

TOBACCO FARM BACKGROUND

Background:

Since the 1930s, tobacco prices have been supported and stabilized by the federal government's commodity support program. The tobacco program operates through a combination of marketing quotas, which limit supply, and no-net-cost tobacco loans, which help to balance supply with demand. There are two main types of tobacco -- flue-cured and burley. Flue-cured is common in North Carolina, while burley is more popular in Kentucky.

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. The President, however, made protecting tobacco farmers and their communities one of the five key elements of his plan for comprehensive tobacco legislation.

Status in Congress:

Three types of legislative approaches have been discussed. First, Senator Lugar has 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 has 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.

No consensus has yet emerged in the tobacco growing community as to the preferred approach. Senator Ford's proposal, the LEAF Act, appeals most to burley growers like those in Kentucky who have small farms and want to continue the quota program. Senator Robb's approach has 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.

Senators Ford and Robb have discussed a compromise bill that would treat flue-cured and burley tobacco differently. Under this approach, flue-cured growers would be bought-out with

those continuing to grow tobacco operating under a license system like that supported by Senator Robb; by contrast, burley growers would remain subject to the quota system, with compensation for the decreased price of tobacco, as favored by Senator Ford. One major issue separating Ford and Robb at this point is Robb's belief that there should be a decrease in the legislatively-set price of flue-cured tobacco so it can be more competitive internationally. Senator Ford has opposed this proposal, and the Administration concerns that decreasing the price of tobacco may not be compatible with public health goals.

The Administration has encouraged the effort by Senator Ford to develop a compromise proposal. Many members of Congress -- in both the House and Senate -- are also looking to a Ford-brokered Senate compromise proposal that all tobacco-state members could sign on to.

TOBACCO FARMER Q & A for 3/24

Q. Does the Administration support continuing controls on tobacco production, the quota program, as part of comprehensive tobacco control legislation? The President has stated that he supported the tobacco program in the past.

A. The President has consistently made clear his commitment to tobacco farmers and his belief that we need to protect them and their communities. He has noted that any changes to our tobacco policy should not come at the economic expense of farming families and communities. One method of protecting these farmers is continuing production control programs, as legislation such as the LEAF Act supported by Senators Ford, Hollings, and Frist does. And the Administration agrees that controls on production can be one element of a system that meets the President's five principles and protects farmers and their communities economic well-being.

Q. Does the President have a proposal to help tobacco farmers and their communities?

A. As I stated in my testimony, the President has made clear that he will support legislation only if it provides farmers with a secure financial future. We are hopeful that a consensus is being built in this area, and believe there are very promising efforts underway in Congress to ensure that farmers and their communities are protected. In particular, Senator Ford and his colleagues on this Committee, Senators Hollings and Frist, have taken an important role in crafting legislation to protect farmers and the Administration strongly supports your effort to build a bipartisan consensus. We also look forward to being able to support the product of your work in this area.

TOBACCO TESTIMONY 3/24

Changes in Bold:

There are more than 124,000 farms engaged in the production of tobacco, and we recognize that a significant reduction in smoking in the United States could curtail a **vital** source of income for many families and communities. **That is why the President made protection of tobacco farmers and their communities one of the five key elements of his plan for comprehensive tobacco legislation. The President has made clear several times that he will support legislation only if it provides farmers with a secure financial future. We believe there are very promising efforts underway in Congress to ensure that farmers and their communities are protected. In particular, Senator Ford and his colleagues on this Committee, Senators Hollings and Frist, have taken a leadership role in crafting legislation to protect farmers and the Administration strongly supports your effort to build a bipartisan consensus. We also look forward to being able to support the product of your work in this area.**

A good many commentators in this debate have implied that combating teen smoking involved a zero-sum choice -- between protecting the health of children on the one hand, and protecting the economic well-being of farmers and their communities on the other. The President has explicitly rejected this false choice. So have the coalition for public health and tobacco farming organizations that last week endorsed a set of principles with which both groups could agree. **Among the organizations agreeing to the principles are the Burley Tobacco Growers Cooperative, the Flue-Cured Tobacco Stabilization Corporation, the American Heart Association, the American Cancer Society, and the Campaign for Tobacco Free Kids.** Let there be no doubt: we are determined that one important use of the funds raised by higher prices on cigarettes will be the provision of