FYI
cc.

NEWS

INTERNATIONAL TOBACCO GROWERS' ASSOCIATION

to b. [illegible]

May 29, 1998

GROWERS SLAM TOBACCO PRICES AS "DAMAGING TO ECONOMIES"

prices 1

The slump in tobacco prices across all African markets has been strongly criticised by members of the International Tobacco Growers' Association at their regional meeting in Dar es Salaam.

"Although some easing of prices was expected this selling season, the attitude of the buyers has been to slash them without regard to farmers' income or national economies," said the meeting's chairman Richard Tate of Zimbabwe.

Across the region, tobacco prices have fallen by as much as 40 per cent. This has led to delays in opening markets in Malawi, market closures in Zimbabwe and protracted negotiations in Tanzania.

However, tobacco prices in other parts of the world, such as Brazil and North America, that compete with African tobaccos have remained stable or have dropped by much smaller amounts. Because of the region-wide cuts in prices, the ITGA meeting believes that the African markets have been unfairly singled out by buyers for punitive treatment.

"There is a drive to force down African prices and it is hitting small scale producers and peasant farmers hardest of all," Mr Tate said.

mf.../2

"By switching prices on and off in successive seasons, the buyers are endangering long term stability of supply. This, in turns, hits farmer confidence and thus the whole economy, which relies so much on farmers' economic activity."

Mr Tate said that 18 to 21 months are needed to grow and market a tobacco crop.

Before the selling season, grower leaders had consulted with manufacturers and other industry groups around the world to determine exact requirements. Only a small easing of prices had been expected.

"We have all been surprised and shocked at the buyers' short-sighted behaviour which has severely affected all the regional markets," he said.

The ITGA has been made aware of the deep concern of regional governments about the threat to their economies resulting from the price cuts.

"For example, the Zimbabwe Agriculture Minister, Kumbirai Kangai, told a growers' protest meeting in Harare recently that his governments won't stand idly by while the tobacco industry is destroyed," Mr Tate said.

ENDS

For further information, please contact:

Richard Tate, Zimbabwe Tobacco Association Tel: 00 263 4 727441
David Walder, ITGA Tel: 00 44 1342 823549

Tob. Farmers Int'l trips International Savings to Vallo

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: June 16, 1998

TO: Mary Smith
WH

FAX NO:

PAGES:
(including cover)

FROM:

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

Jeff for

COMMENTS: Pages 1, 2, 3, 4, 8, 9 & 10 are attached.

Price and Health Benefits Produced By The US Tobacco Program:

Price Maintainence and Pesticide Monitoring

June 15, 1998

Without A US Tobacco Program

- **Tobacco Purchases' Annual Price Windfall**

US Savings	$1.2 billion
World Savings	$2.2 billion
Total Savings	$3.4 billion

- **Less Consumer Protection**

  No Pesticide Monitoring

  No Monitoring For Other Contaminates

With A US Tobacco Program

- **Consumer Protection From A Strict Pesticide Monitoring Program**

- **US Tobacco Program Eliminates Windfall Profits To Tobacco Purchasers**

202 224 8534

June 15, 1998

Windfall To Cigarette Manufacturers From The Elimination Of The US Tobacco Program

1) The US Tobacco Program maintains the highest prices for any openly traded tobacco in the world. Thus the US price serves as the "umbrella" for world tobacco price

2) Without a tobacco program, tobacco companies would have access to lower cost domestic and foreign leaf, resulting in slightly lower cigarette prices (and thus slightly higher cigarette sales) and/or higher tobacco company profits.[1]

3) A. Blake Brown, agricultural economist at North Carolina State University stated in testimony before the senate committee on Agriculture, Forestry and Nutrition on September 18, 1997 that US tobacco prices without a federal tobacco program would decrease by as much as 27%.[2] The 1997 US flue-cured marketings of 1,014 million pounds at a $.47 per pound lower price would have saved purchasers **$476.6 million** and the 1997 US burley marketings of 628 million pounds at a $.52 per pound reduction would have yielded savings of **$326.6 million**. The combined savings to purchasers would have been **$803.2 million**. Based on Dr. Brown's estimates of tobacco production for both types of tobacco increasing by as much as 50% in the absence of a federal tobacco program, a similar increase in savings to purchasers would place the savings in the US alone at approximately **$1.205 billion**.

