Thomas L. Freedman
01/30/98 10:43:28 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc: Mary L. Smith/OPD/EOP
Subject: Draft Farmers Agenda

I. Current dispute

* Ford vs. Robb

* Continue program vs. buy out

* Split between flue-cured and burley

* Ford support in Senate, Robb increase with farmers (health likes buy out)

* Action in House-- Etheridge (companies buy) Baesler (combo Ford/Robb)

II. Upcoming Events

* Subcmtee Hrng Tuesday
* Conrad bill release

III. Next Steps

* Process for choosing policy

* Hill strategy

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MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

CC: JERRALD MANDE, ELIZABETH DRYE

FROM: TOM FREEDMAN
MARY SMITH
JULIE MIKUTA

RE: TOBACCO GROWERS AND THE SETTLEMENT

DATE: JULY 15, 1997

SUMMARY

This memo gives a general overview of tobacco production, various government programs, and how the settlement is likely to affect growers. The last section lists recommendations for the tobacco negotiations from congressional and farm sources. Attached are some relevant articles and possible discussion topics.

I. JULY 16, 1997 MEETING ATTENDEES

Secretary Glickman, Secretary Shalala, Bruce Reed, Gov. Hunt, and representatives from State Farm Bureaus: Larry Wooten (Asst to the President, NC Farm Bureau), Harry Bell (President, SC), Wayne Ashworth (President, VA), Carl Loop (President, FL), Wayne Dollar (President, GA), Bill Sprague (President, KY), and Flavius Barker (President, TN).

II. TOBACCO PRODUCTION STATISTICS

- Cigarettes account for 90% of the tobacco used in the United States. In 1995, domestic burley accounted for about 27% of the tobacco used in cigarettes; domestic flue-cured, 37%; Maryland, 1%; and imported, 35%.

- Tobacco is produced in 21 states. North Carolina accounts for 37% of the acreage; KY for 28%. Together, Virginia, South Carolina, Tennessee, and Georgia account for another 26%.

- Tobacco farming accounts for 6.5% of NC's GSP; and for 2.5% of KY's GSP. [State Tobacco Control Highlights, 1996]

- An estimated 124,000 farms grew tobacco in 1992. About 3/4 of them are classified as tobacco farms, meaning that tobacco comprises at least 50% of sales. The average impact of reductions in demand due to a 62 cent rise in cigarette prices would be about $885 a farm on a tobacco crop worth $18,000 a farm. [Ken Warner study]

- In North Carolina, there are 16,830 jobs (0.47% of state's total) in tobacco manufacturing. Virginia has 9,550 (0.31%); Kentucky has 4,210 (0.25%); Florida has 1,480 (0.02%); and Tennessee has 1,180 (0.05%).

- Over the past decade, tobacco prices have risen at a 6.3% annual rate, compared to 3.7% for "core" consumer prices (excluding food and energy). Faster growth was mainly the result of a sharp uptrend prior to 1993.

- This year, tobacco prices have sped up again, increasing at nearly an 8% annual rate through May in part reflecting higher state taxes.

- Tobacco is the 6th largest cash crop.

- Leaf exports accounted for 33% of U.S. production in 1996. In the same year, 32% of the cigarettes manufactured in the U.S. were shipped overseas.

III. HOW THE GOVERNMENT PROGRAM WORKS

- Most U.S. tobacco production has been under a price support and supply control program since the 1930s. Producers are guaranteed higher than market equilibrium prices in exchange for limiting marketings through marketing quotas. Support prices are based on the previous year's level, and adjusted by changes in the 5-year average of prices and the cost of production index. Quotas are based on: intended purchases by cigarette manufacturers; average annual exports for the 3 previous years; and the amount of tobacco required to attain a specific reserve level.

- A 1991 survey of farms showed that only 7% of flue-cured operators owned the entire tobacco quota they produced; about 21% rented all their quota, and 72% owned and rented quota. The percentage of burley farmers owning all of their quota is higher, reflecting the more restrictive rules governing burley transfer and leasing.

- Quota levels have generally declined since the mid-1970s, following a decline in marketings. Quota levels are up for both flue-cured and burley tobacco in 1997, reflecting increased marketings and reduced stock levels in 1996.

- In response to surging tobacco imports (which increased nearly 250% from 1990- 93), Congress enacted a provision in the Omnibus Budget Reconciliation Act (OBRA) of 1993 which required US-manufactured cigarettes to contain 75% US-grown tobacco. As part of the Uruguay Round implementing legislation, domestic content provisions were replaced by the establishment of a tariff rate quota for certain imported tobacco, primarily flue-cured and burley.

- The OBRA of 1990 imposed an assessment of 0.5% of the national loan rate on all growers; it expired in 1995, but the OBRA of 1993 extended it through 1998.

- The "No-Net-Cost Tobacco Program Act of 1982" required that, to be eligible for price

support, tobacco producers had to contribute to a fund or pay assessments to an account established by the cooperative association that makes Federal support loans available to producers. The funds are collected to cover potential losses in operating the price support program.

IV. EXPECTED EFFECTS OF THE SETTLEMENT ON GROWERS

- The USDA currently does not forecast adverse affects on tobacco farmers; while domestic demand may decrease from the deal, export demand is growing

- Based on a short run elasticity of -0.4, a 25 cent per pack increase in retail price would likely result in a 5.2% decline in cigarettes consumption, and a 29.2 million poiund decline in domestic tobacco use, about 2% of 1996 U.S. production.. A 50 cent per pack price increase would lead to a 10.5% decline in cigarette consumption. (Draft USDA estimates)

- If the Settlement reduces underage consumption by 30% by the 5th year, the result will be a decline of 5.7 to 9.2 million pounds of U.S. tobacco. U.S. tobacco production in 1996 was 1, 517 million pounds.

- Cigarette exports are not restricted by the settlement and will likely continue their upward trend.

- A 25-cent increase in cigarette prices is estimated to result in a decline in the use of flue-cured and burley tobacco for domestic cigarette consumption of 10% and 8.4 %, respectively, by 2006. (Draft USDA estimate)

- This decline will be partially offset by the use of domestic tobacco for increased cigarette production for export. Total flue-cured and burley marketings will likely fall by 6.4% and 7.5%, respectively, by 2006.

- A 50-cent increase is estimated to result in a decline in total flue-cured and burley marketings of 8.1% and 9.8%, respectively.

V. SOME PROPOSALS

In a March 1994 ABC News Special featuring President Clinton answering questions from young people at the White House, he stated, "There are a lot of good people in America who still raise tobacco. And we should have funds set aside for them (in the cigarette tax) to help them convert away from raising tobacco to doing other kinds of farming so they can actually make a living."

These are 2 sets of proposals on the tobacco negotiations. They both recommend continuing support for the current tobacco program, and maintaining quotas.

The North Carolina Dept of Agriculture and Consumer Services made these recommendations at a meeting held on 7/10/97. The meeting was attended by the chair of the NCDA, Commissioner James Graham, Deputy Commissioner Weldon Denny, WB Jenkins and Larry Wooten of the NC

Farm Bureau, representatives from tobacco growers associations and other agricultural interest groups.

1. Protect the current tobacco program.

2. Maintain the tobacco quota and current price support system.

3. Secure a commitment form the tobacco companies to purchase 600 million pounds of flue-cured tobacco annually.

It was a consensus of this group that any legislation enacted by Congress to implement the settlement should address the following growers concerns:

4. Authorize the Sec of Agriculture to implement program changes through a referendum by the growers.

5. Set aside 1% of settlement package to allow for quota buy-down or other program enhancements.

6. Tobacco growers, growers' organizations, warehouses and dealers should receive the same immunity or limitation or legal liability afforded to the tobacco companies.

These are the recommendations offered by Rep. Baesler:

1. Provisions for the future of the tobacco program. Establish by contract with tobacco companies and in legislation that the tobacco program will be perpetual and for the life of the comprehensive settlement with the tobacco industry.

2. Tobacco quotas. Agree by contract with the manufacturers and the farmers that the buying intentions will remain at a level equal to or exceeding the level set for 1997 (700 million pounds for burley tobacco), and at the 1997 support price. This contract between the companies and the farmers will be incorporated into the language of the legislation.

3. The federal program. The companies will agree by contract and legislation that they will pay the cost of the tobacco program incurred by the federal government.

4. Crop insurance. Manufacturers will agree to assume all of the federal government's losses related to the federal crop insurance program.

