division, State Office, (606) 224-7601.

1997 Burley Quota - Kentucky



KY Quota (Pounds)

- Up to 50,000 Lbs
- 50,001 - 100,000 Lbs
- 100,001 - 500,000 Lbs
- 500,001 - 1,500,000
- 1,500,001 - 5,000,000 Lbs
- 5,000,001 - 10,000,000 Lbs
- 10,000,001 and over
- No Burley Quota

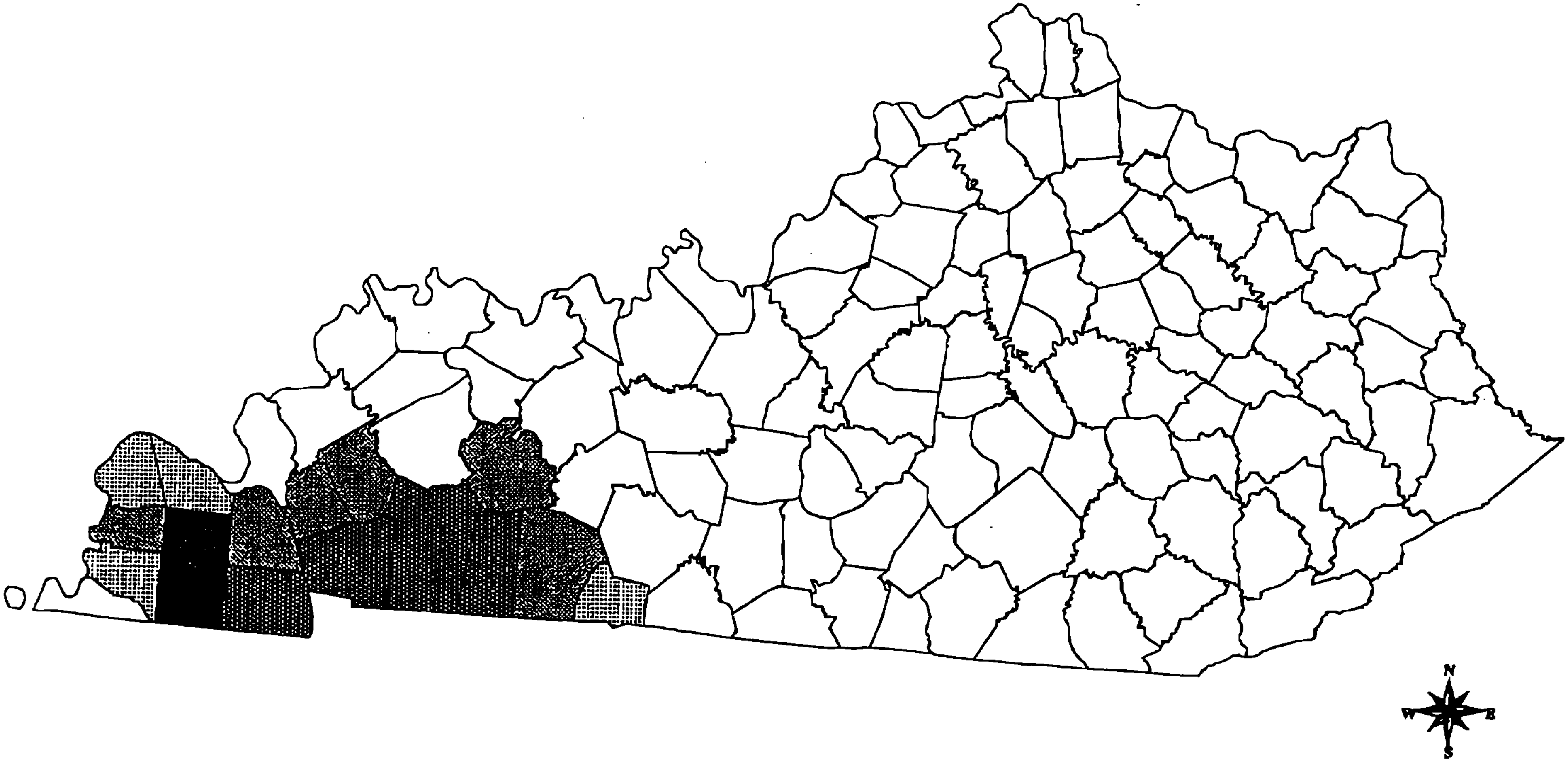


Prepared by
Farm Service Agency

March 6, 1998

USDA

1997 Fire-Cured (Types 22-24) Tobacco Pounds
Kentucky



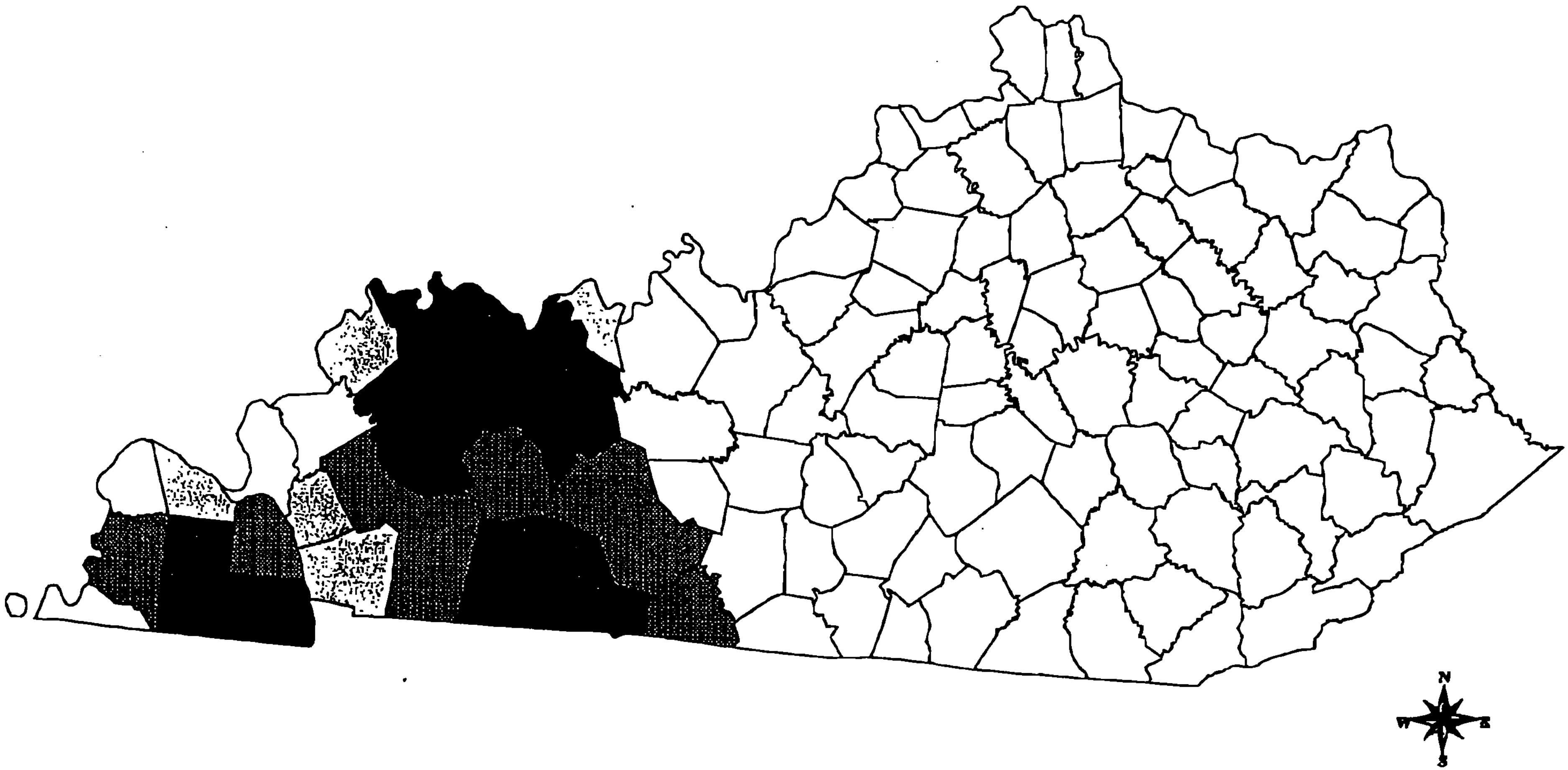
Ky Fire Cured (Types 22-24)
- Up to 20,000 lbs
- 20,001 to 300,000 lbs
- 300,0001 to 1,000,000 lbs
- 1,000,001 to 5,000,000 lbs
- Over 5,000,001 lbs
- No Fire-Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by
Farm Service Agency

1997 Dark Air-Cured (Types 35-36) Tobacco Pounds
Kentucky



Ky Dark-Air Cured (Types 35-36)
- Up to 5,000 lbs
- 5,001 -50,000 lbs
- 50,001 - 150,000 lbs
- 150,001 - 1,000,000 lbs
- Over 1,000,001 lbs
- No Dark Air Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by
Farm Service Agency

THE TOBACCO PROGRAM

ISSUE:

Most tobacco produced in the United States is under the Federal price support-production control program. The tobacco program operates under permanent legislation, and does not have to be renewed by 5- or 7- year Farm Bills.

IMPORTANCE:

Tobacco provides $3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

TALKING POINTS:

- Producers of different kinds of tobacco vote in triennial referenda to determine if they wish to continue the Federal tobacco program for their kind of tobacco.

- In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program, as they have for many years.

- In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.
- Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

BACKGROUND:

In spite of the controversy surrounding the Federal program, tobacco-state congressmen were able to obtain permanent legislation. However, numerous changes have been made to the program via amendments to Farm Bills or other legislation. The most notable is the No-Net-Cost Tobacco Program Act of 1982, which requires the tobacco price support program to operate at no-net-cost to taxpayers. This program is currently under additional criticism as the Congress acts on the tobacco settlement.

SUMMARY:

The Federal tobacco program is under permanent legislation, which has provided production and income stability for tobacco producers since the late 1930's. Tobacco is a key source of income for several states, especially Kentucky.

CONTACT: Verner Grise, Tobacco and Peanuts Division, FSA 202-720-5291; home 703-354-1887

FARM AND FOREIGN AGRICULTURAL SERVICES

FARMER PORTION OF THE NATIONAL TOBACCO SETTLEMENT

ISSUE:

Outline the farmer portion of the National tobacco settlement for the Secretary's visits to Kentucky and Florida.

BACKGROUND:

The proposed National tobacco settlement initially did not include tobacco quota owners and producers. However, in recent months Congressional and farm leadership groups have fashioned various proposals to include compensation for tobacco quota holders and producers. Although the Administration has not introduced a specific bill to address the tobacco farmer issue as part of any tobacco settlement, it strongly supports the concept of compensation to quota owners, producers, and communities and is amenable to special programs for limited resource farmers.

The tobacco settlement will have wide reaching impacts on all segments of the tobacco industry, but a disproportionate impact on small and minority tobacco quota owners and producers. Of the 338,000 individual quotas, about 66 percent would be considered small operations. Five percent of all quotas are owned by minorities, the majority of which are small.

If a National tobacco settlement is reached, cigarette prices would increase sharply because of manufacturer payments or increased taxes. In turn, tobacco production would decline with a concomitant reduction in income. Limited resource farms would be especially vulnerable because of their already low level of income and significant dependence on tobacco as a source of family income.

TALKING POINTS:

Several bills have been introduced to compensate tobacco quota holders and producers for the reduced income resulting from a tobacco settlement. The three bills that received the most attention were the Ford Bill, the Lugar Bill, and the Robb Bill. The Ford Bill would continue the current program with payments for lost production, the Lugar Bill would buy out quotas and eliminate the current program, and the Robb Bill would shift the program from a Federal to privatized program. The farm leadership has adopted the Ford Bill as a model and incorporated some provisions of the Robb Bill, especially for flue-cured tobacco.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

BRIEFING MEMORANDUM FOR THE SECRETARY

THROUGH: August Schumacher, Jr.
Under Secretary for Farm and
Foreign Agricultural Services

FROM: Keith Kelly
Administrator

SUBJECT: Update on the McCain Bill - National Tobacco Settlement

PURPOSE OF BRIEFING:

To provide an update of the Senate Commerce Committee's markup of the McCain Bill (S.1415).

BACKGROUND:

The Senate Commerce Committee approved S.1415 by a 19 to 1 vote and Senator McCain stated that he hoped the Bill would be before the full Senate before Memorial Day. A few modifications were made during the markup, but the thrust of the Bill remained intact.

TALKING POINTS:

Based on the best information available, the following portions of the McCain Bill have been modified or reaffirmed:

- **Total Cost to Industry/Cigarette Price Increase -**

  » Total cost to tobacco manufacturers over the 25 year period are projected to be $506 billion.

  » An increase in cigarette prices of $1.10 per pack over five years was anticipated. However, in the markup of the Bill, more than half --65 cents per pack would become effective in 1999.

  » The 65 cent increase would result in a more abrupt drop in cigarette consumption and thus demand for U.S. grown leaf than originally anticipated.

- » Consumption would fall nine to ten percent because of the 65 cent cigarette price increase. Demand for U.S. flue-cured and burley would decline by a similar amount or even more as manufacturers attempted to trim costs by using greater quantities of cheaper imported leaf.

- **Domestic Price Support Levels** - Under certain conditions for crop years 1999 and 2000, the Secretary will have more flexibility in setting the flue-cured tobacco price support level than under current legislation.

- **Other Provisions of the McCain Bill** -

  - » Civil liabilities damages capped at $6.5 billion per year.

  - » Marketing and advertising would be curtailed considerably.

  - » Goals of reducing youth smoking of 15 percent in three years and 45 percent in 10 years were established.

  - » The Food and Drug Administration would be given broad latitude in regulating tobacco products.

- See the Briefing Memorandum entitled "Farmer Portion of the National Tobacco Settlement" for additional provisions affecting farmers.

The provisions of the Ford Bill are incorporated as the farmer portion of the McCain Bill (S.1415), the bill currently being considered as the vehicle for implementing the National tobacco settlement. Senate markup for the McCain Bill is scheduled for April 1 and 2.