4) A Philip Morris USA vice-president of leaf purchases stated to the Flue-Cured Tobacco Cooperative Stabilization Corporation Board of Directors that if US tobacco had to compete on the world market the price could fall as low as $.75 per pound. Extrapolating this price savings to Dr. Brown's estimated tobacco production increases arising from the deregulation of tobacco production would lead to a savings by purchasers of approximately **$2.2 billion annually in the US.**

5) Total world production of tobacco in 1997 was 16.654 billion pounds.[3] The Peoples Republic of China accounted for approximately 7.055 billion pounds.[4] The PPR production is largely consumed in China and thus not affected by world prices per se. Total world tobacco production in 1997 less the PPR production is 9.60 billion pounds. An average world-wide price reduction on these tobaccos would be from 20% to 25% of the value. In the absence of the US tobacco program, the world-wide windfall to purchasers of a minimum of **$2.2 billion annually.**

6) The fact that the US Congress is considering legislation to eliminate the federal tobacco program has led to instability in world prices. One example is the current market situation in Africa. Richard Tate, Zimbabwe International Tobacco Growers' Association representative stated, "Across the region, tobacco prices have fallen by as much as 40 per cent. This had led to delays in opening markets in Malawi, market closures in Zimbabwe and protracted negotiations in Tanzania." "...the attitude of buyers has been to slash them *(prices)* without regard to farmers' income or national economies."[5]

(1) <u>The US Tobacco Program: How It Works and Who Pays For It</u>, Willim M. Snell, AEC-82, 9-96.

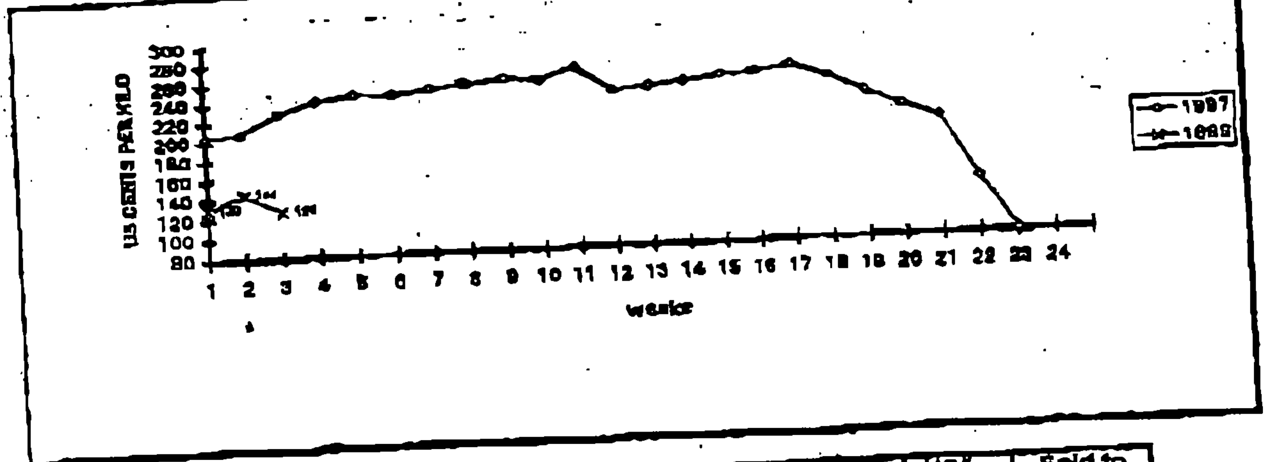
(2) <u>Implications of Elimination of the US Flue-Cured Tobacco Program</u>. A.B. Brown, Testimony before the US Senate Committee On Agriculture, Forestry and Nutrition, 9/18/97.

(3) <u>Tobacco: Situation and Outlook Yearbook</u>, USDA-ERS, December 1997, table 30.

(4) <u>Tobacco: Situation and Outlook Yearbook</u>, USDA-ERS, April 1998, table 12.

FLUE CURED Zimbabwe

WEEK ENDING 17/04/98 MARKET REPORT NO 3



Season	Sold in week 3 (MT)	US/kg	Sold to date (MT)	US/kg	Crop size (mn kgs)	US/kg	Sold to date (%)
1998	3,907.77	126.82	7,422.82	132.63	220.00		3.37%
1997	8,161.54	228.39	23,868.19	213.40	187.26	233.24	12.76%
1996	7,200.98	262.59	20,918.60	265.63	201.55	264.24	10.38%

OFFERINGS.
Primings and lugs constitute the majority of offerings, with an increase in leaf.

QUALITY.
Quality of offerings is medium to low with the majority of offerings being dry-natured primings and lugs from the early planted crop.