5. Domestic content. Requiring cigarette companies to use up to 75% American-grown leaf in their product. (Current law sets the U.S. percentage at 75%).

VI. THE SETTLEMENT'S MENTIONS OF TOBACCO GROWERS

Direct mention of the USDA or tobacco farming occur in two instances within the agreement. The first simply states that tobacco farmers will not be subject to additional regulations over and above those existing for other producers of raw products "Tobacco farmers will face no greater regulatory burden than the producers of other raw products regulated by the federal government." [Title I, Subtitle E}. The second mention addresses the issues of limitations on FDA regulatory jurisdiction and states: "-- Grower Limitation: FDA jurisdiction does not extend to the growing cultivation or curing of raw tobacco (USDA has exclusive authority)." [Title V, Subtitle A]

Attached are some relevant clips and possible discussion topics.

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600 MARYLAND AVENUE S.W. • SUITE 800 • WASHINGTON, D.C. • 20024 • (202) 484-3600 • FAX (202) 484-3604

What is Farm Bureau?

The American Farm Bureau Federation is the world's largest voluntary organization of farmers and ranchers. More than 4.7 million family members belong to county or parish Farm Bureaus which, in turn, comprise state Farm Bureau organizations in all 50 states and Puerto Rico.

AFBF represents all commodity interests and is involved in all issues which are of concern to the nation's farmers and ranchers, including taxation, property rights and services to the farm community. It is farm people joining together to solve common problems.

The organization has never been a government agency and is not politically partisan, rather it seeks support on a bipartisan basis. As the nation's largest farm organization, AFBF has established programs that are directed by policies developed and voted upon by farm representatives at the county, state and national level.

The president, vice president and members of the board of directors must be farmers and are elected by voting delegates from state Farm Bureaus. The president is a full-time executive who directs the day-to-day operations of the organization and speaks as the official voice of the American Farm Bureau Federation.

In 1919, a small group of farmers from a dozen states gathered in Chicago and founded the American Farm Bureau Federation. Their goal was to speak for themselves through their own national organization. It soon became local, statewide, national and international in its scope and influence.

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DISCUSSION TOPICS

1. What do they expect the consequences of the settlement to be on small farmers?

    * if there is a decline in domestic sales, how much will exports make up for it?

2. What options should the Administration consider to make sure small farmers are not causalities of the settlement?

3. One choice seems to be protecting and maintaining the current program and quotas. It is the NC Department of Agriculture position paper.

4. Other ideas have been:

    * quota buy downs;

    *a referendum (also in the NC position plan);

    *a crop conversion fund

    Are any of these useful ideas?

5. Does this affect your different states differently?

6. Are there other concerns we should be thinking about (crop insurance? Secondary workers, local stores, etc.)

process in better shape than they did under last month's $368.5 billion tobacco settlement.

Kentucky and North Carolina farm leaders are working on a package of relief proposals. Also, a key tobacco industry negotiator appears supportive of the farmers, and health advocates say they want to protect the growers from sudden economic upheaval.

``I feel very strongly that farmers should not be left out of the deal,'' David Kessler, former commissioner of the U.S. Food and Drug Administration, said recently. ``I think that's a very high priority.''

These groups don't necessarily agree, however, on the form aid for farmers should take. The options include compensation for lost income, limits on the amount of foreign-grown tobacco in American cigarettes and a buyout program to encourage farmers to stop growing tobacco.

Economic projections show the cutback in smoking that results from the agreement could translate into more than a 50 million-pound reduction in the use of burley leaf, most of which is grown in Kentucky.

With a selling price close to $2 a pound, that's a lot of lost money.

But the only thing the deal does for farmers is guarantee that the FDA's enhanced regulatory authority won't extend to tobacco cultivation.

The settlement, however, is far from settled. The agreement must be drafted into legislation, passed by Congress and signed by President Clinton.

A lead industry negotiator, North Carolina lawyer J. Phil Carlton, says he wants to help the farmers.

Carlton, the son of a tobacco farmer and until recently the owner of a tobacco farm, told The Courier-Journal last week that the farmer issue will definitely be on the table as negotiators draft the legislation to submit to Congress.

``We're willing to talk about that,'' Carlton said of one possibility the growers are interested in: a guarantee that cigarette makers will commit to use a certain amount of domestic tobacco.

The industry, according to Carlton, also is willing to consider paying for tobacco crop insurance and the tobacco price-support program's administrative costs should Congress cut off the funding, as some have proposed.

And public health officials want to see the farmers get help, although their main objective is not compensation.

Instead, the health groups want to use money to entice the farmers out of the tobacco business and out of their longstanding political alliance with the cigarette companies.

Their idea is either to pay farmers to retire their growing quotas or give them money to try alternative crops.

Last month, health group negotiators proposed that the settlement set aside about $150 million a year mainly for that purpose. But Carlton said he rejected that idea, and it was not included in the settlement. He said the proposal was not comprehensive enough.

One of four interagency panels President Clinton set up to review the agreement will focus on the tobacco industry, including the economic impact on the growers.

Unlike the cigarette makers, the farmers come to the legislative process seemingly unblemished by the controversy and distrust that for decades gripped the smoking issue.

``They've not been willing conspirators. They've been pawns,'' Indiana Attorney General Jeff Modisett said.

Sen. Wendell Ford of Kentucky has said repeatedly that without protection for the farmers, he won't support implementation of the bill.

Ronny Pryor, chief lobbyist for the Kentucky Farm Bureau, wants farmers compensated for lost sales and quota reductions, and he insists there would be little interest among burley growers in a quota buyout. Tobacco is too lucrative to give up, he said.

But Pryor indicated there is nevertheless room to please both farmers and the anti-smoking side. He suggested the possibility of a compromise that would compensate farmers while also helping them move into alternative crops. ``We don't see it as an either-or thing,'' he said.

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News & Record (Greensboro, NC)

October 11, 1994, Tuesday, ALL EDITIONS

SECTION: BUSINESS, Pg. B5

LENGTH: 336 words

HEADLINE: KENTUCKIAN OPPOSES QUOTA BUY-OUT PLAN

BYLINE: SCOTT SOLOMO, Staff Writer

BODY:

The question of whether to end the federal government's tobacco price support was given a resounding ''no'' Monday by U.S. Rep. Scotty Baesler of Kentucky, who said the program is too important to his state's rural economy.

Baesler said he opposes a proposal by U.S. Rep. Charlie Rose, a Fayetteville Democrat, to pay growers $ 7.50 a pound to give up their federally-assigned tobacco quotas.

Rose's buy-out proposal may be well-suited for flue-cured tobacco growers in North Carolina, Baesler said, but it fails to take into account the many burley farmers in Kentucky who rent quotas from someone else.

In addition, he said, it would devastate feed stores, fertilizer stores and other businesses that support tobacco farmers.

''If you do away with the program then you're basically doing away with tobacco production as we know it here,'' said Baesler, a Democrat who attended a meeting on the issue in Charlotte last week.

''I think that would be a tremendous hit on our rural economy.''

Support by Kentucky lawmakers is considered critical to the proposal's success.

Burley tobacco is an $ 800-million-a-year business in Kentucky, said Baesler, who himself will grow 150,000 pounds this year.

Under Rose's plan, those farmers would be ''out in the cold,'' Baesler said.

$10B

Rose has suggested paying for the buyout, which would amount to about $ 16,000 an acre, with an increase in the federal cigarette tax. In North Carolina the estimated cost of such a plan is $ 4.1 billion, while nationwide it could cost $ 10 billion.

Rose said he proposed phasing out the price-support system as a way to invigorate sales of domestic tobacco and give farmers a financial incentive to convert to other crops.

Under the price-support system, the government establishes quotas, and co-ops, with loans from the federal government, buy tobacco that does not receive a bid at auction.

''I don't think on its face it will accomplish what (Rose) wants it to accomplish,'' Baesler said of the plan.

LOAD-DATE: October 13, 1994

Tobacco farmers share settlement concerns with congressman

DANVILLE, Va. (AP) After a scorching day in the fields, a group of Southside Virginia tobacco growers met with their congressman to vent their frustrations with the proposed tobacco industry settlement.

``There's a saying that the road to hell is paved with good intentions,'' J.T. Davis of Nathalie said Thursday. ``If we don't get things turned around, this is going to be the road to hell for the tobacco farmers.''

U.S. Rep. Virgil Goode promised to work to get protections for farmers included in the settlement as it makes its way through Congress, particularly measures that would keep the price and supplies of tobacco from plummeting.