As we understand the current compromise, the following are the main points included in the farmer portion of the McCain Bill:

- **Payments to Farmers for:**
  - » **Burley, fire-cured, and dark air-cured tobaccos -**
    - All quota holders given one-time option to relinquish quota and get $8.00 per pound over 10 years or less.
    - Remaining quota holders get payments to the extent quota falls below the base level equal to $4 per pound for every pound quota drops, with a lifetime limit of $8 per pound times the entire base quota.
    - Quota lessees and tenants get (1) option to acquire relinquished quota and (2) payments to the extent quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the base quota.
  - » **Flue-cured tobacco -**
    - Quota holders relinquish quota and get $8 per pound over 10 years or less.
    - Active quota holders will be issued permits limiting right to produce future crops.
    - Quota renters and tenants get (1) permits limiting right to produce future crops and (2) payments to the extent national quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire base quota.
- **Base Quota Years** - Years upon which payments will be made are the average of 1996 through 1998 crop years.
  - » Burley - base quota 657 million pounds.
  - » Flue-cured - base quota 885 million pounds.
- **Costs Incidental to the Tobacco Program** - All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary.

- **Farmer Opportunity Grants** - Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.

- **Benefits for Displaced Workers** - Up to $25 million annually for 10 years will be made available to provide benefits for displaced workers program. The program is administered by the Secretary of Labor.

- **Tobacco Community Economic Development Grants** - Block grants to tobacco States will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to auction warehouse owners.

- **Total Costs** - $28.5 billion total over 25 years, $2.1 billion per year for the first ten years, $500 million for years 11-25.

  » Annual payments to tobacco farmers set at $1.65 billion for up to ten years.

  » Economic development grants set at $375 million minus administrative costs for first ten years. Six percent of economic development funding is earmarked for auction warehouse owners for ten years.

NEWS RELEASE
WENDELL H. FORD of KENTUCKY
UNITED STATES SENATE

173A Russell Senate Office Building
Washington, D.C. 20510

FOR IMMEDIATE RELEASE
March 27, 1998

Contact: Mark L. Day
(202) 224-1156

FORD MAKES MODIFICATIONS TO STRENGTHEN "LEAF ACT"; EXPECTS PROPOSAL TO BE IN PACKAGE FOR SENATE DEBATE

WASHINGTON-- Bringing together burley and flue-cured growers, U.S. Senator Wendell Ford (D-KY) today said he has made some modifications to his "LEAF Act" that will "solidify and broaden the support" necessary to have Congress pass the proposal.

With the Senate Commerce Committee set to begin marking-up the proposed tobacco settlement legislation next week, Ford said it was imperative to have the strongest broad-based farmer protection package ready for inclusion in the final bill.

Ford noted that he fully expects the Committee to include his proposal in legislation that will be debated on the Senate floor in the coming weeks.

"These modifications to the LEAF Act broaden and strengthen our support while still holding to the principles we've always fought for: maintaining the quota program, fair compensation for lost quota, and providing a safety net if the program is threatened or eliminated in the future, all while remaining fiscally realistic," Ford said.

The modified LEAF Act incorporates some changes in the flue-cured program as advocated by Senator Charles Robb (D-VA) and other flue-cured representatives, such as transferring quotas from inactive quota holders to actual producers.

For burley growers, the LEAF Act would allow a quota holder to relinquish their quota in exchange for $8/pound, payable over a period of ten years or less. Unlike a proposal by Senator Richard Lugar (R-IN), that quota could then be reallocated to a farm owned by a quota lessee or tenant if they were the principal producer of the tobacco.

Another modification would specifically earmark a portion of economic development funding for tobacco warehouse owners.

"I've listened very hard over the last several weeks to growers and have tried to incorporate every constructive idea, so long as it didn't run into unrealistic funding requirements. We've worked day and night to try and protect our farmers and their communities, while producing a package that can win Congressional approval. I think this is that package, and I'm going to do all I can to see that it becomes law," Ford said.

In addition to Ford, Senators Ernest Hollings (D-SC) and Bill Frist (R-TN), the other two tobacco-state members of the Senate Commerce Committee, are supporting the legislation.

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Back to my homepage.

FAX COVER SHEET

U.S. DEPARTMENT OF AGRICULTURE
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(including cover)

FROM:

- ☐ AUGUST SCHUMACHER
- ☐ DALLAS R. SMITH
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- ☒ JOHN WINSKI
- ☐ BUTCH MAY
- ☐ KATHY BLYTHE
- ☐ JACKIE BURRELLO
- ☐ VICKIE PAIGE

COMMENTS: KY TOBACCO INFORMATION

John W.

Secretary Glickman Visits Kentucky - April 3, 1998

Secretary Dan Glickman during his visit to Central Kentucky on Friday, April 3, 1998:

- met with 25 farmers at the Woodford County tobacco farm of Robert Richardson II
- attended a Farm Forum at Gentry Tobacco Warehouse in Lexington with 600 to 700 farmers, government officials and agribusiness leaders.

Farm Forum - April 3, 1998 - Lexington, Kentucky

Location	Gentry Tobacco Warehouse
Estimated Number of Producers Attending	600 to 700
Major Players Participating in Forum	• Governor Paul Patton • Congressman Scotty Beasler (D., 6th District) • Under Secretary Jill Long Thompson • Deputy Under Secretary Dallas Smith • Tom Freedman, White House Domestic Policy Advisor • Billy Ray Smith, Kentucky Commissioner of Agriculture • Hampton Henton, Jr., USDA Farm Service Agency State Executive Director (KY) • Tom Fern, USDA Rural Development State Director (KY) • David Sawyer, USDA Natural Resources Conservation Service State Conservationist (KY)
# 1 Issue	**Tobacco** - Inclusion of the farmer in any potential tobacco settlement. "We are not here to save tobacco. We are here to save the family farm. But you can't do one without the other in Kentucky." *(Rod Kuegel, tobacco farmer and President of the Burley Tobacco Growers Cooperative Association)*

Continued on next page

Farm Forum - April 3, 1998, ***Continued***

#1 Issue *Continued*

Picking up on the theme, Governor Patton urged that when dealing with tobacco and other farm issues, "take into account the cultural value of small farms. Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living." *(The Courier-Journal*, April 4, 1998) Governor Patton announced at the Forum the creation of a Commission on Family Farms to focus on implementation of a federal tobacco settlement.

General Mood at the Forum

The general mood of those attending the Farm Forum was upbeat. However, some tobacco farmers feel USDA focuses on grain farmers and forgets the small tobacco farmer. Farmers are concerned that "they are setting on a fence (with the pending tobacco settlement) and they do not know which direction they will fall". One farmer expressed frustration that USDA does not provide crop insurance on "new" crops (crops not traditionally grown commercially in the area); however, the push is for tobacco farmers to diversify.

Hottest Questions

- **TOBACCO:** Will the administration support continuation of the federal supply management program for tobacco, with no costs to the tax payer (i.e. tobacco settlement)?

- **HEMP:** Why is the government not moving to help the U.S. hemp industry (i.e. conflict between agriculture and the anti-marijuana issue)?

- **$ TO CORPORATIONS:** Why USDA gave $7.1 million dollars to one corporation? (Federal Empowerment Zone - Clinton County: USDA grant to the city of Albany to expand their water treatment plant to allow Cagle, Inc. to build a 275,000 square foot chicken processing plant.)

Continued on next page

Secretary Glickman Visits Kentucky - April 3, 1998

Dallas Smith Meeting with African American Farmers *April 2*	Deputy Under Secretary Dallas Smith met with 7 African American farmers and government officials in Brandenburg, Kentucky on April 2, concerning the pending tobacco settlement legislation. Hottest Question: Will we be discriminated in the buyout, like before?

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Price-support program called crucial safety net

PHOTOS BY MICHAEL HAYMAN, THE COURIER-JOURNAL

Robert Richardson of Versailles, right, introduced U.S. Secretary of Agriculture Dan Glickman to other farmers.

Agriculture chief says president won't abandon tobacco farmers

Richardson and Glickman examined weather-damaged leaf from last year's tobacco crop.

By JOE WARD
The Courier-Journal

LEXINGTON, Ky. — U.S. Secretary of Agriculture Dan Glickman told farmers gathered in a tobacco warehouse in Lexington yesterday that the federal tobacco program has served as a safety net for the family farm — and that the stability it provides must be preserved.

He pledged that President Clinton will sign no tobacco bill that doesn't protect the farmers.

It was what the farmers wanted to hear.

At the warehouse forum, attended by 600 to 700 farmers and government officials and employees, and during an earlier visit by Glickman to a Woodford County tobacco farm, the main thrust of farmer commentary was the same: Kentucky farmers need the tobacco price-stability program.

"We're not here to save tobacco," Daviess County farmer and Burley Co-op president Rod Kuegel said at the forum.

"We're here to save the family farm. What people need to realize is that you can't do one without the other here in Kentucky."

Earlier, as Glickman talked with farmers on a grassy slope on Robert and John Richardson's farm on Steele Road, Woodford County farmer Rusty Thompson told him the furor over tobacco in the Congress and the news media is wearing on tobacco farmers.

"As tobacco farmers, we're getting shot all to pieces every day," Thompson said.

"We've played by the rules all of our lives, and so did my father and grandfather," and don't believe punishment is in order, he said.

Glickman told the farmers that the aim of tobacco legislation pending in Congress is to reduce smoking among the nation's young people, which he said is a worthy goal.

But he said it also is important that the legislation protect the "tens of thousands of farmers" who have been the beneficiaries of the federal tobacco program — which he said has worked better over several decades than most other federal agriculture programs.

"We need a solution that provides stability and is fair to the farmers and the small communities," he said.

Congress is considering a massive tobacco bill that would extract several hundred billion dollars from the tobacco industry, and in exchange provide them with some limited protection against lawsuits from parties alleging

See GLICKMAN
Page 7, col. 1, this section

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Glickman reassures growers

Continued from Page F 1

they were injured by smoking.

The legislation has been in the works since last June, when tobacco companies and attorneys general for 40 states worked out a tentative agreement involving payment of $368 billion by the industry and curbs on advertising.

Tobacco farmers have long believed that any time Congress considers any tobacco legislation, the federal tobacco program that keeps their prices stable is in jeopardy. The program long has been a target of anti-smoking forces.

The pending legislation also holds the potential of drastically reducing the amount of tobacco consumed, which could seriously cut farm income.

Farmers have had difficulty deciding among themselves what they should seek from Congress. Some favor a buyout that would give farmers who have depended on the program enough money to move to other crops.

Others say tobacco will be grown as long as it is legal, and they want to keep growing it, but they need the program to do it.

The program basically keeps prices up by limiting supply through quotas. The government finds out each year how much tobacco the companies expect to buy and how much can be sold overseas, and then divvies up the right to grow it among the farmers.

That way, the farmers don't overproduce and drive prices down. A price-support mechanism that involves government loans makes sure the farmers get an acceptable price even when the companies buy less than they said they would.

Kuegel and others — including U.S. Sen. Wendell Ford of Kentucky, who long has been tobacco's premiere champion in Congress — say the program enables families to make a living on much smaller farms than would otherwise support them.

Picking up that theme at ye[illegible]day's forum, Kentucky Gov. Paul Patton urged that Glickman, when [illegible]ing with tobacco and other farm issues, "take into account the cultural value of small farms."

"Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living," the governor said.

Glickman told reporters at a brief press conference after the forum that he assumes the President and legislators who champion tobacco will accept nothing less than a continuation of the program for farmers who want to keep growing tobacco, and a reasonable price for those who want out.

The pending legislation would do just that, buying quotas from those who want to opt out at $8 a [illegible] over 10 years.

Lexington Herald-Leader
Saturday, April 4, 1998

Finding facts firsthand about family farms

PHOTOS BY FRANK ANDERSON/STAFF

Agriculture Secretary Paul Glickman, with hand outstretched, addressed about 25 Woodford County tobacco farmers yesterday during a visit to the farm of Robert Richardson. Later, he held a USDA forum in a tobacco warehouse in Lexington.

U.S. agriculture secretary visits farms, hosts forum

By Kit Wagar
HERALD-LEADER STAFF WRITER

U.S. Agriculture Secretary Dan Glickman came to Central Kentucky yesterday to take the pulse of American agriculture, and farmers let him know that Kentucky lives and dies by tobacco price supports.

"We are not here to save tobacco," said Owensboro tobacco grower Rod Kuegel. "We are here to save the family farm. But you can't do one without the other in Kentucky."

Kuegel's comments set the tone for yesterday's farm forum, the first of seven such meetings Glickman is holding across the country to see firsthand how new federal farm policies are working. Sitting in a warehouse filled with the pungent aroma of cut tobacco, officials could not have gotten away from tobacco if they had tried.

Kuegel, who is president of the Burley Tobacco Growers Cooperative Association, told Glickman and other federal agriculture officials that some farms in Kentucky have only 5 to 10 tillable acres.

"It's tobacco that makes them viable," Kuegel said.

Glickman said he understood the role that tobacco price supports had played in creating a nearly unique culture of small farms in Kentucky. He promised that tobacco farmers would not be left out of a national tobacco settlement.

"The president has said that a fair and reasonable settlement for tobacco farmers is a linchpin of any settlement," Glickman said.

But he declined to endorse a specific plan to protect farmers, saying only that the proposal by Democratic Sen. Wendell Ford of

See GLICKMAN, B2

Gov. Paul Patton, left, listened to Glickman speak at the USDA forum yesterday.

Lexington Herald-Leader
Saturday, April 4, 1998

GLICKMAN: Talk covers tobacco, hemp, ostriches

From Page B1

Kentucky was a positive step. The administration, he said, wants to see a consensus in Congress before endorsing a specific plan.

Ford has proposed a plan that would allow farmers to sell their tobacco quota to the government for $8 a pound, paid over 10 years. Growers who lease quota could receive $4 a pound. Farmers who chose to continue growing tobacco would still participate in a price-support system.

The farm forum, which attracted several hundred growers from across Kentucky, included questions that ran the gamut from ostrich farming to hemp growing.

Glickman said he was trying to end the Agriculture Department's traditional bias toward large operations by emphasizing research into ways that small and medium-size farms can be competitive.

He said he was concerned about overconcentration in the beef processing industry, where four firms have 80 percent of the market. In 1980, that portion of the market was shared by 12 firms. He said he is seeking tougher enforcement of antitrust laws to stop monopolistic practices.

He assured growers that the controversial proposed standards for organic foods would be changed. When the standards were issued for comment, he said, they generated some 15,000 responses, more than any other issue in modern history.

The proposed standards included many practices that organic farmers considered heresy. At $4 billion a year, the organic foods industry can no longer be considered a fringe business, he said.

One farmer asked why the government was not moving to help the U.S. hemp industry. Hemp is legal in Germany and Canada, which is providing $50 million in assistance to get the hemp industry up and running.

"That issue is to some extent above my pay grade," Glickman said, prompting laughter. He acknowledged that farmers in other states also had inquired about the possibility of growing hemp, a cousin of marijuana that lacks THC, the substance that causes smokers to get high.

He said the future of hemp is tied up in anti-marijuana issues, so the Agriculture Department has made no decision on whether hemp promotion would be a good idea.