DEMAND.
Prices have eased in some of the middle to lower qualities hence the reduction in the weekly average price from U.S.c/kg 144 last week to U.S.c/kg 126 this week.

COMMENT.
There is currently an improvement in the deliveries to T.S.F and B.M.Z as expected after the Easter break. Growers rejection rate is on the decline.

N.B. On Friday 17/04/98, the United Merchant Bank (owned by Mr. R. Boka) closed but re-opened on Monday 20/04/98. We are not sure what effect this will have on his tobacco business.

AEC-82

COOPERATIVE EXTENSION SERVICE
UNIVERSITY OF KENTUCKY • COLLEGE OF AGRICULTURE

The U.S. Tobacco Program:
How It Works and Who Pays For It

by William M. Snell, Associate Extension Professor

The operation of the U.S. tobacco program and its costs are often misunderstood. The program guarantees U.S. tobacco farmers minimum prices in exchange for restricting production. By law, the tobacco program operates at a zero cost to U.S. taxpayers. In years of abundant production, the Commodity Credit Corporation (CCC) — a funding agency of the federal government — makes loans to grower cooperatives to purchase tobacco passed over at auction by tobacco buyers. But law requires that the principal and interest on these federal loans be fully guaranteed by marketing assessments paid by U.S. tobacco producers and purchasers.

There are some relatively small administrative and other non-operating costs associated with the program. However, these costs are partially offset by an additional assessment levied on tobacco producers and purchasers.

How the U.S. Tobacco Program Works

The U.S. tobacco program consists of marketing quotas and price supports. Marketing quotas establish the maximum amount of tobacco U.S. farmers can sell in a given marketing year. A national quota is initially determined by a formula accounting for domestic demand, export demand, and reserve stock levels. The national quota is allocated to nearly

minimum prices farmers may receive for their tobacco. The average price support level is influenced by changes in the previous years' market prices and farmers' costs of production.

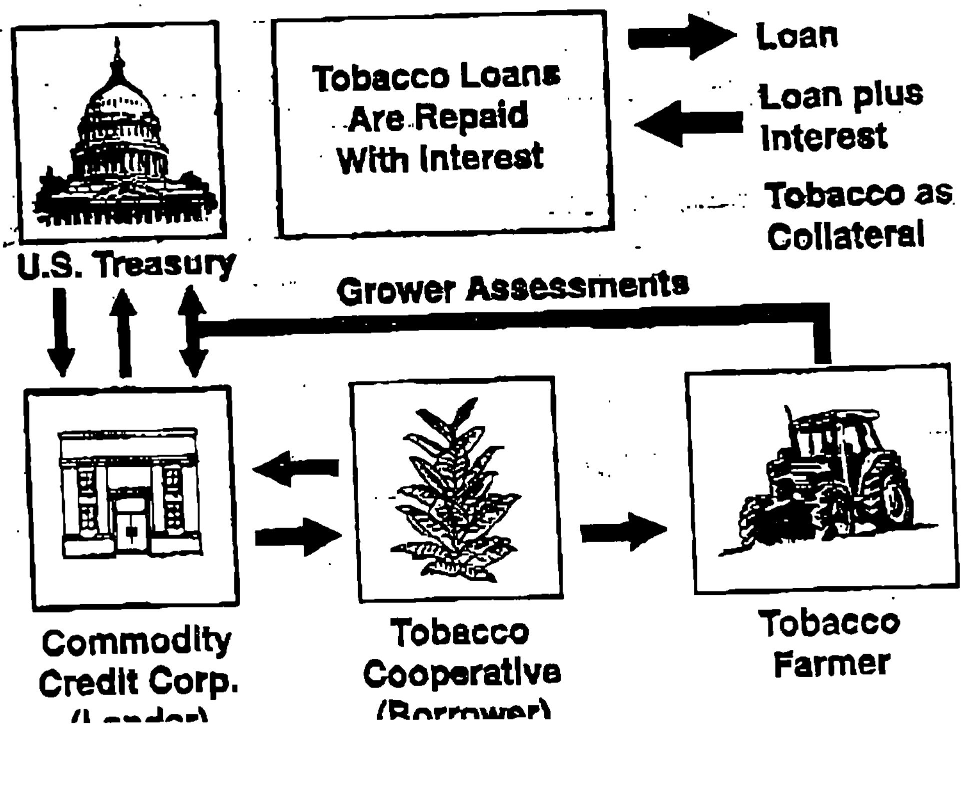
Farmers deliver their tobacco to auction warehouses where government graders (financed by the farmers) place a grade on each sales lot of tobacco. This grade refers to a specific price support (loan) level. If tobacco companies do not bid one cent per pound above the government-established price support level, the tobacco is purchased by a grower-financed/grower-operated cooperative. The cooperative pays the farmer using money borrowed from the CCC. The tobacco represents collateral on the government-backed loan.