``Two factors have got to be market stability and price stablity,'' said Goode, a Democrat from Rocky Mount whose district includes most of Virginia's tobacco farms.

``If you destroy the American tobacco grower, you're still going to have cigarettes; people are still going to smoke,'' Goode said. ``It would just transfer production to countries like China and Brazil.''

The farmers said they are worried that the $360 billion settlement will force cigarette companies to cut their losses by buying cheaper foreign-grown tobacco. They also fear that Congress will reduce or eliminate programs that prop up the price and supply of U.S. tobacco.

``We're not getting rich,'' said Dick Conner of Halifax County. ``It's hard work and it's hot.''

The farmers said they're also steamed that they were left out of the proposed settlement, which would allocate millions of dollars to help people quit smoking and compensate sporting events and teams for the loss of tobacco sponsors.

``I don't know of anybody more addicted to tobacco than tobacco growers,'' Davis said.

But C.D. Bryant of Pittsylvania County said, ``We're not looking for some big handout.''

This year, tobacco is growing on about 8,400 Virginia farms with projected cash receipts of nearly $200 million, making it Virginia's most important crop economically.

Gov. George Allen announced Wednesday that he had appointed a three-member task force to work with Congress to minimize the damage the tobacco deal could do to Virginia's $5 billion-a-year tobacco industry.

President Clinton and Congress must approve the settlement tobacco companies reached with the 40 states that sued them to recover smoking-related health costs.

Under the agreement, all states would be reimbursed for their Medicaid expenses for treating victims of tobacco-related illness.

The attorneys general who negotiated the deal said they wanted to protect tobacco growers and tried to write safeguards for them into the deal, but ultimately left that to Congress.

``If anybody in Washington has a heart or a conscience they are going to put something in this for the growers,'' Davis said.

(PROFILE
(CAT:Agriculture;)
(CAT:Political;)
(SRC:AP; ST:NC;)
)

AP-NY-07-04-97 0538EDT

:SUBJECT: VA AGRI NC POL

Received by NewsEDGE/LAN: 7/4/97 5:42 AM

MEMORANDUM

Tobacco farmers

TO: BRUCE REED, ELENA KAGAN

CC: JERRALD MANDE, ELIZABETH DRYE

FROM: TOM FREEDMAN
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JULIE MIKUTA

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   Are any of these useful ideas?

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6. Are there other concerns we should be thinking about (crop insurance? Secondary workers, local stores, etc.)

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Economic projections show the cutback in smoking that results from the agreement could translate into more than a 50 million-pound reduction in the use of burley leaf, most of which is grown in Kentucky.

With a selling price close to $2 a pound, that's a lot of lost money.

But the only thing the deal does for farmers is guarantee that the FDA's enhanced regulatory authority won't extend to tobacco cultivation.

The settlement, however, is far from settled. The agreement must be drafted into legislation, passed by Congress and signed by President Clinton.

A lead industry negotiator, North Carolina lawyer J. Phil Carlton, says he wants to help the farmers.

Carlton, the son of a tobacco farmer and until recently the owner of a tobacco farm, told The Courier-Journal last week that the farmer issue will definitely be on the table as negotiators draft the legislation to submit to Congress.

``We're willing to talk about that,'' Carlton said of one possibility the growers are interested in: a guarantee that cigarette makers will commit to use a certain amount of domestic tobacco.

The industry, according to Carlton, also is willing to consider paying for tobacco crop insurance and the tobacco price-support program's administrative costs should Congress cut off the funding, as some have proposed.

And public health officials want to see the farmers get help, although their main objective is not compensation.

Instead, the health groups want to use money to entice the farmers out of the tobacco business and out of their longstanding political alliance with the cigarette companies.

Their idea is either to pay farmers to retire their growing quotas or give them money to try alternative crops.

Last month, health group negotiators proposed that the settlement set aside about $150 million a year mainly for that purpose. But Carlton said he rejected that idea, and it was not included in the settlement. He said the proposal was not comprehensive enough.

One of four interagency panels President Clinton set up to review the agreement will focus on the tobacco industry, including the economic impact on the growers.

Unlike the cigarette makers, the farmers come to the legislative process seemingly unblemished by the controversy and distrust that for decades gripped the smoking issue.

``They've not been willing conspirators. They've been pawns,'' Indiana Attorney General Jeff Modisett said.

Sen. Wendell Ford of Kentucky has said repeatedly that without protection for the farmers, he won't support implementation of the bill.

Ronny Pryor, chief lobbyist for the Kentucky Farm Bureau, wants farmers compensated for lost sales and quota reductions, and he insists there would be little interest among burley growers in a quota buyout. Tobacco is too lucrative to give up, he said.

But Pryor indicated there is nevertheless room to please both farmers and the anti-smoking side. He suggested the possibility of a compromise that would compensate farmers while also helping them move into alternative crops. ``We don't see it as an either-or thing,'' he said.

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News & Record (Greensboro, NC)

October 11, 1994, Tuesday, ALL EDITIONS

SECTION: BUSINESS, Pg. B5

LENGTH: 336 words

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BYLINE: SCOTT SOLOMO, Staff Writer

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Rose's buy-out proposal may be well-suited for flue-cured tobacco growers in North Carolina, Baesler said, but it fails to take into account the many burley farmers in Kentucky who rent quotas from someone else.

In addition, he said, it would devastate feed stores, fertilizer stores and other businesses that support tobacco farmers.

''If you do away with the program then you're basically doing away with tobacco production as we know it here,'' said Baesler, a Democrat who attended a meeting on the issue in Charlotte last week.

''I think that would be a tremendous hit on our rural economy.''

Support by Kentucky lawmakers is considered critical to the proposal's success.

Burley tobacco is an $ 800-million-a-year business in Kentucky, said Baesler, who himself will grow 150,000 pounds this year.

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Rose has suggested paying for the buyout, which would amount to about $ 16,000 an acre, with an increase in the federal cigarette tax. In North Carolina the estimated cost of such a plan is $ 4.1 billion, while nationwide it could cost $ 10 billion.

Rose said he proposed phasing out the price-support system as a way to invigorate sales of domestic tobacco and give farmers a financial incentive to convert to other crops.

Under the price-support system, the government establishes quotas, and co-ops, with loans from the federal government, buy tobacco that does not receive a bid at auction.

''I don't think on its face it will accomplish what (Rose) wants it to accomplish,'' Baesler said of the plan.

LOAD-DATE: October 13, 1994

Tobacco farmers share settlement concerns with congressman

DANVILLE, Va. (AP) After a scorching day in the fields, a group of Southside Virginia tobacco growers met with their congressman to vent their frustrations with the proposed tobacco industry settlement.

``There's a saying that the road to hell is paved with good intentions,'' J.T. Davis of Nathalie said Thursday. ``If we don't get things turned around, this is going to be the road to hell for the tobacco farmers.''

U.S. Rep. Virgil Goode promised to work to get protections for farmers included in the settlement as it makes its way through Congress, particularly measures that would keep the price and supplies of tobacco from plummeting.

``Two factors have got to be market stability and price stablity,'' said Goode, a Democrat from Rocky Mount whose district includes most of Virginia's tobacco farms.

``If you destroy the American tobacco grower, you're still going to have cigarettes; people are still going to smoke,'' Goode said. ``It would just transfer production to countries like China and Brazil.''

The farmers said they are worried that the $360 billion settlement will force cigarette companies to cut their losses by buying cheaper foreign-grown tobacco. They also fear that Congress will reduce or eliminate programs that prop up the price and supply of U.S. tobacco.

``We're not getting rich,'' said Dick Conner of Halifax County. ``It's hard work and it's hot.''

The farmers said they're also steamed that they were left out of the proposed settlement, which would allocate millions of dollars to help people quit smoking and compensate sporting events and teams for the loss of tobacco sponsors.

``I don't know of anybody more addicted to tobacco than tobacco growers,'' Davis said.

But C.D. Bryant of Pittsylvania County said, ``We're not looking for some big handout.''

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President Clinton and Congress must approve the settlement tobacco companies reached with the 40 states that sued them to recover smoking-related health costs.

Under the agreement, all states would be reimbursed for their Medicaid expenses for treating victims of tobacco-related illness.

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``If anybody in Washington has a heart or a conscience they are going to put something in this for the growers,'' Davis said.