"All I can tell you is: Keep the information flow coming," he said.

Earlier in the day, Glickman visited the Woodford County tobacco farm of Robert Richardson. He told local growers they need to make their voices heard. All of agriculture faces a tough political situation, he said, because farmers make up only 2 percent of the population.

Under new farm policies, which phased out most price supports, the ultimate safety net is export markets, Glickman said. The Agriculture Department was trying to ensure that farm credit remained plentiful and that barriers to U.S. farm exports were eliminated. Farming, he said, is a growth industry because the world's population is exploding and people everywhere want U.S. farm products.

John Richardson, who raises cattle and with his brother grows 120 acres of tobacco, was unimpressed.

"It was about the same thing they say all the time," Richardson said.

"They talk more about grain farmers than tobacco farmers. It gets them off the subject of tobacco."

TOBACCO IN KENTUCKY

ISSUE:

The majority of burley tobacco producers in Kentucky favor continuation of the federal price support program.

IMPORTANCE:

Burley tobacco is the primary crop in the state, with revenues of more than $1 Billion in 1997, on the 696,485,163 pounds grown. Producers are happy with the federal price support program, and are worried about the future of the program.

TALKING POINTS:

- Tobacco sales account for nearly 30 percent of the total crop revenue for the state. Nearly $4 billion is generated annually from the production and sale of tobacco.
- The 1992 Ag Census listed more than 59,373 tobacco producing farms, with more than 268,140 acres planted to tobacco.
- Kentucky tobacco farms average 4.5 acres planted to tobacco, far lower than many surrounding states. Alabama averages 23.9 acres of tobacco per farm and South Carolina has an average of 25.5 acres per farm.
- Of the 151,668 tobacco quotas and allotments in 1996, 134,424 were for burley tobacco.
- In 1996, 167,695 owners were listed for burley quotas
98.7 percent were listed as white
1.2 percent as black
.1 percent as other
66.7 percent male
31.7 percent female
1.6 percent corporate entity.

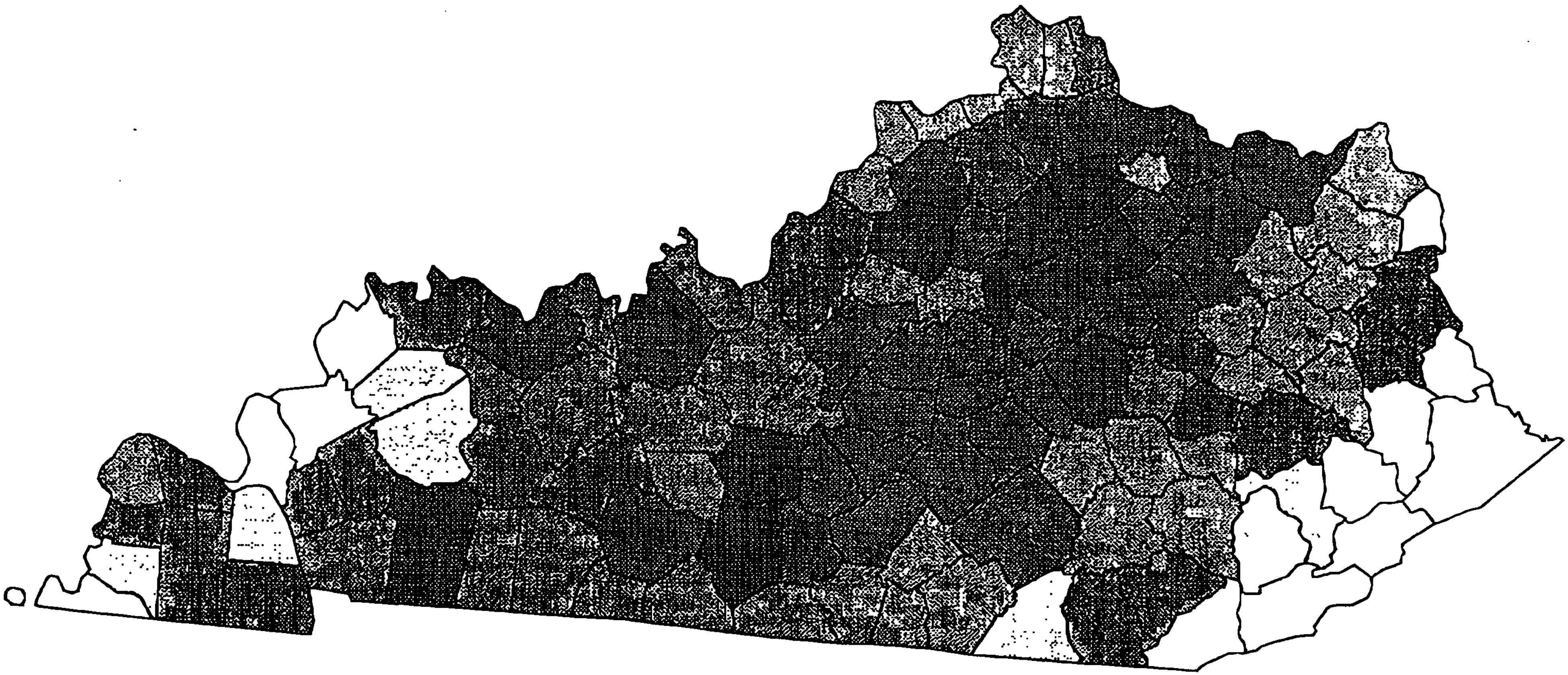
BACKGROUND:

Large farms dominate Kentucky's burley tobacco business. Last year 125,000 Kentucky farms sold 474 million pounds of burley tobacco, but 70 percent of the total weight came from just 26 percent of the farms. Increasingly, small quota holders have leased or rented their rights to large farms. Some very large quota holders, such as the horse farms near Lexington, also lease out their quotas. Up to a third of the tobacco grown in Kentucky is grown by someone besides the quota owner. There is much support for the LEAF Act proposed by Senator Wendell Ford.

Kentucky Burley Tobacco Farms	Estimate (1997 Burley Tobacco)		
	Number of Farms	Number of Pounds	Pounds per Farm
Grows ONLY Farm Quota *(Does not lease in or out)*	27,183	122,137,986	4,493
Grows Farm Quota PLUS Leases in Pounds	24,340	196,015,410	8,053
Grows ONLY Farm Quota *(Quota Raised by Tenants)*	19,761	105,046,575	5,316
Grows Farm Quota PLUS Leases in Pounds *(Quota Raised by Tenants)*	15,843	133,538,504	8,429
Leases Away Entire Quota	57,544	139,746,688	2,429

CONTACT: Verner Grise, Tobacco and Peanuts Division (Office) 202-720-5291; (Home) 703-354-1887 or Sue Austin, Chief Tobacco Division, State Office, (606) 224-7601.

1997 Burley Quota - Kentucky



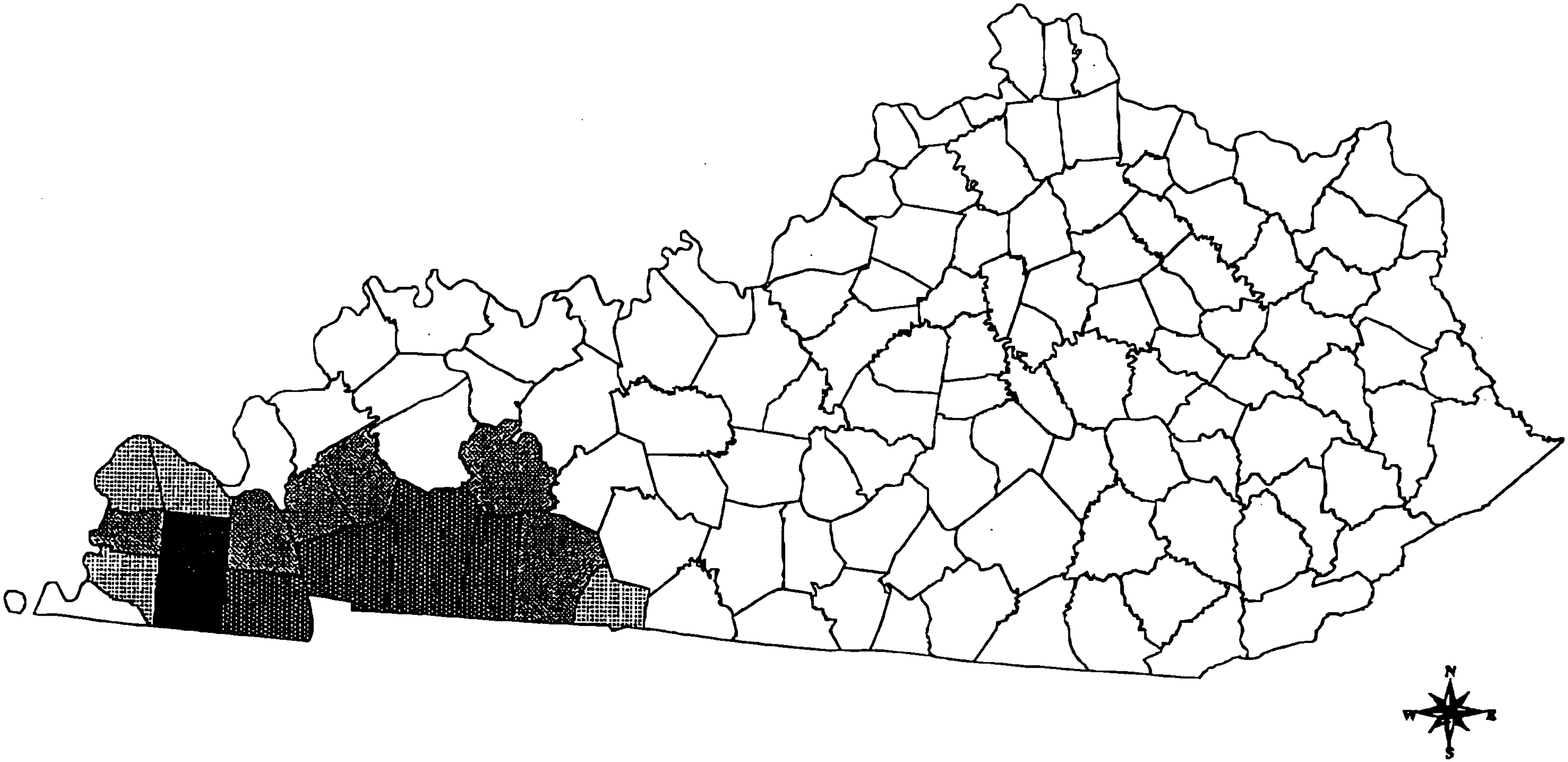
KY Quota (Pounds)
- Up to 50,000 Lbs
- 50,001 - 100,000 Lbs
- 100,001 - 500,000 Lbs
- 500,001 - 1,500,000
- 1,500,001 - 5,000,000 Lbs
- 5,000,001 - 10,000,000 Lbs
- 10,000,001 and over
- No Burley Quota

Prepared by
Farm Service Agency

March 6, 1998

USDA

1997 Fire-Cured (Types 22-24) Tobacco Pounds
Kentucky



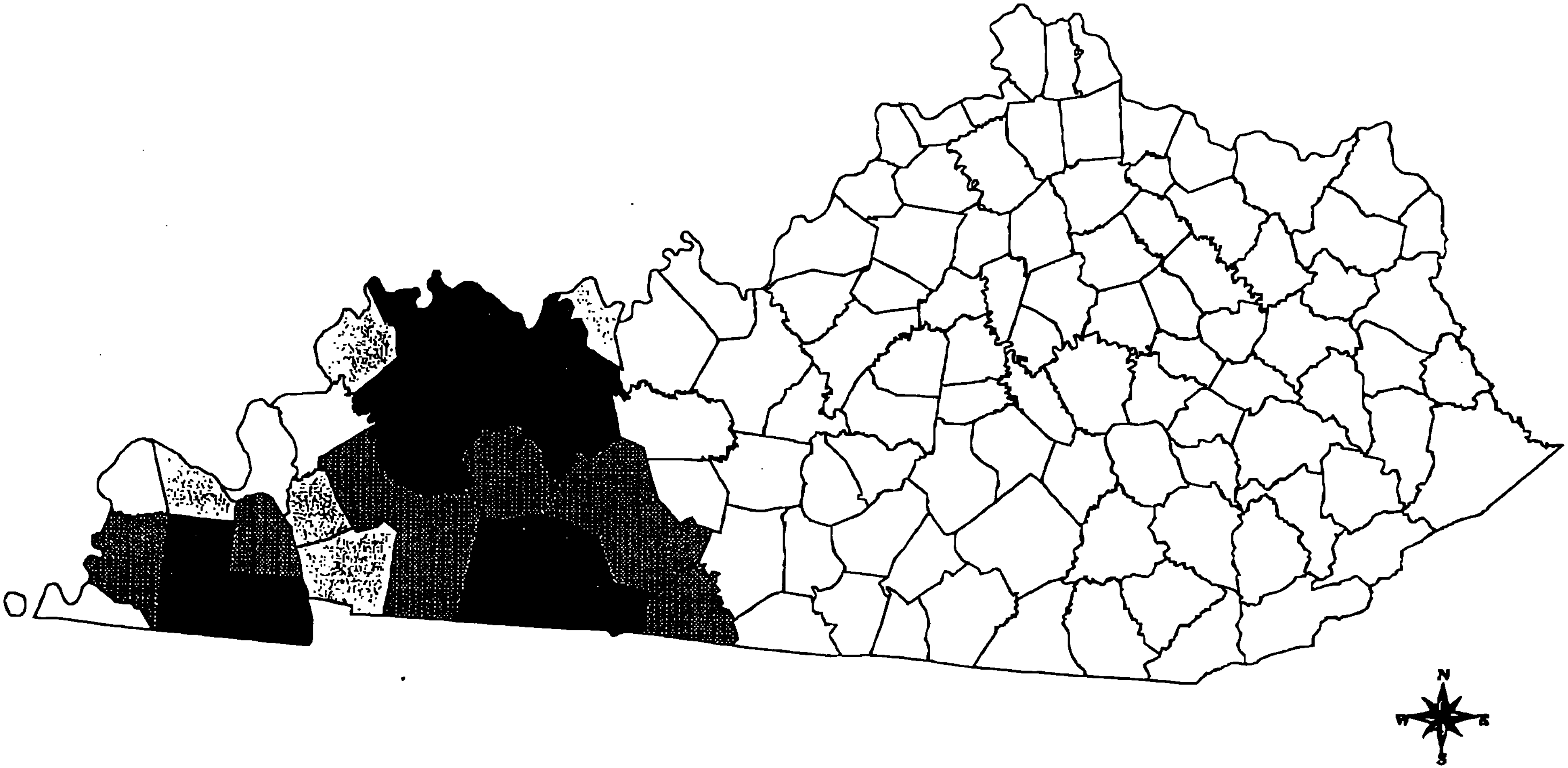
Ky Fire Cured (Types 22-24)

- Up to 20,000 lbs
- 20,001 to 300,000 lbs
- 300,0001 to 1,000,000 lbs
- 1,000,001 to 5,000,000 lbs
- Over 5,000,001 lbs
- No Fire-Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

Prepared by
Farm Service Agency

1997 Dark Air-Cured (Types 35-36) Tobacco Pounds
Kentucky



Ky Dark-Air Cured (Types 35-36)
- Up to 5,000 lbs
- 5,001 -50,000 lbs
- 50,001 - 150,000 lbs
- 150,001 - 1,000,000 lbs
- Over 1,000,001 lbs
- No Dark Air Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by
Farm Service Agency

THE TOBACCO PROGRAM

ISSUE:

Most tobacco produced in the United States is under the Federal price support-production control program. The tobacco program operates under permanent legislation, and does not have to be renewed by 5- or 7- year Farm Bills.

IMPORTANCE:

Tobacco provides $3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

TALKING POINTS:

- Producers of different kinds of tobacco vote in triennial referenda to determine if they wish to continue the Federal tobacco program for their kind of tobacco.

- In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program, as they have for many years.

- In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.
- Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

BACKGROUND:

In spite of the controversy surrounding the Federal program, tobacco-state congressmen were able to obtain permanent legislation. However, numerous changes have been made to the program via amendments to Farm Bills or other legislation. The most notable is the No-Net-Cost Tobacco Program Act of 1982, which requires the tobacco price support program to operate at no-net-cost to taxpayers. This program is currently under additional criticism as the Congress acts on the tobacco settlement.

SUMMARY:

The Federal tobacco program is under permanent legislation, which has provided production and income stability for tobacco producers since the late 1930's. Tobacco is a key source of income for several states, especially Kentucky.

CONTACT: Verner Grise, Tobacco and Peanuts Division, FSA 202-720-5291; home 703-354-1887

FARM AND FOREIGN AGRICULTURAL SERVICES

FARMER PORTION OF THE NATIONAL TOBACCO SETTLEMENT

ISSUE:

Outline the farmer portion of the National tobacco settlement for the Secretary's visits to Kentucky and Florida.

BACKGROUND:

The proposed National tobacco settlement initially did not include tobacco quota owners and producers. However, in recent months Congressional and farm leadership groups have fashioned various proposals to include compensation for tobacco quota holders and producers. Although the Administration has not introduced a specific bill to address the tobacco farmer issue as part of any tobacco settlement, it strongly supports the concept of compensation to quota owners, producers, and communities and is amenable to special programs for limited resource farmers.

The tobacco settlement will have wide reaching impacts on all segments of the tobacco industry, but a disproportionate impact on small and minority tobacco quota owners and producers. Of the 338,000 individual quotas, about 66 percent would be considered small operations. Five percent of all quotas are owned by minorities, the majority of which are small.

If a National tobacco settlement is reached, cigarette prices would increase sharply because of manufacturer payments or increased taxes. In turn, tobacco production would decline with a concomitant reduction in income. Limited resource farms would be especially vulnerable because of their already low level of income and significant dependence on tobacco as a source of family income.

TALKING POINTS:

Several bills have been introduced to compensate tobacco quota holders and producers for the reduced income resulting from a tobacco settlement. The three bills that received the most attention were the Ford Bill, the Lugar Bill, and the Robb Bill. The Ford Bill would continue the current program with payments for lost production, the Lugar Bill would buy out quotas and eliminate the current program, and the Robb Bill would shift the program from a Federal to privatized program. The farm leadership has adopted the Ford Bill as a model and incorporated some provisions of the Robb Bill, especially for flue-cured tobacco.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

BRIEFING MEMORANDUM FOR THE SECRETARY

THROUGH: August Schumacher, Jr.
Under Secretary for Farm and
Foreign Agricultural Services

FROM: Keith Kelly
Administrator

SUBJECT: Update on the McCain Bill - National Tobacco Settlement

PURPOSE OF BRIEFING:

To provide an update of the Senate Commerce Committee's markup of the McCain Bill (S.1415).

BACKGROUND:

The Senate Commerce Committee approved S.1415 by a 19 to 1 vote and Senator McCain stated that he hoped the Bill would be before the full Senate before Memorial Day. A few modifications were made during the markup, but the thrust of the Bill remained intact.

TALKING POINTS:

Based on the best information available, the following portions of the McCain Bill have been modified or reaffirmed:

- **Total Cost to Industry/Cigarette Price Increase -**
  - » Total cost to tobacco manufacturers over the 25 year period are projected to be $506 billion.
  - » An increase in cigarette prices of $1.10 per pack over five years was anticipated. However, in the markup of the Bill, more than half --65 cents per pack would become effective in 1999.
  - » The 65 cent increase would result in a more abrupt drop in cigarette consumption and thus demand for U.S. grown leaf than originally anticipated.

» Consumption would fall nine to ten percent because of the 65 cent cigarette price increase. Demand for U.S. flue-cured and burley would decline by a similar amount or even more as manufacturers attempted to trim costs by using greater quantities of cheaper imported leaf.

- **Domestic Price Support Levels** - Under certain conditions for crop years 1999 and 2000, the Secretary will have more flexibility in setting the flue-cured tobacco price support level than under current legislation.

- **Other Provisions of the McCain Bill** -

  » Civil liabilities damages capped at $6.5 billion per year.

  » Marketing and advertising would be curtailed considerably.

  » Goals of reducing youth smoking of 15 percent in three years and 45 percent in 10 years were established.

  » The Food and Drug Administration would be given broad latitude in regulating tobacco products.

- See the Briefing Memorandum entitled "Farmer Portion of the National Tobacco Settlement" for additional provisions affecting farmers.

The provisions of the Ford Bill are incorporated as the farmer portion of the McCain Bill (S.1415), the bill currently being considered as the vehicle for implementing the National tobacco settlement. Senate markup for the McCain Bill is scheduled for April 1 and 2.

As we understand the current compromise, the following are the main points included in the farmer portion of the McCain Bill:

- **Payments to Farmers for:**

  - » **Burley, fire-cured, and dark air-cured tobaccos -**

    - All quota holders given one-time option to relinquish quota and get $8.00 per pound over 10 years or less.

    - Remaining quota holders get payments to the extent quota falls below the base level equal to $4 per pound for every pound quota drops, with a lifetime limit of $8 per pound times the entire base quota.

    - Quota lessees and tenants get (1) option to acquire relinquished quota and (2) payments to the extent quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the base quota.

  - » **Flue-cured tobacco -**

    - Quota holders relinquish quota and get $8 per pound over 10 years or less.

    - Active quota holders will be issued permits limiting right to produce future crops.

    - Quota renters and tenants get (1) permits limiting right to produce future crops and (2) payments to the extent national quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire base quota.

- **Base Quota Years** - Years upon which payments will be made are the average of 1996 through 1998 crop years.

  - » Burley - base quota 657 million pounds.

  - » Flue-cured - base quota 885 million pounds.

- **Costs Incidental to the Tobacco Program** - All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary.

- **Farmer Opportunity Grants** - Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.

- **Benefits for Displaced Workers** - Up to $25 million annually for 10 years will be made available to provide benefits for displaced workers program. The program is administered by the Secretary of Labor.

- **Tobacco Community Economic Development Grants** - Block grants to tobacco States will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to auction warehouse owners.

- **Total Costs** - $28.5 billion total over 25 years, $2.1 billion per year for the first ten years, $500 million for years 11-25.

  » Annual payments to tobacco farmers set at $1.65 billion for up to ten years.

  » Economic development grants set at $375 million minus administrative costs for first ten years. Six percent of economic development funding is earmarked for auction warehouse owners for ten years.

NEWS RELEASE
WENDELL H. FORD of KENTUCKY
UNITED STATES SENATE

173A Russell Senate Office Building
Washington, D.C. 20510

FOR IMMEDIATE RELEASE
March 27, 1998

Contact: Mark L. Day
(202) 224-1156

FORD MAKES MODIFICATIONS TO STRENGTHEN "LEAF ACT"; EXPECTS PROPOSAL TO BE IN PACKAGE FOR SENATE DEBATE

WASHINGTON-- Bringing together burley and flue-cured growers, U.S. Senator Wendell Ford (D-KY) today said he has made some modifications to his "LEAF Act" that will "solidify and broaden the support" necessary to have Congress pass the proposal.

With the Senate Commerce Committee set to begin marking-up the proposed tobacco settlement legislation next week, Ford said it was imperative to have the strongest broad-based farmer protection package ready for inclusion in the final bill.

Ford noted that he fully expects the Committee to include his proposal in legislation that will be debated on the Senate floor in the coming weeks.

"These modifications to the LEAF Act broaden and strengthen our support while still holding to the principles we've always fought for: maintaining the quota program, fair compensation for lost quota, and providing a safety net if the program is threatened or eliminated in the future, all while remaining fiscally realistic," Ford said.

The modified LEAF Act incorporates some changes in the flue-cured program as advocated by Senator Charles Robb (D-VA) and other flue-cured representatives, such as transferring quotas from inactive quota holders to actual producers.

For burley growers, the LEAF Act would allow a quota holder to relinquish their quota in exchange for $8/pound, payable over a period of ten years or less. Unlike a proposal by Senator Richard Lugar (R-IN), that quota could then be reallocated to a farm owned by a quota lessee or tenant if they were the principal producer of the tobacco.

Another modification would specifically earmark a portion of economic development funding for tobacco warehouse owners.

"I've listened very hard over the last several weeks to growers and have tried to incorporate every constructive idea, so long as it didn't run into unrealistic funding requirements. We've worked day and night to try and protect our farmers and their communities, while producing a package that can win Congressional approval. I think this is that package, and I'm going to do all I can to see that it becomes law," Ford said.

In addition to Ford, Senators Ernest Hollings (D-SC) and Bill Frist (R-TN), the other two tobacco-state members of the Senate Commerce Committee, are supporting the legislation.

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Back to my homepage.

Secretary Glickman Visits Kentucky - April 3, 1998

Secretary Dan Glickman during his visit to Central Kentucky on Friday, April 3, 1998:

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- attended a Farm Forum at Gentry Tobacco Warehouse in Lexington with 600 to 700 farmers, government officials and agribusiness leaders.

Farm Forum - April 3, 1998 - Lexington, Kentucky

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Continued on next page

Secretary Glickman Visits Kentucky - April 3, 1998

Farm Forum - April 3, 1998, *Continued*

#1 Issue *Continued*

Picking up on the theme, Governor Patton urged that when dealing with tobacco and other farm issues, "take into account the cultural value of small farms. Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living." *(The Courier-Journal*, April 4, 1998) Governor Patton announced at the Forum the creation of a Commission on Family Farms to focus on implementation of a federal tobacco settlement.

General Mood at the Forum

The general mood of those attending the Farm Forum was upbeat. However, some tobacco farmers feel USDA focuses on grain farmers and forgets the small tobacco farmer. Farmers are concerned that "they are setting on a fence (with the pending tobacco settlement) and they do not know which direction they will fall". One farmer expressed frustration that USDA does not provide crop insurance on "new" crops (crops not traditionally grown commercially in the area); however, the push is for tobacco farmers to diversify.

Hottest Questions

- **TOBACCO**: Will the administration support continuation of the federal supply management program for tobacco, with no costs to the tax payer (i.e. tobacco settlement)?
- **HEMP**: Why is the government not moving to help the U.S. hemp industry (i.e. conflict between agriculture and the anti-marijuana issue)?
- **$ TO CORPORATIONS:** Why USDA gave $7.1 million dollars to one corporation? (Federal Empowerment Zone - Clinton County: USDA grant to the city of Albany to expand their water treatment plant to allow Cagle, Inc. to build a 275,000 square foot chicken processing plant.)

Continued on next page

Secretary Glickman Visits Kentucky - April 3, 1998

Dallas Smith Meeting with African American Farmers
April 2

Deputy Under Secretary Dallas Smith met with 7 African American farmers and government officials in Brandenburg, Kentucky on April 2, concerning the pending tobacco settlement legislation.

Hottest Question: Will we be discriminated in the buyout, like before?

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Price-support program called crucial safety net

PHOTOS BY MICHAEL HAYMAN, THE COURIER-JOURNAL
Robert Richardson of Versailles, right, introduced U.S. Secretary of Agriculture Dan Glickman to other farmers.

Agriculture chief says president won't abandon tobacco farmers

Richardson and Glickman examined weather-damaged leaf from last year's tobacco crop.

By JOE WARD
The Courier-Journal

LEXINGTON, Ky. — U.S. Secretary of Agriculture Dan Glickman told farmers gathered in a tobacco warehouse in Lexington yesterday that the federal tobacco program has served as a safety net for the family farm — and that the stability it provides must be preserved.

He pledged that President Clinton will sign no tobacco bill that doesn't protect the farmers.

It was what the farmers wanted to hear.

At the warehouse forum, attended by 600 to 700 farmers and government officials and employees, and during an earlier visit by Glickman to a Woodford County tobacco farm, the main thrust of farmer commentary was the same: Kentucky farmers need the tobacco price-stability program.

"We're not here to save tobacco," Daviess County farmer and Burley Co-op president Rod Kuegel said at the forum.

"We're here to save the family farm. What people need to realize is that you can't do one without the other here in Kentucky."

Earlier, as Glickman talked with farmers on a grassy slope on Robert and John Richardson's farm on Steele Road, Woodford County farmer Rusty Thompson told him the furor over tobacco in the Congress and the news media is wearing on tobacco farmers.

"As tobacco farmers, we're getting shot all to pieces every day," Thompson said.

"We've played by the rules all of our lives, and so did my father and grandfather," and don't believe punishment is in order, he said.

Glickman told the farmers that the aim of tobacco legislation pending in Congress is to reduce smoking among the nation's young people, which he said is a worthy goal.

But he said it also is important that the legislation protect the "tens of thousands of farmers" who have been the beneficiaries of the federal tobacco program — which he said has worked better over several decades than most other federal agriculture programs.

"We need a solution that provides stability and is fair to the farmers and the small communities," he said.

Congress is considering a massive tobacco bill that would extract several hundred billion dollars from the tobacco industry, and in exchange provide them with some limited protection against lawsuits from parties alleging

See GLICKMAN
Page 7, col. 1, this section

THE COURIER-JOURNAL
SATURDAY,
APRIL 4, 1998

Glickman reassures growers

Continued from Page F 1

they were injured by smoking.