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AP-NY-07-04-97 0538EDT

:SUBJECT: VA AGRI NC POL

Received by NewsEDGE/LAN: 7/4/97 5:42 AM

MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

CC: JERRALD MANDE, ELIZABETH DRYE

FROM: TOM FREEDMAN
MARY SMITH
JULIE MIKUTA

RE: TOBACCO GROWERS AND THE SETTLEMENT

DATE: JULY 15, 1997

SUMMARY

This memo gives a general overview of tobacco production, various government programs, and how the settlement is likely to affect growers. The last section lists recommendations for the tobacco negotiations from congressional and farm sources. Attached are some relevant articles and possible discussion topics.

I. JULY 16, 1997 MEETING ATTENDEES

Secretary Glickman, Secretary Shalala, Bruce Reed, Gov. Hunt, and representatives from State Farm Bureaus: Larry Wooten (Asst to the President, NC Farm Bureau), Harry Bell (President, SC), Wayne Ashworth (President, VA), Carl Loop (President, FL), Wayne Dollar (President, GA), Bill Sprague (President, KY), and Flavius Barker (President, TN).

II. TOBACCO PRODUCTION STATISTICS

- Cigarettes account for 90% of the tobacco used in the United States. In 1995, domestic burley accounted for about 27% of the tobacco used in cigarettes; domestic flue-cured, 37%; Maryland, 1%; and imported, 35%.

- Tobacco is produced in 21 states. North Carolina accounts for 37% of the acreage; KY for 28%. Together, Virginia, South Carolina, Tennessee, and Georgia account for another 26%.

- Tobacco farming accounts for 6.5% of NC's GSP; and for 2.5% of KY's GSP. [State Tobacco Control Highlights, 1996]

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- In North Carolina, there are 16,830 jobs (0.47% of state's total) in tobacco manufacturing. Virginia has 9,550 (0.31%); Kentucky has 4,210 (0.25%); Florida has 1,480 (0.02%); and Tennessee has 1,180 (0.05%).

- Over the past decade, tobacco prices have risen at a 6.3% annual rate, compared to 3.7% for "core" consumer prices (excluding food and energy). Faster growth was mainly the result of a sharp uptrend prior to 1993.

- This year, tobacco prices have sped up again, increasing at nearly an 8% annual rate through May in part reflecting higher state taxes.

- Tobacco is the 6th largest cash crop.

- Leaf exports accounted for 33% of U.S. production in 1996. In the same year, 32% of the cigarettes manufactured in the U.S. were shipped overseas.

III. HOW THE GOVERNMENT PROGRAM WORKS

- Most U.S. tobacco production has been under a price support and supply control program since the 1930s. Producers are guaranteed higher than market equilibrium prices in exchange for limiting marketings through marketing quotas. Support prices are based on the previous year's level, and adjusted by changes in the 5-year average of prices and the cost of production index. Quotas are based on: intended purchases by cigarette manufacturers; average annual exports for the 3 previous years; and the amount of tobacco required to attain a specific reserve level.

- A 1991 survey of farms showed that only 7% of flue-cured operators owned the entire tobacco quota they produced; about 21% rented all their quota, and 72% owned and rented quota. The percentage of burley farmers owning all of their quota is higher, reflecting the more restrictive rules governing burley transfer and leasing.

- Quota levels have generally declined since the mid-1970s, following a decline in marketings. Quota levels are up for both flue-cured and burley tobacco in 1997, reflecting increased marketings and reduced stock levels in 1996.

- In response to surging tobacco imports (which increased nearly 250% from 1990- 93), Congress enacted a provision in the Omnibus Budget Reconciliation Act (OBRA) of 1993 which required US-manufactured cigarettes to contain 75% US-grown tobacco. As part of the Uruguay Round implementing legislation, domestic content provisions were replaced by the establishment of a tariff rate quota for certain imported tobacco, primarily flue-cured and burley.

- The OBRA of 1990 imposed an assessment of 0.5% of the national loan rate on all growers; it expired in 1995, but the OBRA of 1993 extended it through 1998.

- The "No-Net-Cost Tobacco Program Act of 1982" required that, to be eligible for price

support, tobacco producers had to contribute to a fund or pay assessments to an account established by the cooperative association that makes Federal support loans available to producers. The funds are collected to cover potential losses in operating the price support program.

IV. EXPECTED EFFECTS OF THE SETTLEMENT ON GROWERS

- The USDA currently does not forecast adverse affects on tobacco farmers; while domestic demand may decrease from the deal, export demand is growing

- Based on a short run elasticity of -0.4, a 25 cent per pack increase in retail price would likely result in a 5.2% decline in cigarettes consumption, and a 29.2 million poiund decline in domestic tobacco use, about 2% of 1996 U.S. production.. A 50 cent per pack price increase would lead to a 10.5% decline in cigarette consumption. (Draft USDA estimates)

- If the Settlement reduces underage consumption by 30% by the 5th year, the result will be a decline of 5.7 to 9.2 million pounds of U.S. tobacco. U.S. tobacco production in 1996 was 1, 517 million pounds.

- Cigarette exports are not restricted by the settlement and will likely continue their upward trend.

- A 25-cent increase in cigarette prices is estimated to result in a decline in the use of flue-cured and burley tobacco for domestic cigarette consumption of 10% and 8.4 %, respectively, by 2006. (Draft USDA estimate)

- This decline will be partially offset by the use of domestic tobacco for increased cigarette production for export. Total flue-cured and burley marketings will likely fall by 6.4% and 7.5%, respectively, by 2006.

- A 50-cent increase is estimated to result in a decline in total flue-cured and burley marketings of 8.1% and 9.8%, respectively.

V. SOME PROPOSALS

In a March 1994 ABC News Special featuring President Clinton answering questions from young people at the White House, he stated, "There are a lot of good people in America who still raise tobacco. And we should have funds set aside for them (in the cigarette tax) to help them convert away from raising tobacco to doing other kinds of farming so they can actually make a living."

These are 2 sets of proposals on the tobacco negotiations. They both recommend continuing support for the current tobacco program, and maintaining quotas.

The North Carolina Dept of Agriculture and Consumer Services made these recommendations at a meeting held on 7/10/97. The meeting was attended by the chair of the NCDA, Commissioner James Graham, Deputy Commissioner Weldon Denny, WB Jenkins and Larry Wooten of the NC

Farm Bureau, representatives from tobacco growers associations and other agricultural interest groups.

1. Protect the current tobacco program.

2. Maintain the tobacco quota and current price support system.

3. Secure a commitment form the tobacco companies to purchase 600 million pounds of flue-cured tobacco annually.

It was a consensus of this group that any legislation enacted by Congress to implement the settlement should address the following growers concerns:

4. Authorize the Sec of Agriculture to implement program changes through a referendum by the growers.

5. Set aside 1% of settlement package to allow for quota buy-down or other program enhancements.

6. Tobacco growers, growers' organizations, warehouses and dealers should receive the same immunity or limitation or legal liability afforded to the tobacco companies.

These are the recommendations offered by Rep. Baesler:

1. <u>Provisions for the future of the tobacco program</u>. Establish by contract with tobacco companies and in legislation that the tobacco program will be perpetual and for the life of the comprehensive settlement with the tobacco industry.

2. <u>Tobacco quotas</u>. Agree by contract with the manufacturers and the farmers that the buying intentions will remain at a level equal to or exceeding the level set for 1997 (700 million pounds for burley tobacco), and at the 1997 support price. This contract between the companies and the farmers will be incorporated into the language of the legislation.

3. <u>The federal program</u>. The companies will agree by contract and legislation that they will pay the cost of the tobacco program incurred by the federal government.

4. <u>Crop insurance</u>. Manufacturers will agree to assume all of the federal government's losses related to the federal crop insurance program.

5. <u>Domestic content</u>. Requiring cigarette companies to use up to 75% American-grown leaf in their product. (Current law sets the U.S. percentage at 75%).

VI. THE SETTLEMENT'S MENTIONS OF TOBACCO GROWERS

Direct mention of the USDA or tobacco farming occur in two instances within the agreement. The first simply states that tobacco farmers will not be subject to additional regulations over and above those existing for other producers of raw products "Tobacco farmers will face no greater regulatory burden than the producers of other raw products regulated by the federal government." [Title I, Subtitle E}. The second mention addresses the issues of limitations on FDA regulatory jurisdiction and states: "-- Grower Limitation: FDA jurisdiction does not extend to the growing cultivation or curing of raw tobacco (USDA has exclusive authority)." [Title V, Subtitle A]

Attached are some relevant clips and possible discussion topics.