The legislation has been in the works since last June, when tobacco companies and attorneys general for 40 states worked out a tentative agreement involving payment of $368 billion by the industry and curbs on advertising.

Tobacco farmers have long believed that any time Congress considers any tobacco legislation, the federal tobacco program that keeps their prices stable is in jeopardy. The program long has been a target of anti-smoking forces.

The pending legislation also holds the potential of drastically reducing the amount of tobacco consumed, which could seriously cut farm income.

Farmers have had difficulty deciding among themselves what they should seek from Congress. Some favor a buyout that would give farmers who have depended on the program enough money to move to other crops.

Others say tobacco will be grown as long as it is legal, and they want to keep growing it, but they need the program to do it.

The program basically keeps prices up by limiting supply through quotas. The government finds out each year how much tobacco the companies expect to buy and how much can be sold overseas, and then divvies up the right to grow it among the farmers.

That way, the farmers don't overproduce and drive prices down. A price-support mechanism that involves government loans makes sure the farmers get an acceptable price even when the companies buy less than they said they would.

Kuegel and others — including U.S. Sen. Wendell Ford of Kentucky, who long has been tobacco's premiere champion in Congress — say the program enables families to make a living on much smaller farms than would otherwise support them.

Picking up that theme at yesterday's forum, Kentucky Gov. Paul Patton urged that Glickman, when dealing with tobacco and other farm issues, "take into account the cultural value of small farms."

"Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living," the governor said.

Glickman told reporters at a brief press conference after the forum that he assumes the President and legislators who champion tobacco will accept nothing less than a continuation of the program for farmers who want to keep growing tobacco, and a reasonable price for those who want out.

The pending legislation would do just that, buying quotas from those who want to opt out at $8 a pound over 10 years.

Lexington Herald-Leader
Saturday, April 4, 1998

Finding facts firsthand about family farms

PHOTOS BY FRANK ANDERSON/STAFF

Agriculture Secretary Paul Glickman, with hand outstretched, addressed about 25 Woodford County tobacco farmers yesterday, during a visit to the farm of Robert Richardson. Later, he held a USDA forum in a tobacco warehouse in Lexington.

U.S. agriculture secretary visits farms, hosts forum

By Kit Wagar
HERALD-LEADER STAFF WRITER

U.S. Agriculture Secretary Dan Glickman came to Central Kentucky yesterday to take the pulse of American agriculture, and farmers let him know that Kentucky lives and dies by tobacco price supports.

"We are not here to save tobacco," said Owensboro tobacco grower Rod Kuegel. "We are here to save the family farm. But you can't do one without the other in Kentucky."

Kuegel's comments set the tone for yesterday's farm forum, the first of seven such meetings Glickman is holding across the country to see firsthand how new federal farm policies are working. Sitting in a warehouse filled with the pungent aroma of cut tobacco, officials could not have gotten away from tobacco if they had tried.

Kuegel, who is president of the Burley Tobacco Growers Cooperative Association, told Glickman and other federal agriculture officials that some farms in Kentucky have only 5 to 10 tillable acres.

"It's tobacco that makes them viable," Kuegel said.

Glickman said he understood the role that tobacco price supports had played in creating a nearly unique culture of small farms in Kentucky. He promised that tobacco farmers would not be left out of a national tobacco settlement.

"The president has said that a fair and reasonable settlement for tobacco farmers is a linchpin of any settlement," Glickman said.

But he declined to endorse a specific plan to protect farmers, saying only that the proposal by Democratic Sen. Wendell Ford of

See GLICKMAN, B2

Gov. Paul Patton, left, listened to Glickman speak at the USDA forum yesterday.

Lexington Herald-Leader
Saturday, April 4, 1998

GLICKMAN: Talk covers tobacco, hemp, ostriches

From Page B1

Kentucky was a positive step. The administration, he said, wants to see a consensus in Congress before endorsing a specific plan.

Ford has proposed a plan that would allow farmers to sell their tobacco quota to the government for $8 a pound, paid over 10 years. Growers who lease quota could receive $4 a pound. Farmers who chose to continue growing tobacco would still participate in a price-support system.

The farm forum, which attracted several hundred growers from across Kentucky, included questions that ran the gamut from ostrich farming to hemp growing.

Glickman said he was trying to end the Agriculture Department's traditional bias toward large operations by emphasizing research into ways that small and medium-size farms can be competitive.

He said he was concerned about overconcentration in the beef processing industry, where four firms have 80 percent of the market. In 1980, that portion of the market was shared by 12 firms. He said he is seeking tougher enforcement of antitrust laws to stop monopolistic practices.

He assured growers that the controversial proposed standards for organic foods would be changed. When the standards were issued for comment, he said, they generated some 15,000 responses, more than any other issue in modern history.

The proposed standards included many practices that organic farmers considered heresy. At $4 billion a year, the organic foods industry can no longer be considered a fringe business, he said.

One farmer asked why the government was not moving to help the U.S. hemp industry. Hemp is legal in Germany and Canada, which is providing $50 million in assistance to get the hemp industry up and running.

"That issue is to some extent above my pay grade," Glickman said, prompting laughter. He acknowledged that farmers in other states also had inquired about the possibility of growing hemp, a cousin of marijuana that lacks THC, the substance that causes smokers to get high.

He said the future of hemp is tied up in anti-marijuana issues, so the Agriculture Department has made no decision on whether hemp promotion would be a good idea.

"All I can tell you is: Keep the information flow coming," he said.

Earlier in the day, Glickman visited the Woodford County tobacco farm of Robert Richardson. He told local growers they need to make their voices heard. All of agriculture faces a tough political situation, he said, because farmers make up only 2 percent of the population.

Under new farm policies, which phased out most price supports, the ultimate safety net is export markets, Glickman said. The Agriculture Department was trying to ensure that farm credit remained plentiful and that barriers to U.S. farm exports were eliminated. Farming, he said, is a growth industry because the world's population is exploding and people everywhere want U.S. farm products.

John Richardson, who raises cattle and with his brother grows 120 acres of tobacco, was unimpressed.

"It was about the same thing they say all the time," Richardson said.

"They talk more about grain farmers than tobacco farmers. It gets them off the subject of tobacco."

TOBACCO IN KENTUCKY

ISSUE:

The majority of burley tobacco producers in Kentucky favor continuation of the federal price support program.

IMPORTANCE:

Burley tobacco is the primary crop in the state, with revenues of more than $1 Billion in 1997, on the 696,485,163 pounds grown. Producers are happy with the federal price support program, and are worried about the future of the program.

TALKING POINTS:

- Tobacco sales account for nearly 30 percent of the total crop revenue for the state. Nearly $4 billion is generated annually from the production and sale of tobacco.
- The 1992 Ag Census listed more than 59,373 tobacco producing farms, with more than 268,140 acres planted to tobacco.
- Kentucky tobacco farms average 4.5 acres planted to tobacco, far lower than many surrounding states. Alabama averages 23.9 acres of tobacco per farm and South Carolina has an average of 25.5 acres per farm.
- Of the 151,668 tobacco quotas and allotments in 1996, 134,424 were for burley tobacco.
- In 1996, 167,695 owners were listed for burley quotas
  98.7 percent were listed as white
  1.2 percent as black
  .1 percent as other
  66.7 percent male
  31.7 percent female
  1.6 percent corporate entity.

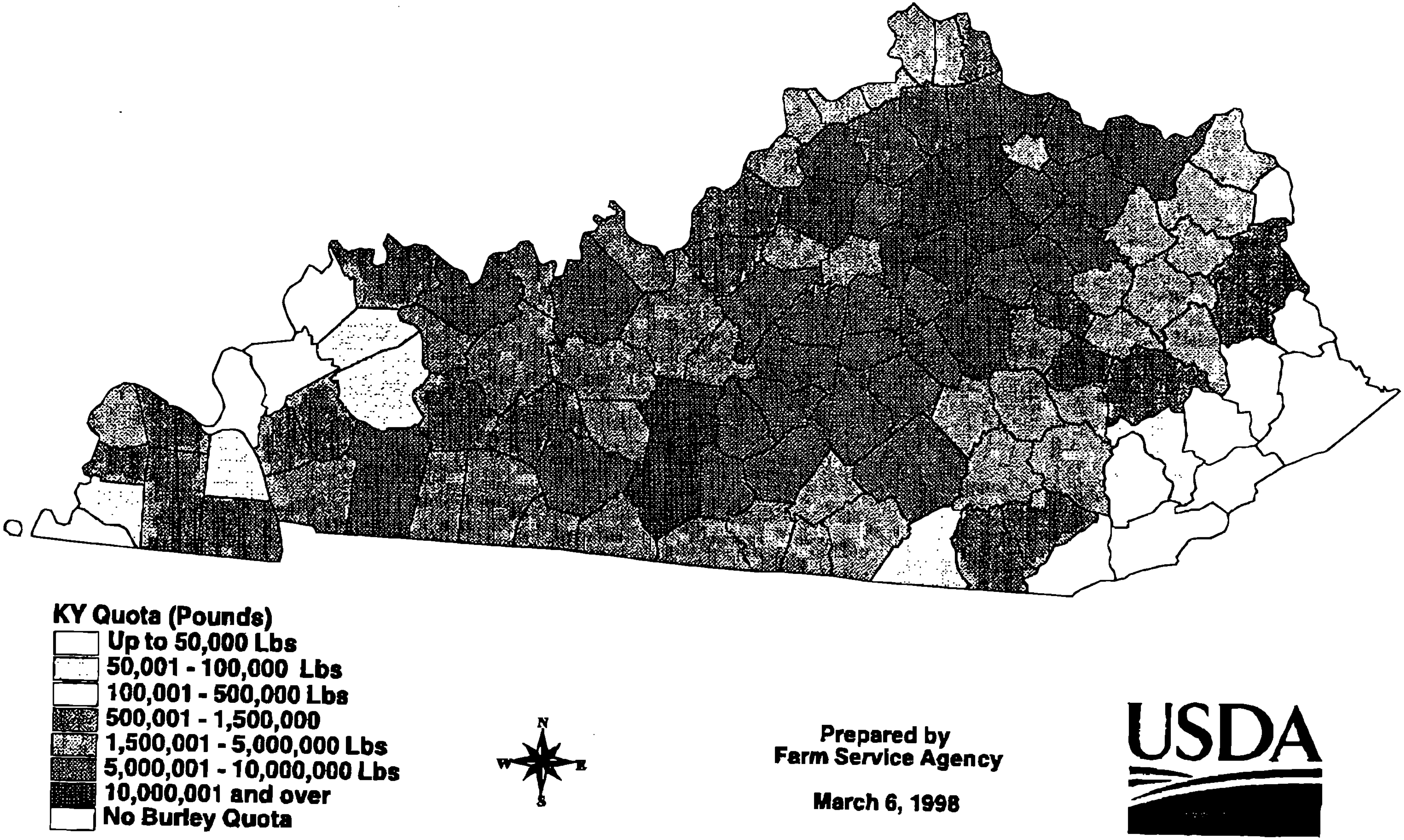
BACKGROUND:

Large farms dominate Kentucky's burley tobacco business. Last year 125,000 Kentucky farms sold 474 million pounds of burley tobacco, but 70 percent of the total weight came from just 26 percent of the farms. Increasingly, small quota holders have leased or rented their rights to large farms. Some very large quota holders, such as the horse farms near Lexington, also lease out their quotas. Up to a third of the tobacco grown in Kentucky is grown by someone besides the quota owner. There is much support for the LEAF Act proposed by Senator Wendell Ford.

Kentucky Burley Tobacco Farms	Estimate (1997 Burley Tobacco)		
	Number of Farms	Number of Pounds	Pounds per Farm
Grows ONLY Farm Quota *(Does not lease in or out)*	27,183	122,137,986	4,493
Grows Farm Quota PLUS Leases in Pounds	24,340	196,015,410	8,053
Grows ONLY Farm Quota *(Quota Raised by Tenants)*	19,761	105,046,575	5,316
Grows Farm Quota PLUS Leases in Pounds *(Quota Raised by Tenants)*	15,843	133,538,504	8,429
Leases Away Entire Quota	57,544	139,746,688	2,429

CONTACT: Verner Grise, Tobacco and Peanuts Division (Office) 202-720-5291; (Home) 703-354-1887 or Sue Austin, Chief Tobacco Division, State Office, (606) 224-7601.

1997 Burley Quota - Kentucky

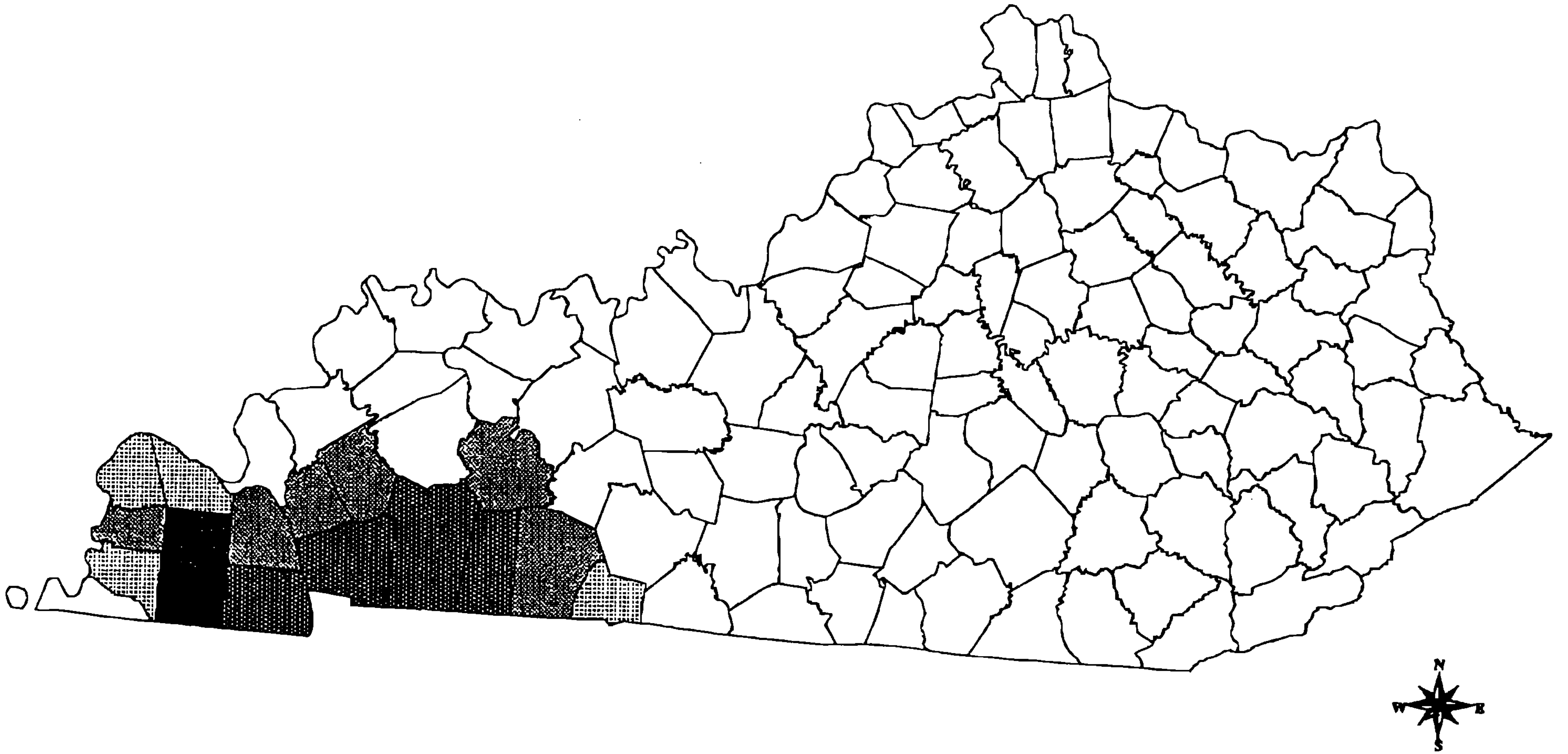


Prepared by
Farm Service Agency

March 6, 1998

USDA

1997 Fire-Cured (Types 22-24) Tobacco Pounds
Kentucky



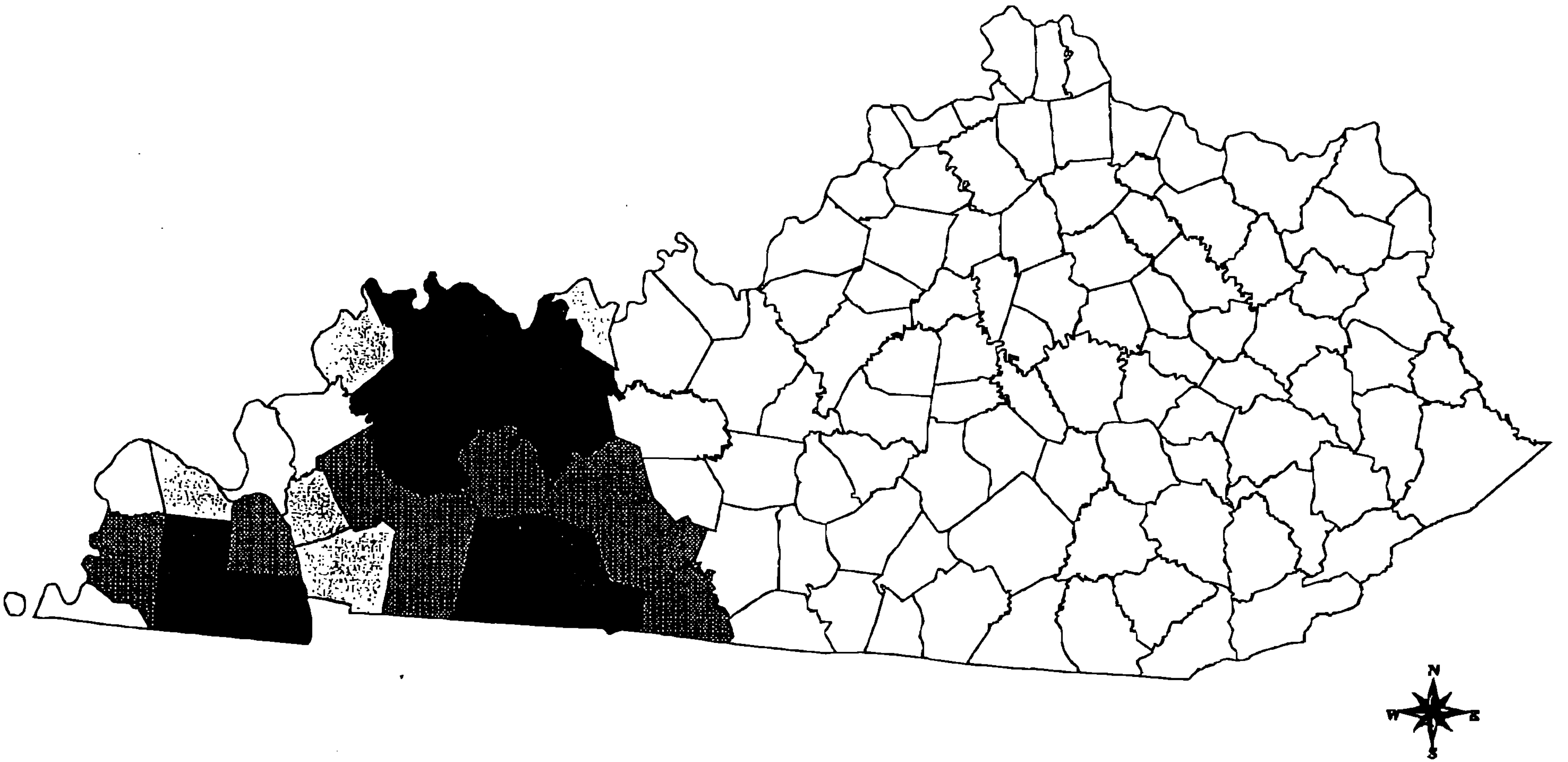
Ky Fire Cured (Types 22-24)
- Up to 20,000 lbs
- 20,001 to 300,000 lbs
- 300,0001 to 1,000,000 lbs
- 1,000,001 to 5,000,000 lbs
- Over 5,000,001 lbs
- No Fire-Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by
Farm Service Agency
March 30, 1998

1997 Dark Air-Cured (Types 35-36) Tobacco Pounds
Kentucky



Ky Dark-Air Cured (Types 35-36)
- Up to 5,000 lbs
- 5,001 -50,000 lbs
- 50,001 - 150,000 lbs
- 150,001 - 1,000,000 lbs
- Over 1,000,001 lbs
- No Dark Air Cured

Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

USDA

Prepared by
Farm Service Agency

THE TOBACCO PROGRAM

ISSUE:

Most tobacco produced in the United States is under the Federal price support-production control program. The tobacco program operates under permanent legislation, and does not have to be renewed by 5- or 7- year Farm Bills.

IMPORTANCE:

Tobacco provides $3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

TALKING POINTS:

- Producers of different kinds of tobacco vote in triennial referenda to determine if they wish to continue the Federal tobacco program for their kind of tobacco.

- In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program, as they have for many years.

- In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.
- Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over $800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

BACKGROUND:

In spite of the controversy surrounding the Federal program, tobacco-state congressmen were able to obtain permanent legislation. However, numerous changes have been made to the program via amendments to Farm Bills or other legislation. The most notable is the No-Net-Cost Tobacco Program Act of 1982, which requires the tobacco price support program to operate at no-net-cost to taxpayers. This program is currently under additional criticism as the Congress acts on the tobacco settlement.

SUMMARY:

The Federal tobacco program is under permanent legislation, which has provided production and income stability for tobacco producers since the late 1930's. Tobacco is a key source of income for several states, especially Kentucky.

CONTACT: Verner Grise, Tobacco and Peanuts Division, FSA 202-720-5291; home 703-354-1887

FARM AND FOREIGN AGRICULTURAL SERVICES

FARMER PORTION OF THE NATIONAL TOBACCO SETTLEMENT

ISSUE:

Outline the farmer portion of the National tobacco settlement for the Secretary's visits to Kentucky and Florida.

BACKGROUND:

The proposed National tobacco settlement initially did not include tobacco quota owners and producers. However, in recent months Congressional and farm leadership groups have fashioned various proposals to include compensation for tobacco quota holders and producers. Although the Administration has not introduced a specific bill to address the tobacco farmer issue as part of any tobacco settlement, it strongly supports the concept of compensation to quota owners, producers, and communities and is amenable to special programs for limited resource farmers.

The tobacco settlement will have wide reaching impacts on all segments of the tobacco industry, but a disproportionate impact on small and minority tobacco quota owners and producers. Of the 338,000 individual quotas, about 66 percent would be considered small operations. Five percent of all quotas are owned by minorities, the majority of which are small.

If a National tobacco settlement is reached, cigarette prices would increase sharply because of manufacturer payments or increased taxes. In turn, tobacco production would decline with a concomitant reduction in income. Limited resource farms would be especially vulnerable because of their already low level of income and significant dependence on tobacco as a source of family income.

TALKING POINTS:

Several bills have been introduced to compensate tobacco quota holders and producers for the reduced income resulting from a tobacco settlement. The three bills that received the most attention were the Ford Bill, the Lugar Bill, and the Robb Bill. The Ford Bill would continue the current program with payments for lost production, the Lugar Bill would buy out quotas and eliminate the current program, and the Robb Bill would shift the program from a Federal to privatized program. The farm leadership has adopted the Ford Bill as a model and incorporated some provisions of the Robb Bill, especially for flue-cured tobacco.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

BRIEFING MEMORANDUM FOR THE SECRETARY

THROUGH: August Schumacher, Jr.
Under Secretary for Farm and
Foreign Agricultural Services

FROM: Keith Kelly
Administrator

SUBJECT: Update on the McCain Bill - National Tobacco Settlement

PURPOSE OF BRIEFING:

To provide an update of the Senate Commerce Committee's markup of the McCain Bill (S.1415).

BACKGROUND:

The Senate Commerce Committee approved S.1415 by a 19 to 1 vote and Senator McCain stated that he hoped the Bill would be before the full Senate before Memorial Day. A few modifications were made during the markup, but the thrust of the Bill remained intact.

TALKING POINTS:

Based on the best information available, the following portions of the McCain Bill have been modified or reaffirmed:

- **Total Cost to Industry/Cigarette Price Increase -**

  » Total cost to tobacco manufacturers over the 25 year period are projected to be $506 billion.

  » An increase in cigarette prices of $1.10 per pack over five years was anticipated. However, in the markup of the Bill, more than half --65 cents per pack would become effective in 1999.

  » The 65 cent increase would result in a more abrupt drop in cigarette consumption and thus demand for U.S. grown leaf than originally anticipated.

» Consumption would fall nine to ten percent because of the 65 cent cigarette price increase. Demand for U.S. flue-cured and burley would decline by a similar amount or even more as manufacturers attempted to trim costs by using greater quantities of cheaper imported leaf.

- **Domestic Price Support Levels -** Under certain conditions for crop years 1999 and 2000, the Secretary will have more flexibility in setting the flue-cured tobacco price support level than under current legislation.

- **Other Provisions of the McCain Bill -**

  » Civil liabilities damages capped at $6.5 billion per year.

  » Marketing and advertising would be curtailed considerably.

  » Goals of reducing youth smoking of 15 percent in three years and 45 percent in 10 years were established.

  » The Food and Drug Administration would be given broad latitude in regulating tobacco products.

- See the Briefing Memorandum entitled "Farmer Portion of the National Tobacco Settlement" for additional provisions affecting farmers.

The provisions of the Ford Bill are incorporated as the farmer portion of the McCain Bill (S.1415), the bill currently being considered as the vehicle for implementing the National tobacco settlement. Senate markup for the McCain Bill is scheduled for April 1 and 2.

As we understand the current compromise, the following are the main points included in the farmer portion of the McCain Bill:

- **Payments to Farmers for:**

  » **Burley, fire-cured, and dark air-cured tobaccos -**

    - All quota holders given one-time option to relinquish quota and get $8.00 per pound over 10 years or less.

    - Remaining quota holders get payments to the extent quota falls below the base level equal to $4 per pound for every pound quota drops, with a lifetime limit of $8 per pound times the entire base quota.

    - Quota lessees and tenants get (1) option to acquire relinquished quota and (2) payments to the extent quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the base quota.

  » **Flue-cured tobacco -**

    - Quota holders relinquish quota and get $8 per pound over 10 years or less.

    - Active quota holders will be issued permits limiting right to produce future crops.

    - Quota renters and tenants get (1) permits limiting right to produce future crops and (2) payments to the extent national quota falls below the base level equal to $2 per pound for every pound quota drops, with a lifetime limit of $4 per pound times the entire base quota.

- **Base Quota Years** - Years upon which payments will be made are the average of 1996 through 1998 crop years.

  » Burley - base quota 657 million pounds.

  » Flue-cured - base quota 885 million pounds.

- **Costs Incidental to the Tobacco Program** - All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary.

- **Farmer Opportunity Grants** - Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.

- **Benefits for Displaced Workers** - Up to $25 million annually for 10 years will be made available to provide benefits for displaced workers program. The program is administered by the Secretary of Labor.

- **Tobacco Community Economic Development Grants** - Block grants to tobacco States will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to auction warehouse owners.

- **Total Costs** - $28.5 billion total over 25 years, $2.1 billion per year for the first ten years, $500 million for years 11-25.

  » Annual payments to tobacco farmers set at $1.65 billion for up to ten years.

  » Economic development grants set at $375 million minus administrative costs for first ten years. Six percent of economic development funding is earmarked for auction warehouse owners for ten years.

NEWS RELEASE
WENDELL H. FORD of KENTUCKY
UNITED STATES SENATE

173A Russell Senate Office Building
Washington, D.C. 20510

FOR IMMEDIATE RELEASE
March 27, 1998

Contact: Mark L. Day
(202) 224-1156

FORD MAKES MODIFICATIONS TO STRENGTHEN "LEAF ACT"; EXPECTS PROPOSAL TO BE IN PACKAGE FOR SENATE DEBATE

WASHINGTON-- Bringing together burley and flue-cured growers, U.S. Senator Wendell Ford (D-KY) today said he has made some modifications to his "LEAF Act" that will "solidify and broaden the support" necessary to have Congress pass the proposal.

With the Senate Commerce Committee set to begin marking-up the proposed tobacco settlement legislation next week, Ford said it was imperative to have the strongest broad-based farmer protection package ready for inclusion in the final bill.

Ford noted that he fully expects the Committee to include his proposal in legislation that will be debated on the Senate floor in the coming weeks.

"These modifications to the LEAF Act broaden and strengthen our support while still holding to the principles we've always fought for: maintaining the quota program, fair compensation for lost quota, and providing a safety net if the program is threatened or eliminated in the future, all while remaining fiscally realistic," Ford said.

The modified LEAF Act incorporates some changes in the flue-cured program as advocated by Senator Charles Robb (D-VA) and other flue-cured representatives, such as transferring quotas from inactive quota holders to actual producers.