AMERICAN FARM BUREAU FEDERATION®
225 TOUHY AVENUE • PARK RIDGE • ILLINOIS • 60068 • (847) 685-8600 • FAX (847) 685-8896
600 MARYLAND AVENUE S.W. • SUITE 800 • WASHINGTON, D.C. • 20024 • (202) 484-3600 • FAX (202) 484-3604

What is Farm Bureau?

The American Farm Bureau Federation is the world's largest voluntary organization of farmers and ranchers. More than 4.7 million family members belong to county or parish Farm Bureaus which, in turn, comprise state Farm Bureau organizations in all 50 states and Puerto Rico.

AFBF represents all commodity interests and is involved in all issues which are of concern to the nation's farmers and ranchers, including taxation, property rights and services to the farm community. It is farm people joining together to solve common problems.

The organization has never been a government agency and is not politically partisan, rather it seeks support on a bipartisan basis. As the nation's largest farm organization, AFBF has established programs that are directed by policies developed and voted upon by farm representatives at the county, state and national level.

The president, vice president and members of the board of directors must be farmers and are elected by voting delegates from state Farm Bureaus. The president is a full-time executive who directs the day-to-day operations of the organization and speaks as the official voice of the American Farm Bureau Federation.

In 1919, a small group of farmers from a dozen states gathered in Chicago and founded the American Farm Bureau Federation. Their goal was to speak for themselves through their own national organization. It soon became local, statewide, national and international in its scope and influence.

Through the years thousands of elected leaders served on county and state Farm Bureau boards, with many serving as voting delegates in state and American Farm Bureau Federation business meetings. Membership is on a family basis in all states. Payment of dues is voluntary and includes county, state and AFBF membership.

#

DISCUSSION TOPICS

1. What do they expect the consequences of the settlement to be on small farmers?

   * if there is a decline in domestic sales, how much will exports make up for it?

2. What options should the Administration consider to make sure small farmers are not causalities of the settlement?

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VA Tobacco Farmers-Goode, 450

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- A 1991 survey of farms showed that only 7% of flue-cured operators owned the entire tobacco quota they produced; about 21% rented all their quota, and 72% owned and rented quota. The percentage of burley farmers owning all of their quota is higher, reflecting the more restrictive rules governing burley transfer and leasing.

- Quota levels have generally declined since the mid-1970s, following a decline in marketings. Quota levels are up for both flue-cured and burley tobacco in 1997, reflecting increased marketings and reduced stock levels in 1996.

- In response to surging tobacco imports (which increased nearly 250% from 1990- 93), Congress enacted a provision in the Omnibus Budget Reconciliation Act (OBRA) of 1993 which required US-manufactured cigarettes to contain 75% US-grown tobacco. As part of the Uruguay Round implementing legislation, domestic content provisions were replaced by the establishment of a tariff rate quota for certain imported tobacco, primarily flue-cured and burley.

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- The USDA currently does not forecast adverse affects on tobacco farmers; while domestic demand may decrease from the deal, export demand is growing

- Based on a short run elasticity of -0.4, a 25 cent per pack increase in retail price would likely result in a 5.2% decline in cigarettes consumption, and a 29.2 million poiund decline in domestic tobacco use, about 2% of 1996 U.S. production.. A 50 cent per pack price increase would lead to a 10.5% decline in cigarette consumption. (Draft USDA estimates)

- If the Settlement reduces underage consumption by 30% by the 5th year, the result will be a decline of 5.7 to 9.2 million pounds of U.S. tobacco. U.S. tobacco production in 1996 was 1, 517 million pounds.

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- A 25-cent increase in cigarette prices is estimated to result in a decline in the use of flue-cured and burley tobacco for domestic cigarette consumption of 10% and 8.4 %, respectively, by 2006. (Draft USDA estimate)

- This decline will be partially offset by the use of domestic tobacco for increased cigarette production for export. Total flue-cured and burley marketings will likely fall by 6.4% and 7.5%, respectively, by 2006.

- A 50-cent increase is estimated to result in a decline in total flue-cured and burley marketings of 8.1% and 9.8%, respectively.

V. SOME PROPOSALS

In a March 1994 ABC News Special featuring President Clinton answering questions from young people at the White House, he stated, "There are a lot of good people in America who still raise tobacco. And we should have funds set aside for them (in the cigarette tax) to help them convert away from raising tobacco to doing other kinds of farming so they can actually make a living."

These are 2 sets of proposals on the tobacco negotiations. They both recommend continuing support for the current tobacco program, and maintaining quotas.

The North Carolina Dept of Agriculture and Consumer Services made these recommendations at a meeting held on 7/10/97. The meeting was attended by the chair of the NCDA, Commissioner James Graham, Deputy Commissioner Weldon Denny, WB Jenkins and Larry Wooten of the NC

Farm Bureau, representatives from tobacco growers associations and other agricultural interest groups.

1. Protect the current tobacco program.

2. Maintain the tobacco quota and current price support system.

3. Secure a commitment form the tobacco companies to purchase 600 million pounds of flue-cured tobacco annually.

It was a consensus of this group that any legislation enacted by Congress to implement the settlement should address the following growers concerns:

4. Authorize the Sec of Agriculture to implement program changes through a referendum by the growers.

5. Set aside 1% of settlement package to allow for quota buy-down or other program enhancements.

6. Tobacco growers, growers' organizations, warehouses and dealers should receive the same immunity or limitation or legal liability afforded to the tobacco companies.

These are the recommendations offered by Rep. Baesler:

1. Provisions for the future of the tobacco program. Establish by contract with tobacco companies and in legislation that the tobacco program will be perpetual and for the life of the comprehensive settlement with the tobacco industry.

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3. The federal program. The companies will agree by contract and legislation that they will pay the cost of the tobacco program incurred by the federal government.

4. Crop insurance. Manufacturers will agree to assume all of the federal government's losses related to the federal crop insurance program.

5. Domestic content. Requiring cigarette companies to use up to 75% American-grown leaf in their product. (Current law sets the U.S. percentage at 75%).

VI. THE SETTLEMENT'S MENTIONS OF TOBACCO GROWERS

Direct mention of the USDA or tobacco farming occur in two instances within the agreement. The first simply states that tobacco farmers will not be subject to additional regulations over and above those existing for other producers of raw products "Tobacco farmers will face no greater regulatory burden than the producers of other raw products regulated by the federal government." [Title I, Subtitle E}. The second mention addresses the issues of limitations on FDA regulatory jurisdiction and states: "-- Grower Limitation: FDA jurisdiction does not extend to the growing cultivation or curing of raw tobacco (USDA has exclusive authority)." [Title V, Subtitle A]

Attached are some relevant clips and possible discussion topics.

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600 MARYLAND AVENUE S.W. • SUITE 800 • WASHINGTON, D.C. • 20024 • (202) 484-3600 • FAX (202) 484-3604

What is Farm Bureau?

The American Farm Bureau Federation is the world's largest voluntary organization of farmers and ranchers. More than 4.7 million family members belong to county or parish Farm Bureaus which, in turn, comprise state Farm Bureau organizations in all 50 states and Puerto Rico.

AFBF represents all commodity interests and is involved in all issues which are of concern to the nation's farmers and ranchers, including taxation, property rights and services to the farm community. It is farm people joining together to solve common problems.

The organization has never been a government agency and is not politically partisan, rather it seeks support on a bipartisan basis. As the nation's largest farm organization, AFBF has established programs that are directed by policies developed and voted upon by farm representatives at the county, state and national level.

The president, vice president and members of the board of directors must be farmers and are elected by voting delegates from state Farm Bureaus. The president is a full-time executive who directs the day-to-day operations of the organization and speaks as the official voice of the American Farm Bureau Federation.

In 1919, a small group of farmers from a dozen states gathered in Chicago and founded the American Farm Bureau Federation. Their goal was to speak for themselves through their own national organization. It soon became local, statewide, national and international in its scope and influence.

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DISCUSSION TOPICS

1. What do they expect the consequences of the settlement to be on small farmers?

    * if there is a decline in domestic sales, how much will exports make up for it?

2. What options should the Administration consider to make sure small farmers are not causalities of the settlement?

3. One choice seems to be protecting and maintaining the current program and quotas. It is the NC Department of Agriculture position paper.

4. Other ideas have been:

    * quota buy downs;

    *a referendum (also in the NC position plan);

    *a crop conversion fund

    Are any of these useful ideas?

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process in better shape than they did under last month's $368.5 billion tobacco settlement.

Kentucky and North Carolina farm leaders are working on a package of relief proposals. Also, a key tobacco industry negotiator appears supportive of the farmers, and health advocates say they want to protect the growers from sudden economic upheaval.

``I feel very strongly that farmers should not be left out of the deal,'' David Kessler, former commissioner of the U.S. Food and Drug Administration, said recently. ``I think that's a very high priority.''

These groups don't necessarily agree, however, on the form aid for farmers should take. The options include compensation for lost income, limits on the amount of foreign-grown tobacco in American cigarettes and a buyout program to encourage farmers to stop growing tobacco.

Economic projections show the cutback in smoking that results from the agreement could translate into more than a 50 million-pound reduction in the use of burley leaf, most of which is grown in Kentucky.

With a selling price close to $2 a pound, that's a lot of lost money.

But the only thing the deal does for farmers is guarantee that the FDA's enhanced regulatory authority won't extend to tobacco cultivation.

The settlement, however, is far from settled. The agreement must be drafted into legislation, passed by Congress and signed by President Clinton.

A lead industry negotiator, North Carolina lawyer J. Phil Carlton, says he wants to help the farmers.

Carlton, the son of a tobacco farmer and until recently the owner of a tobacco farm, told The Courier-Journal last week that the farmer issue will definitely be on the table as negotiators draft the legislation to submit to Congress.

``We're willing to talk about that,'' Carlton said of one possibility the growers are interested in: a guarantee that cigarette makers will commit to use a certain amount of domestic tobacco.

The industry, according to Carlton, also is willing to consider paying for tobacco crop insurance and the tobacco price-support program's administrative costs should Congress cut off the funding, as some have proposed.

And public health officials want to see the farmers get help, although their main objective is not compensation.

Instead, the health groups want to use money to entice the farmers out of the tobacco business and out of their longstanding political alliance with the cigarette companies.

Their idea is either to pay farmers to retire their growing quotas or give them money to try alternative crops.

Last month, health group negotiators proposed that the settlement set aside about $150 million a year mainly for that purpose. But Carlton said he rejected that idea, and it was not included in the settlement. He said the proposal was not comprehensive enough.

One of four interagency panels President Clinton set up to review the agreement will focus on the tobacco industry, including the economic impact on the growers.

Unlike the cigarette makers, the farmers come to the legislative process seemingly unblemished by the controversy and distrust that for decades gripped the smoking issue.

``They've not been willing conspirators. They've been pawns,'' Indiana Attorney General Jeff Modisett said.

Sen. Wendell Ford of Kentucky has said repeatedly that without protection for the farmers, he won't support implementation of the bill.

Ronny Pryor, chief lobbyist for the Kentucky Farm Bureau, wants farmers compensated for lost sales and quota reductions, and he insists there would be little interest among burley growers in a quota buyout. Tobacco is too lucrative to give up, he said.

But Pryor indicated there is nevertheless room to please both farmers and the anti-smoking side. He suggested the possibility of a compromise that would compensate farmers while also helping them move into alternative crops. ``We don't see it as an either-or thing,'' he said.

Received by NewsEDGE/LAN: 7/4/97 5:45 AM

News & Record (Greensboro, NC)

October 11, 1994, Tuesday, ALL EDITIONS

SECTION: BUSINESS, Pg. B5

LENGTH: 336 words

HEADLINE: KENTUCKIAN OPPOSES QUOTA BUY-OUT PLAN

BYLINE: SCOTT SOLOMO, Staff Writer

BODY:

The question of whether to end the federal government's tobacco price support was given a resounding ''no'' Monday by U.S. Rep. Scotty Baesler of Kentucky, who said the program is too important to his state's rural economy.

Baesler said he opposes a proposal by U.S. Rep. Charlie Rose, a Fayetteville Democrat, to pay growers $ 7.50 a pound to give up their federally-assigned tobacco quotas.

Rose's buy-out proposal may be well-suited for flue-cured tobacco growers in North Carolina, Baesler said, but it fails to take into account the many burley farmers in Kentucky who rent quotas from someone else.

In addition, he said, it would devastate feed stores, fertilizer stores and other businesses that support tobacco farmers.

''If you do away with the program then you're basically doing away with tobacco production as we know it here,'' said Baesler, a Democrat who attended a meeting on the issue in Charlotte last week.

''I think that would be a tremendous hit on our rural economy.''

Support by Kentucky lawmakers is considered critical to the proposal's success.

Burley tobacco is an $ 800-million-a-year business in Kentucky, said Baesler, who himself will grow 150,000 pounds this year.

Under Rose's plan, those farmers would be ''out in the cold,'' Baesler said.

$10B

Rose has suggested paying for the buyout, which would amount to about $ 16,000 an acre, with an increase in the federal cigarette tax. In North Carolina the estimated cost of such a plan is $ 4.1 billion, while nationwide it could cost $ 10 billion.

Rose said he proposed phasing out the price-support system as a way to invigorate sales of domestic tobacco and give farmers a financial incentive to convert to other crops.

LEXIS·NEXIS A member of the Reed Elsevier plc group
LEXIS·NEXI A member of the Reed Elsevier plc

Under the price-support system, the government establishes quotas, and co-ops, with loans from the federal government, buy tobacco that does not receive a bid at auction.

''I don't think on its face it will accomplish what (Rose) wants it to accomplish,'' Baesler said of the plan.

LOAD-DATE: October 13, 1994

Tobacco farmers share settlement concerns with congressman

DANVILLE, Va. (AP) After a scorching day in the fields, a group of Southside Virginia tobacco growers met with their congressman to vent their frustrations with the proposed tobacco industry settlement.

``There's a saying that the road to hell is paved with good intentions,'' J.T. Davis of Nathalie said Thursday. ``If we don't get things turned around, this is going to be the road to hell for the tobacco farmers.''

U.S. Rep. Virgil Goode promised to work to get protections for farmers included in the settlement as it makes its way through Congress, particularly measures that would keep the price and supplies of tobacco from plummeting.

``Two factors have got to be market stability and price stablity,'' said Goode, a Democrat from Rocky Mount whose district includes most of Virginia's tobacco farms.

``If you destroy the American tobacco grower, you're still going to have cigarettes; people are still going to smoke,'' Goode said. ``It would just transfer production to countries like China and Brazil.''

The farmers said they are worried that the $360 billion settlement will force cigarette companies to cut their losses by buying cheaper foreign-grown tobacco. They also fear that Congress will reduce or eliminate programs that prop up the price and supply of U.S. tobacco.

``We're not getting rich,'' said Dick Conner of Halifax County. ``It's hard work and it's hot.''

The farmers said they're also steamed that they were left out of the proposed settlement, which would allocate millions of dollars to help people quit smoking and compensate sporting events and teams for the loss of tobacco sponsors.

``I don't know of anybody more addicted to tobacco than tobacco growers,'' Davis said.

But C.D. Bryant of Pittsylvania County said, ``We're not looking for some big handout.''

This year, tobacco is growing on about 8,400 Virginia farms with projected cash receipts of nearly $200 million, making it Virginia's most important crop economically.

Gov. George Allen announced Wednesday that he had appointed a three-member task force to work with Congress to minimize the damage the tobacco deal could do to Virginia's $5 billion-a-year tobacco industry.

President Clinton and Congress must approve the settlement tobacco companies reached with the 40 states that sued them to recover smoking-related health costs.

Under the agreement, all states would be reimbursed for their Medicaid expenses for treating victims of tobacco-related illness.

The attorneys general who negotiated the deal said they wanted to protect tobacco growers and tried to write safeguards for them into the deal, but ultimately left that to Congress.

``If anybody in Washington has a heart or a conscience they are going to put something in this for the growers,'' Davis said.

(PROFILE
(CAT:Agriculture;)
(CAT:Political;)
(SRC:AP; ST:NC;)
)
AP-NY-07-04-97 0538EDT

:SUBJECT: VA AGRI NC POL

Received by NewsEDGE/LAN: 7/4/97 5:42 AM

→ ① 75% is low as [illegible]?
no
② how much exported

MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

CC: JERRALD MANDE, ELIZABETH DRYE

FROM: TOM FREEDMAN
MARY SMITH
JULIE MIKUTA

RE: TOBACCO GROWERS AND THE SETTLEMENT

DATE: JULY 15, 1997

③ price stabilization corp. + under [illegible]
$16.85 →
④ $1600 per pd. purchase agreement — 20 a yr

SUMMARY

This memo gives a general overview of tobacco production, various government programs, and how the settlement is likely to affect growers. The last section lists recommendations for the tobacco negotiations from congressional and farm sources. Attached are some relevant articles and possible discussion topics.