For burley growers, the LEAF Act would allow a quota holder to relinquish their quota in exchange for $8/pound, payable over a period of ten years or less. Unlike a proposal by Senator Richard Lugar (R-IN), that quota could then be reallocated to a farm owned by a quota lessee or tenant if they were the principal producer of the tobacco.

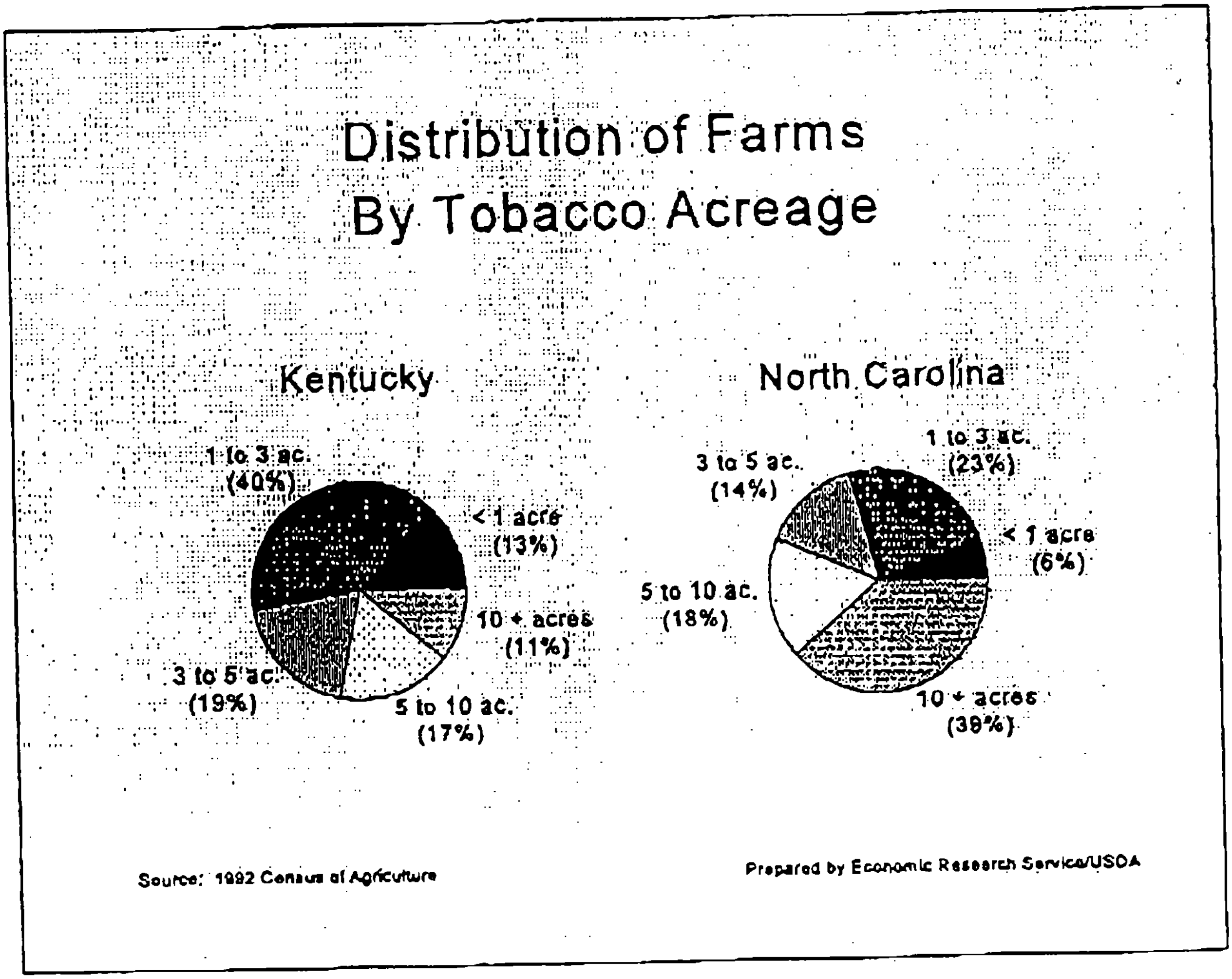
Another modification would specifically earmark a portion of economic development funding for tobacco warehouse owners.

"I've listened very hard over the last several weeks to growers and have tried to incorporate every constructive idea, so long as it didn't run into unrealistic funding requirements. We've worked day and night to try and protect our farmers and their communities, while producing a package that can win Congressional approval. I think this is that package, and I'm going to do all I can to see that it becomes law," Ford said.

Financial Structure of Tobacco Farms In Kentucky and North Carolina

U.S. tobacco production is primarily concentrated in Kentucky/Tennessee (burley) and the southeastern States (flue-cured), although other States grow small amounts. The 1992 Census of Agriculture reported 59,373 farms in Kentucky (268,140 tobacco acres) and 17,625 farms in North Carolina (283,900 tobacco acres) growing of tobacco.

Tobacco acreage on Kentucky and North Carolina farms differs dramatically in size of plantings. Over 50 percent of farms with tobacco in Kentucky have less than 3 acres planted to the crop, compared with just under 30 percent in North Carolina. In Kentucky, the largest number of farms (40 percent) plant 1-3 acres, while in North Carolina the largest number of farms (39 percent) plant 10 or more acres to tobacco.



Importance of Tobacco

According to USDA's 1994 Farm Costs and Returns Survey (FCRS), tobacco accounts for an average 51.2 percent of total farm value of production on Kentucky farms growing tobacco. This compares with 57.3 percent in North Carolina. In Kentucky cattle were ranked second while in North Carolina hogs ranked second.

With farms defined as SIC tobacco farms (more than 50 percent of total farm value of production comes from tobacco), the importance of tobacco grows. SIC tobacco farms in Kentucky had an average 81.4 percent of total value of production from tobacco, compared with 80.0 percent in North Carolina. For Kentucky SIC tobacco farms, crops played only a minor role in the farms' commodity mix, but cattle were still important. In North Carolina, however, hogs were a minor enterprise but soybeans and corn remained important.

The FCRS showed an average farm size of 124 acres in Kentucky and 156 acres in North Carolina. Tobacco acreage accounted for an average 3.7 acres and 12.7 acres in the 2 States, respectively.

Value of selected farm products for farms with tobacco, 1994

	Kentucky		North Carolina	
	All farms with tobacoo	SIC tobacco farms 1/	All farms with tobacco	SIC tobacco farms 1/
Number of farms	35,937	25,576	16,878	14,535
	Average dollars per farm			
Farm value of production	33,476	22,632	86,811	64,811
Crop value of production	21,951	19,929	64,096	64,105
Tobacco value of production	17,134	18,417	49,747	51,830
Corn value of production	2,406	427	2,243	1,594
Soybean value of production	1,461	575	7,561	7,781
Cotton value of production	0	0	1,692	501
Wheat value of production	257	110	1,315	1,019
Livestock value of production	11,525	2,703	22,715	706
Hogs value of production	1,858	68	16,678	99
Cattle value of production	4,622	2,484	1,310	607
Poultry value of production	20	0	4,727	0

Source: Farm Costs and Returns Survey, ERS/USDA.
1/ Tobacco accounts for over 50 percent of farm total value of agricultural production.

Farm Income

The 1994 income statements for Kentucky and North Carolina farms with tobacco show an average net cash income of $6,409 in Kentucky and $3,523 in North Carolina. For SIC tobacco farms, these levels rise to $18,783 and $16,383 for Kentucky and North Carolina, respectively. Regardless of the State or the level of specialization in tobacco, direct Government payments (deficiency payments) played a small role in determining the level of farm income. However, the Government tobacco programs are designed as an indirect control mechanism. Tobacco production is regulated by a Federal poundage quota price support program. Growers are guaranteed a minimum price through supports in exchange for their limiting production. Therefore, tobacco program support is reflected in tobacco receipts rather than in Government payments.

On the expense side, chemicals and hired labor accounted for the greatest expense. Equipment-related expenses for fuels and repairs also ranked high. For farms with livestock, feed expenses became important.

Income statements for farms with tobacco, 1994

	Kentucky		North Carolina	
	All farms with tobacco	SIC tobacco farms 1/	All farms with tobacco	SIC tobacco farms 1/
	Average dollars per farm			
Gross cash income	25,668	59,011	16,551	54,412
Crop sales	14,168	53,434	13,150	52,244
Livestock sales	10,165	1,663	2,437	706
Government payments	172	526	70	292
Other farm-related income	1,163	3,389	894	1,170
Less: Cash expenses	19,259	40,229	13,029	38,030
Variable	15,093	32,110	9,964	31,049
Livestock purchases	249	149	60	34
Feed	3,392	223	1,198	164
Other livestock expenses	394	33	272	26
Seed and plants	698	1,693	520	1,514
Fertilizer and chemicals	3,177	9,131	2,498	8,938
Labor	2,347	7,916	2,108	7,424
Fuels and oils	1,032	5,364	685	5,512
Repairs and maintenance	1,903	3,833	1,323	3,851
Machine-hire and custom work	419	859	159	927
Utilities	635	1,656	557	1,507
Other variable expenses	847	1,254	584	1,152
Fixed	4,165	8,118	3,064	6,981
Real estate, property taxes	505	817	337	789
Interest	1,856	1,914	1,335	1,372
Insurance premiums	993	2,081	840	2,015
Rent and lease payments	811	3,306	553	2,805
Equals: Net cash farm income	6,409	18,783	3,523	16,383
Less:				
Depreciation	2,412	3,128	1,359	2,953
Labor, non-cash benefits	125	199	128	184
Plus:				
Value of inventory change	-574	3,644	-236	4,016
Nonmoney income	4,282	4,363	4,255	4,375
Equals: Net farm income	7,580	23,463	6,054	21,637

Source: Farm Costs and Returns Survey, ERS/USDA.
1/ Tobacco accounts for over 50 percent of farm total value of agricultural production.

Tobacco Costs of Production

Estimates of the costs of producing the 1994 tobacco crop are available at the national level only. These estimates show average per-planted-acre variable cash costs of $2,446.04 for burley and $1,884.68 for flue-cured. While fuel and curing expenses are much higher for flue-cured tobacco, burley's high post-harvest labor costs are more than offsetting. Net returns over variable cash costs averaged $1,847.86 per acre for burley tobacco and $2,205.12 for flue-cured tobacco. When all costs are included, net returns averaged negative $468.89 for burley and positive $415.42 for flue-cured.

U.S. costs of production for tobacco, 1994

	Burley	Flue-cured
	Dollars per acre	
Cash receipts	4,293.90	4,089.80
Variable Costs:		
Labor	1,409.06	705.17
Noncash benefits	15.31	23.79
Fertilizer and lime	243.89	296.27
Plant bed materials	76.28	45.49
Chemicals	92.78	212.80
Custom operations	10.86	7.81
Fuel and lubrication	101.63	55.26
Curing and heating fuel	7.19	274.97
Repairs	103.62	140.33
Marketing (burley) & warehousing (flue-cured)	225.43	108.38
No-net-cost & marketing assessment	105.30	72.60
Inspection and grading fee	16.38	16.94
Interest	17.08	21.13
Other	21.23	3.74
Total, variable costs	2,446.04	1,884.68
Machinery and barn ownership costs:		
Capital replacement	273.31	289.72
Return to nonland capital	109.81	98.78
Taxes and insurance	125.06	134.22
Total ownership costs	508.18	522.72
Other Costs:		
General farm overhead	425.10	289.72
Land and quota charge	1,383.47	977.26
Total excluding land and quota	3,379.32	2,697.12
Returns:		
Receipts less variable cash costs	1,847.86	2,205.12
Receipts less total costs	-468.89	415.42
Yield (lbs./acre)	2,108	2,420

Costs and Returns for Selected Vegetables and Field Crops

Tobacco growers are currently growing a mix of other field and specialty crops such as corn, soybeans, cotton, and wheat. Between 1 and 2 percent of FCRS farms with tobacco reported harvesting vegetables. Data from North Carolina are available that allow comparisons among costs and returns for major vegetable crops. Kentucky data were not available.

Except for tomatoes, other vegetable crops are more likely to be grown in flue-cured tobacco areas than in burley areas. Returns vary widely from year to year, depending on growing conditions and market conditions in a specific season.

The gross returns are based on yields and prices reported by NASS for 1994. Cash variable costs are based on enterprise budget estimates developed at the North Carolina State University and have been adjusted to represent average production practices for 1994. The net returns represent earnings to land, labor, capital, machinery, overhead, and management.

Although some tobacco producers could produce vegetables on tobacco acreage, the majority of any displaced tobacco land would likely go into field crops. The demand for vegetables is relatively inelastic, meaning that even small increases in the quantity results in relatively large price declines. Because the vegetable acreage is so small relative to tobacco, a small percentage shift of tobacco land would represent a substantial increase in vegetable acreage. This would lower prices and reduce vegetable returns.

In contrast, tobacco acreage represents a relative small percentage of field crop acreage. Consequently, a relative large shift could occur from tobacco to field crops without having a noticeable impact on either field crop prices or returns.

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 (Southeast region)	278.20	157.86	120.34
Soybeans (Southeast region)	170.91	95.10	75.81
Cotton (Southeast region)	623.60	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 costs-of-production accounts.