I. JULY 16, 1997 MEETING ATTENDEES

Secretary Glickman, Secretary Shalala, Bruce Reed, Gov. Hunt, and representatives from State Farm Bureaus: Larry Wooten (Asst to the President, NC Farm Bureau), Harry Bell (President, SC), Wayne Ashworth (President, VA), Carl Loop (President, FL), Wayne Dollar (President, GA), Bill Sprague (President, KY), and Flavius Barker (President, TN).

II. TOBACCO PRODUCTION STATISTICS

- Cigarettes account for 90% of the tobacco used in the United States. In 1995, domestic burley accounted for about 27% of the tobacco used in cigarettes; domestic flue-cured, 37%; Maryland, 1%; and imported, 35%.

- Tobacco is produced in 21 states. North Carolina accounts for 37% of the acreage; KY for 28%. Together, Virginia, South Carolina, Tennessee, and Georgia account for another 26%.

- Tobacco farming accounts for 6.5% of NC's GSP; and for 2.5% of KY's GSP. [State Tobacco Control Highlights, 1996]

- An estimated 124,000 farms grew tobacco in 1992. About 3/4 of them are classified as tobacco farms, meaning that tobacco comprises at least 50% of sales. The average impact of reductions in demand due to a 62 cent rise in cigarette prices would be about $885 a farm on a tobacco crop worth $18,000 a farm. [Ken Warner study]

overseas better
- could export

profitable $1500-2000 an acre
10x better

50% → 10%   5%-10%

- In North Carolina, there are 16,830 jobs (0.47% of state's total) in tobacco manufacturing. Virginia has 9,550 (0.31%); Kentucky has 4,210 (0.25%); Florida has 1,480 (0.02%); and Tennessee has 1,180 (0.05%).

- Over the past decade, tobacco prices have risen at a 6.3% annual rate, compared to 3.7% for "core" consumer prices (excluding food and energy). Faster growth was mainly the result of a sharp uptrend prior to 1993.

- This year, tobacco prices have sped up again, increasing at nearly an 8% annual rate through May in part reflecting higher state taxes.

- Tobacco is the 6th largest cash crop.

- Leaf exports accounted for 33% of U.S. production in 1996. In the same year, 32% of the cigarettes manufactured in the U.S. were shipped overseas.

III. HOW THE GOVERNMENT PROGRAM WORKS

- Most U.S. tobacco production has been under a price support and supply control program since the 1930s. Producers are guaranteed higher than market equilibrium prices in exchange for limiting marketings through marketing quotas. Support prices are based on the previous year's level, and adjusted by changes in the 5-year average of prices and the cost of production index. Quotas are based on: intended purchases by cigarette manufacturers; average annual exports for the 3 previous years; and the amount of tobacco required to attain a specific reserve level.

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$ 30 mill crop insurance grading prgm

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Sen. Wendell Ford of Kentucky has said repeatedly that without protection for the farmers, he won't support implementation of the bill.

Ronny Pryor, chief lobbyist for the Kentucky Farm Bureau, wants farmers compensated for lost sales and quota reductions, and he insists there would be little interest among burley growers in a quota buyout. Tobacco is too lucrative to give up, he said.

But Pryor indicated there is nevertheless room to please both farmers and the anti-smoking side. He suggested the possibility of a compromise that would compensate farmers while also helping them move into alternative crops. ``We don't see it as an either-or thing,'' he said.

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News & Record (Greensboro, NC)

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HEADLINE: KENTUCKIAN OPPOSES QUOTA BUY-OUT PLAN

BYLINE: SCOTT SOLOMO, Staff Writer

BODY:

The question of whether to end the federal government's tobacco price support was given a resounding ''no'' Monday by U.S. Rep. Scotty Baesler of Kentucky, who said the program is too important to his state's rural economy.

Baesler said he opposes a proposal by U.S. Rep. Charlie Rose, a Fayetteville Democrat, to pay growers $ 7.50 a pound to give up their federally-assigned tobacco quotas.

Rose's buy-out proposal may be well-suited for flue-cured tobacco growers in North Carolina, Baesler said, but it fails to take into account the many burley farmers in Kentucky who rent quotas from someone else.

In addition, he said, it would devastate feed stores, fertilizer stores and other businesses that support tobacco farmers.

''If you do away with the program then you're basically doing away with tobacco production as we know it here,'' said Baesler, a Democrat who attended a meeting on the issue in Charlotte last week.

''I think that would be a tremendous hit on our rural economy.''

Support by Kentucky lawmakers is considered critical to the proposal's success.

Burley tobacco is an $ 800-million-a-year business in Kentucky, said Baesler, who himself will grow 150,000 pounds this year.

Under Rose's plan, those farmers would be ''out in the cold,'' Baesler said.

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Rose has suggested paying for the buyout, which would amount to about $ 16,000 an acre, with an increase in the federal cigarette tax. In North Carolina the estimated cost of such a plan is $ 4.1 billion, while nationwide it could cost $ 10 billion.

Rose said he proposed phasing out the price-support system as a way to invigorate sales of domestic tobacco and give farmers a financial incentive to convert to other crops.

Under the price-support system, the government establishes quotas, and co-ops, with loans from the federal government, buy tobacco that does not receive a bid at auction.

''I don't think on its face it will accomplish what (Rose) wants it to accomplish,'' Baesler said of the plan.

LOAD-DATE: October 13, 1994

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VA Tobacco Farmers-Goode, 450

Tobacco farmers share settlement concerns with congressman

DANVILLE, Va. (AP) After a scorching day in the fields, a group of Southside Virginia tobacco growers met with their congressman to vent their frustrations with the proposed tobacco industry settlement.

``There's a saying that the road to hell is paved with good intentions,'' J.T. Davis of Nathalie said Thursday. ``If we don't get things turned around, this is going to be the road to hell for the tobacco farmers.''

U.S. Rep. Virgil Goode promised to work to get protections for farmers included in the settlement as it makes its way through Congress, particularly measures that would keep the price and supplies of tobacco from plummeting.

``Two factors have got to be market stability and price stablity,'' said Goode, a Democrat from Rocky Mount whose district includes most of Virginia's tobacco farms.

``If you destroy the American tobacco grower, you're still going to have cigarettes; people are still going to smoke,'' Goode said. ``It would just transfer production to countries like China and Brazil.''

The farmers said they are worried that the $360 billion settlement will force cigarette companies to cut their losses by buying cheaper foreign-grown tobacco. They also fear that Congress will reduce or eliminate programs that prop up the price and supply of U.S. tobacco.

``We're not getting rich,'' said Dick Conner of Halifax County. ``It's hard work and it's hot.''

The farmers said they're also steamed that they were left out of the proposed settlement, which would allocate millions of dollars to help people quit smoking and compensate sporting events and teams for the loss of tobacco sponsors.

``I don't know of anybody more addicted to tobacco than tobacco growers,'' Davis said.

But C.D. Bryant of Pittsylvania County said, ``We're not looking for some big handout.''

This year, tobacco is growing on about 8,400 Virginia farms with projected cash receipts of nearly $200 million, making it Virginia's most important crop economically.

Gov. George Allen announced Wednesday that he had appointed a three-member task force to work with Congress to minimize the damage the tobacco deal could do to Virginia's $5 billion-a-year tobacco industry.

President Clinton and Congress must approve the settlement tobacco companies reached with the 40 states that sued them to recover smoking-related health costs.

Under the agreement, all states would be reimbursed for their Medicaid expenses for treating victims of tobacco-related illness.

The attorneys general who negotiated the deal said they wanted to protect tobacco growers and tried to write safeguards for them into the deal, but ultimately left that to Congress.

``If anybody in Washington has a heart or a conscience they are going to put something in this for the growers,'' Davis said.

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:SUBJECT: VA AGRI NC POL

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MEMORANDUM

TO:	**BRUCE REED, ELENA KAGAN**
CC:	**JERRALD MANDE, ELIZABETH DRYE**
FROM:	**TOM FREEDMAN** **MARY SMITH** **JULIE MIKUTA**
RE:	**TOBACCO GROWERS AND THE SETTLEMENT**
DATE:	**JULY 15, 1997**

SUMMARY

This memo gives a general overview of tobacco production, various government programs, and how the settlement is likely to affect growers. The last section lists recommendations for the tobacco negotiations from congressional and farm sources. Attached are some relevant articles and possible discussion topics.

I. JULY 16, 1997 MEETING ATTENDEES

Secretary Glickman, Secretary Shalala, Bruce Reed, Gov. Hunt, and representatives from State Farm Bureaus: Larry Wooten (Asst to the President, NC Farm Bureau), Harry Bell (President, SC), Wayne Ashworth (President, VA), Carl Loop (President, FL), Wayne Dollar (President, GA), Bill Sprague (President, KY), and Flavius Barker (President, TN).

II. TOBACCO PRODUCTION STATISTICS

- Cigarettes account for 90% of the tobacco used in the United States. In 1995, domestic burley accounted for about 27% of the tobacco used in cigarettes; domestic flue-cured, 37%; Maryland, 1%; and imported, 35%.

- Tobacco is produced in 21 states. North Carolina accounts for 37% of the acreage; KY for 28%. Together, Virginia, South Carolina, Tennessee, and Georgia account for another 26%.

- Tobacco farming accounts for 6.5% of NC's GSP; and for 2.5% of KY's GSP. [State Tobacco Control Highlights, 1996]

- An estimated 124,000 farms grew tobacco in 1992. About 3/4 of them are classified as tobacco farms, meaning that tobacco comprises at least 50% of sales. The average impact of reductions in demand due to a 62 cent rise in cigarette prices would be about $885 a farm on a tobacco crop worth $18,000 a farm. [Ken Warner study]

- In North Carolina, there are 16,830 jobs (0.47% of state's total) in tobacco manufacturing. Virginia has 9,550 (0.31%); Kentucky has 4,210 (0.25%); Florida has 1,480 (0.02%); and Tennessee has 1,180 (0.05%).

- Over the past decade, tobacco prices have risen at a 6.3% annual rate, compared to 3.7% for "core" consumer prices (excluding food and energy). Faster growth was mainly the result of a sharp uptrend prior to 1993.

- This year, tobacco prices have sped up again, increasing at nearly an 8% annual rate through May in part reflecting higher state taxes.

- Tobacco is the 6th largest cash crop.

- Leaf exports accounted for 33% of U.S. production in 1996. In the same year, 32% of the cigarettes manufactured in the U.S. were shipped overseas.

III. HOW THE GOVERNMENT PROGRAM WORKS

- Most U.S. tobacco production has been under a price support and supply control program since the 1930s. Producers are guaranteed higher than market equilibrium prices in exchange for limiting marketings through marketing quotas. Support prices are based on the previous year's level, and adjusted by changes in the 5-year average of prices and the cost of production index. Quotas are based on: intended purchases by cigarette manufacturers; average annual exports for the 3 previous years; and the amount of tobacco required to attain a specific reserve level.

- A 1991 survey of farms showed that only 7% of flue-cured operators owned the entire tobacco quota they produced; about 21% rented all their quota, and 72% owned and rented quota. The percentage of burley farmers owning all of their quota is higher, reflecting the more restrictive rules governing burley transfer and leasing.

- Quota levels have generally declined since the mid-1970s, following a decline in marketings. Quota levels are up for both flue-cured and burley tobacco in 1997, reflecting increased marketings and reduced stock levels in 1996.

- In response to surging tobacco imports (which increased nearly 250% from 1990- 93), Congress enacted a provision in the Omnibus Budget Reconciliation Act (OBRA) of 1993 which required US-manufactured cigarettes to contain 75% US-grown tobacco. As part of the Uruguay Round implementing legislation, domestic content provisions were replaced by the establishment of a tariff rate quota for certain imported tobacco, primarily flue-cured and burley.

- The OBRA of 1990 imposed an assessment of 0.5% of the national loan rate on all growers; it expired in 1995, but the OBRA of 1993 extended it through 1998.

- The "No-Net-Cost Tobacco Program Act of 1982" required that, to be eligible for price

support, tobacco producers had to contribute to a fund or pay assessments to an account established by the cooperative association that makes Federal support loans available to producers. The funds are collected to cover potential losses in operating the price support program.

IV. EXPECTED EFFECTS OF THE SETTLEMENT ON GROWERS

- The USDA currently does not forecast adverse affects on tobacco farmers; while domestic demand may decrease from the deal, export demand is growing

- Based on a short run elasticity of -0.4, a 25 cent per pack increase in retail price would likely result in a 5.2% decline in cigarettes consumption, and a 29.2 million poiund decline in domestic tobacco use, about 2% of 1996 U.S. production.. A 50 cent per pack price increase would lead to a 10.5% decline in cigarette consumption. (Draft USDA estimates)

- If the Settlement reduces underage consumption by 30% by the 5th year, the result will be a decline of 5.7 to 9.2 million pounds of U.S. tobacco. U.S. tobacco production in 1996 was 1, 517 million pounds.

- Cigarette exports are not restricted by the settlement and will likely continue their upward trend.

- A 25-cent increase in cigarette prices is estimated to result in a decline in the use of flue-cured and burley tobacco for domestic cigarette consumption of 10% and 8.4 %, respectively, by 2006. (Draft USDA estimate)

- This decline will be partially offset by the use of domestic tobacco for increased cigarette production for export. Total flue-cured and burley marketings will likely fall by 6.4% and 7.5%, respectively, by 2006.

- A 50-cent increase is estimated to result in a decline in total flue-cured and burley marketings of 8.1% and 9.8%, respectively.

V. SOME PROPOSALS

In a March 1994 ABC News Special featuring President Clinton answering questions from young people at the White House, he stated, "There are a lot of good people in America who still raise tobacco. And we should have funds set aside for them (in the cigarette tax) to help them convert away from raising tobacco to doing other kinds of farming so they can actually make a living."

These are 2 sets of proposals on the tobacco negotiations. They both recommend continuing support for the current tobacco program, and maintaining quotas.

The North Carolina Dept of Agriculture and Consumer Services made these recommendations at a meeting held on 7/10/97. The meeting was attended by the chair of the NCDA, Commissioner James Graham, Deputy Commissioner Weldon Denny, WB Jenkins and Larry Wooten of the NC

Farm Bureau, representatives from tobacco growers associations and other agricultural interest groups.

1. Protect the current tobacco program.

2. Maintain the tobacco quota and current price support system.

3. Secure a commitment form the tobacco companies to purchase 600 million pounds of flue-cured tobacco annually.

It was a consensus of this group that any legislation enacted by Congress to implement the settlement should address the following growers concerns:

4. Authorize the Sec of Agriculture to implement program changes through a referendum by the growers.

5. Set aside 1% of settlement package to allow for quota buy-down or other program enhancements.

6. Tobacco growers, growers' organizations, warehouses and dealers should receive the same immunity or limitation or legal liability afforded to the tobacco companies.

These are the recommendations offered by Rep. Baesler:

1. Provisions for the future of the tobacco program. Establish by contract with tobacco companies and in legislation that the tobacco program will be perpetual and for the life of the comprehensive settlement with the tobacco industry.

2. Tobacco quotas. Agree by contract with the manufacturers and the farmers that the buying intentions will remain at a level equal to or exceeding the level set for 1997 (700 million pounds for burley tobacco), and at the 1997 support price. This contract between the companies and the farmers will be incorporated into the language of the legislation.

3. The federal program. The companies will agree by contract and legislation that they will pay the cost of the tobacco program incurred by the federal government.

4. Crop insurance. Manufacturers will agree to assume all of the federal government's losses related to the federal crop insurance program.

5. Domestic content. Requiring cigarette companies to use up to 75% American-grown leaf in their product. (Current law sets the U.S. percentage at 75%).

VI. THE SETTLEMENT'S MENTIONS OF TOBACCO GROWERS

Direct mention of the USDA or tobacco farming occur in two instances within the agreement. The first simply states that tobacco farmers will not be subject to additional regulations over and above those existing for other producers of raw products "Tobacco farmers will face no greater regulatory burden than the producers of other raw products regulated by the federal government." [Title I, Subtitle E}. The second mention addresses the issues of limitations on FDA regulatory jurisdiction and states: "-- Grower Limitation: FDA jurisdiction does not extend to the growing cultivation or curing of raw tobacco (USDA has exclusive authority)." [Title V, Subtitle A]

Attached are some relevant clips and possible discussion topics.