U.S. DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

Telephone (202) 720-3631 Fax (202) 720-5437

FAX COVER SHEET

DATE:

NUMBER OF PAGES 6, INCLUDING COVER SHEET

PLEASE DELIVER TO: Tom Freedman

FAX NUMBER: ( ) PHONE NUMBER: ( )

FROM: OFFICE OF SCHEDULING

- ☐ MARY BETH SCHULTHEIS, DIRECTOR OF SCHEDULING
- ☐ JULIE EDDY, ASSISTANT SCHEDULER
- ☐ BILLY COX, BRIEFINGS COORDINATOR
- ☐ FRAN TROUT, TRAVEL ADVISOR

→ Meg Evans

MESSAGE: Secretary Glickman's schedule for Fri - please let me know if there is a problem

Honorable Dan Glickman
Secretary of Agriculture
Friday, April 3, 1998
Washington, DC - Versailles KY - Lexington KY - Washington, DC

FINAL DG (April 2, 1998 (6:13PM))

SCHEDULER:

Meg Evans	202-720-3631 (O)
	800-800-7759 (P)
	202-387-6051 (H)
Mary Beth Schultheis	202-720-3631 (O)
	800-719-1428 (P)

TRANSPORTATION:

Sam Shanklin:	703-751-3952 (H)
	202-744-4192 (Car)
	202-509-5647 (Car 2)
	202-206-9614 (P)

PRESS SECRETARY

Roger Salazar	800-800-7759 (P)

ADVANCE

Clyde Williams		800-800-7759
	Hotel	606-268-0060
	Fax	606-268-6209

TRAVELING

Under Secretary Jill Long-Thompson (arriving in Cincinnati Thursday night)
Deputy Under Secretary Dallas Smith (arriving in Lexington Thursday night)
Tom Freedman, The White House, Domestic Policy Council

OIG AGENTS

Joe Rotunno		800-759-7243 pin 551-4487
KY	Beth Marik	800-759-7243 pin 551-4481
KY	Julie Toler	800-443-7243 pin 042-044
KY	Annis Yates	800-443-7243 pin 039-677

USDA STATE OFFICES

FSA	Hoppy Henton	606-224-7601

	Bob Finch	606-224-7696	P 606-330-4716
RD	Tom Fern	606-224-7300/2290	H 606-224-9616
NRCS	David Sawyer	606-224-7350	

WEATHER

Washington	Increasingly cloudy, rain late. High of 64, low of 43.
Cincinnati	Mostly cloudy to cloudy skies. High of 55, low of 41
Lexington	Mostly cloudy with periods of showers. High of 61, low of 41

5:45A **DEPART RESIDENCE**
Enroute: Washington National
Trans: Sam - car
Drive time: 15 minutes

6:00A **ARRIVE WASHINGTON NATIONAL**
Note: Joe Rotunno, OIG, will meet you with your tickets

6:45A **DEPART WASHINGTON NATIONAL AIRPORT**
Enroute: Cincinnati
Equip.: Boeing 757
Flight #: Delta 347
Seat: 26C
Note: Tom Freedman, Roger Salazar and OIG - Joe Rotunno will travel with you. Tom and Roger will meet you at the gate.

8:20A **ARRIVE CINCINNATI**
Greeters: Under Secretary Jill Long Thompson
FSA SED Hoppy Henton
RD SED Tom Fern
State Conservationist David Sawyer
Clyde Williams
Beth Marik, OIG

8:30A **DEPART CINCINNATI AIRPORT**
Enroute: Richardson Tobacco Farm
Trans: FSA van (15 Passenger)
Drive time: 1 hour, 30 minutes
Manifest: Secretary Glickman
Jill Long-Thompson
Tom Freedman, DPC

Roger Salazar
OIG - Joe Rotunno
Hoppy Henton, FSA
Tom Fern, RD
David Sawyer, NRCS
Troy Myers, FSA, Driver

10:00A **ARRIVE RICHARDSON TOBACCO FARM**

Address: 1890 Steel Road (KY 1685)
Versailles KY
Phone: 606-873-8411
Greeters: Rep. Scotty Baesler
Contact: Janice, 606-253-1124
KY Ag Commissioner Billy Ray Smith
Under Secretary Dallas Smith

10:00A-10:20A **VISIT RICHARDSON TOBACCO GREENHOUSE AND FARM**

Contact: Robert Richardson, 606-873-8411
Format: Meet Robert Richardson and his neighbors.
Visit with approximately 21 local tobacco, dairy, and soybean farmers.
See the development of tobacco plants.
Tour hydroponic greenhouse.

OPEN PRESS

10:20A **DEPART RICHARDSON TOBACCO GREENHOUSE**

Enroute: Gentry Tobacco Warehouse
Trans: FSA Van
Drive time: 30 minutes
Manifest: Secretary Glickman
Rep. Scotty Baesler
KY Ag Commissioner Billy Ray Smith
Jill Long-Thompson
Dallas Smith
Tom Freedman, DPC
Roger Salazar
OIG - Joe Rotunno
Hoppy Henton, FSA
Tom Fern, RD
David Sawyer, NRCS
Troy Myers, FSA, Driver
Clyde Williams

Beth Marik - OIG

10:50A	**ARRIVE GENTRY TOBACCO WAREHOUSE**	
	Address:	736 South Broadway Lexington KY
	Phone:	606-254-3479
	Fax:	606-254-3470
10:50A- 11:00A	**PROCEED TO HOLD WITH PRINCIPALS**	
	Location:	Gentry Tobacco Warehouse Office
	Attendees:	Governor Paul Patton Contact: John Mark Hack, 502-564-2611 Lt. Governor Steve Henry Ben Crain, Owner, Gentry Tobacco Warehouse Karen Armstrong Cummings, USDA Small Farms Commission
11:00A- 12:30P	**KENTUCKY FARM FORUM**	
	Location:	Gentry Tobacco Warehouse
	Contact:	Warehouse, 606-254-3479
	Attendees:	Expect 400 - 500 people

Format:

Welcome	Hoppy Henton, FSA SED (moderator)
Remarks	Rep. Scotty Baesler
Remarks and intro Secy	Gov. Patton
Remarks	Secretary Glickman
Discussion	Q&A
Closing	Gov. Paul Patton Secretary Glickman

OPEN PRESS

12:30P	**MEDIA AVAILABILITY**	
	Location:	Gentry Tobacco Warehouse
	Participants:	Secretary Glickman Governor Patton Rep. Baesler
	Staff:	Salazar
1:00P	**DEPART GENTRY TOBACCO WAREHOUSE**	
	Enroute:	Cinncinnati Airport
	Trans:	FSA Van
	Drive time:	1 hour, 30 minutes

	Manifest:	Secretary Glickman Jill Long-Thompson Dallas Smith Tom Freedman Roger Salazar OIG Hoppy Henton, FSA Tom Fern, RD David Sawyer, NRCS
	NOTE:	The Governor and Rep. Baesler will also be departing at 1:00 p.m.
	NOTE:	Lunch will be provided in the van – the cost will be $7.00/person
2:30P	**ARRIVE CINCINNATI AIRPORT**	
3:35P	**DEPART CINCINNATI**	
	Enroute:	Washington Dulles
	Flight#:	Delta 1662
	Equip:	MD-88
	Seat:	12D
5:15P	**ARRIVE WASHINGTON DULLES**	
	Note:	Sam Shanklin will greet you upon arrival
5:25P	**DEPART WASHINGTON DULLES**	
	Enroute:	Residence
	Trans:	Sam - Car
	Drive time:	45 minutes
6:10P	**ARRIVE RESIDENCE**	

RON - WASHINGTON DC

Strong support
food & [illegible]

→ Fulls: few [illegible]
Current quota [illegible]
a one time [illegible]
all quota [illegible]

1996

25

pretty good progress

COMMONWEALTH OF KENTUCKY
OFFICE OF THE GOVERNOR

PAUL E. PATTON
GOVERNOR

700 CAPITOL AVENUE
SUITE 100
FRANKFORT, KY 40601
(502) 564-2611
FAX: (502) 564-2517

NEWS RELEASE - audio available on NEWSLINER 800-633-1019

for more information contact: Melissa Forsythe 502-564-2611

Frankfort, Ky: Governor Paul Patton today signed Senate Bill 137, considered to be one of the toughest measures in the country against underage tobacco use. The bill stiffens enforcement, fines and compliance with Kentucky's underage smoking law. An emergency provision places the law into effect immediately.

SB137 makes it illegal for anyone to sell tobacco products to minors, and makes it unlawful for anyone under 18 to buy, or attempt to buy, tobacco products. The measure does not prohibit parents from giving tobacco products to their own children.

The new law imposes fines of up to $1000 for selling tobacco products to children under 18 years old. Tobacco products must be in the line of sight of the cashier. Vending machine sales to under-eighteen year olds are illegal. And proof of age is required when there is reason to believe the purchaser is underage.

SB137 also imposes fines of $50 and 20 hours of community service for a first offense by the minor. The second offense within one year escalates the fine to $200, and 40 hours of community service.

Enforcement will be conducted by the Department of Agriculture and the Alcoholic Beverage Control Commission, as well as any other law enforcement agency. Governor Patton said teenagers will be used to conduct sting operations at retail establishments.

"No other state has really come up with an effective, statewide enforcement mechanism. We have. And I can personally assure you, we'll utilize it", the Governor said.

The Governor said if he finds a need for additional authority to comply with the federal law requiring states to reduce tobacco use by minors, or lose federal money, he will ask for that authority. He does not plan right now to push proposed legislation to make teen smoking illegal.

"It has been illegal to sell tobacco products to juveniles and that law will be enforced", the Governor said. Bill sponsor Senator Joey Pendleton called the measure "one of the strongest" in the country, and said other states have asked how to get similar legislation passed.

Representatives of tobacco growers, the Kentucky Farm Bureau, The Kentucky Medical Association and others have endorsed the Governor's effort to reduce teen smoking.

-30-

March 4

AN EQUAL OPPORTUNITY EMPLOYER M/F/D

SUMMARY OF SENATE BILL 137

SB 137 amends KRS 438.300 et seq. to stiffen enforcement, fines and compliance with Kentucky's underage smoking law. The law currently in the statutes was enacted by the regular session of the 1994 General Assembly.

§ 1: LEGISLATIVE INTENT

- SB 137 to supersede any subsequently enacted local law regarding use, display, sale or distribution of tobacco products
- SB 137 adds the word "display" above.

§ 2: DEFINITIONAL SECTION

- Maintains the former definitions from the previously enacted law.
- SB 137 defines proof of age to be "a driver's license or other documentary or written evidence that the individual is eighteen years of age or older."

§ 3: LIABILITY OF RETAIL SELLER; PROOF OF AGE

- Removes the word "knowingly" from the law regarding retail sales. SB 137 makes it unlawful to sell, not just to "knowingly" sell. In effect, this creates strict liability for the retail seller.
- Preserves provision mandating retail sellers to post, in a conspicuous place, a warning sign to prospective underage buyers.
- Requires <u>any</u> person selling tobacco products to request proof of age from anyone (buyer <u>or recipient</u>) the seller has "reason to believe" is under eighteen years of age.
- Increases fines on sellers who violate this section. Under the 1994 law, sellers could be fined $10-25 for a first violation and $25-50 for a second violation. Under SB 137, the ranges of fines are raised to $100-500 and $500-1000, respectively.

§ 4: LIABILITY OF PROSPECTIVE BUYER OR RECIPIENT

- Creates a new section to the statute and makes it unlawful for someone under eighteen to purchase or accept receipt of tobacco products. <u>Attempted</u> purchase or <u>attempted</u> receipt is also prohibited. However, SB 137 allows those under eighteen to accept tobacco from a family member or an employer who requires it in the course of employment.
- Penalties under this new section are $50 and 20 hours community service for a first offense within a one year period. For a second offense within the same one year period, the penalties are $200 and 40 hours of community service.

§ 5: LIABILITY FOR DISTRIBUTION

- This section is aimed at distribution of tobacco products, especially free samples.
- Distributors must require proof of age from those they have "reason to believe" are under eighteen years of age.
- Fines are between $1000-2500 for each violation of this section.

§ 6: VENDING MACHINES

- Both the sale to and purchase by one under eighteen years of age from a vending machine is made illegal.
- Except for factories and bars where those under eighteen may not enter, retail establishments must keep vending machines in the "line of sight" of the cashier.
- Fines for the owner of the retail establishment are set between $100-500 for each violation of this section.
- *****Please note: This section contains no penalty provision for the attempted purchase or attempted receipt by a minor from a vending machine. This is either intentional or an oversight by the legislature. However, as this bill is written, it is possible that courts will find there is no penalty for the prospective minor purchaser/receiver if the conduit is a vending machine.*

§ 7: NOTICE TO EMPLOYEES OF RETAIL ESTABLISHMENT

- Requires retail establishments selling tobacco products to notify employees of this law and to inform them of circumstances when proof of age is required (i.e. "reason to believe under the age of eighteen").
- Employees must sign a form acknowledging the notice, and the employer must maintain these forms for any department enforcing this law.
- Owners of retail establishments are subject to a fine of between $100-500 for each violation of this section.

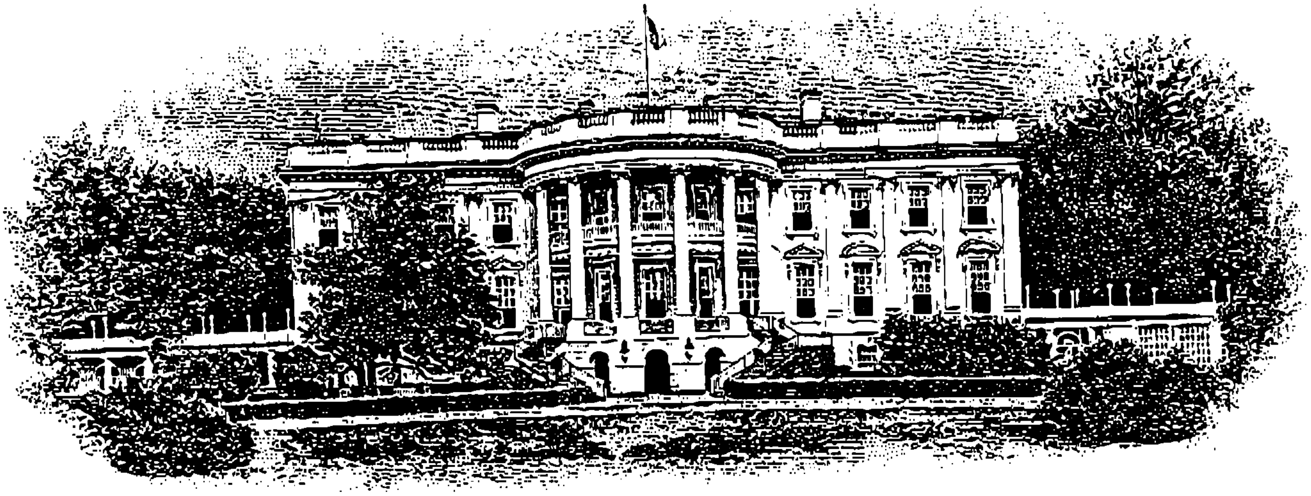
§ 8: REVENUE FOR THE DEPARTMENT OF AGRICULTURE

- Department is still entitled to 100% of the fines under this law.
- Under SB 137, Department is now entitled to revenue produced by one-tenth of one cent ($0.001) of the three cent per pack state excise tax on the sale of cigarettes. In other words, the Department will receive 1/30 of the revenue from this tax.

§ 9: EMERGENCY CLAUSE

- SB 137 will take effect immediately upon Governor Patton's signature.

THE WHITE HOUSE
OFFICE OF INTERGOVERNMENTAL AFFAIRS



FAX COVER SHEET

To: Lowell Weiss

From: Emory Mayfield

Date: 8 April 98

No. of Pages:

Fax: 6-5709

Phone:

Phone: 202/456-2896

Fax: 202/456-2889

Message: re: Kentucky