The cooperative processes and stores the tobacco for future sale. Following the sale of the surplus tobacco, the cooperative repays the CCC loans in full with interest.

Costs and Assessments Associated With the Tobacco Program

The No-Net-Cost Tobacco Program Act of 1982 mandated that the U.S. tobacco program operate at no expense to U.S. taxpayers. To carry out this mandate, tobacco producers and purchasers are assessed a no-net-cost fee on each pound of tobacco sold.

Prior to 1982, the stored tobacco owned by producer cooperatives was



the only recourse for CCC loans. The government did incur some relatively small financial losses associated with the pre-1982 crops. In addition, taxpayers assumed some losses on the sale of the 1983 crop which (like other agricultural crops) was declared a federal disaster. Total losses of principal since the program originated in the 1930s are less than $700 million on loans exceeding $10 billion. Over 60 percent of the losses were associated with the 1983 drought-disaster crop. However, since the 1982 law, no-net-cost assessments have ensured that taxpayers are not subsidizing loans under the tobacco program.

Because of USDA accounting procedures, some years may indicate a net expenditure associated with the tobacco program, while in other years the tobacco program generates revenue for the government. Loans covering each year are considered an expense until fully repaid sometimes years later. Then when demand outpaces production, tobacco under loan is sold and the loans are repaid with interest, creating revenue for the government. Over time, however, all no-net-cost assessments must cover all current and projected losses on the tobacco loan program operation.

As with all federal programs, there e some administrative and other non-operating costs associated with the tobacco program. These include market news/analysis, extension and research activities, crop insurance subsidies, and the administration of the program by Farm Service Agency personnel. Adverse weather conditions and diseases in 1995 abnormally increased crop insurance outlays, resulting in larger than normal expenditure for the tobacco program in fiscal year 1996. Administrative and other non-operating expenditures associated with the tobacco program are projected to fall to more normal levels of around $50 million for fiscal year 1997.

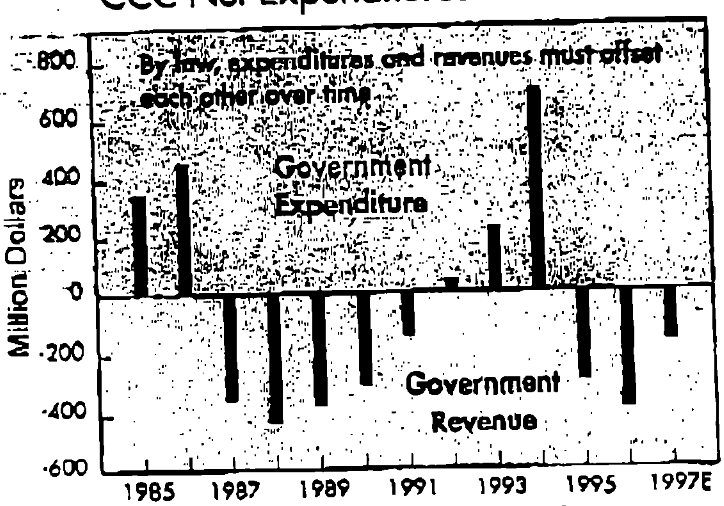
These administrative and other non-operating costs are partially offset by another assessment called the "budget deficit assessment" that tobacco producers and purchasers pay. This assessment, totalling around $30 million in recent years, is directly applied toward reducing the federal budget deficit. Abolishing the U.S. tobacco program would eliminate this source of U.S. government revenue, but would not necessarily totally eliminate other non-operating costs associated with the program. Also, the government would be subject to financial liability on any remaining tobacco loan inventories if the program were eliminated.

The Program's Impact on Farm Income and Tobacco Consumption

Unlike other agricultural programs, the tobacco program has accomplished many of the basic initial goals of farm programs of providing price and income support for a large number of small family farms without incurring large government expenditures. Despite increased consolidation during the past decade, the average tobacco farm grows fewer than seven acres of tobacco annually, with individual farm quotas being much smaller.

Eliminating the U.S. tobacco program would significantly increase price volatility and cause prices to fall by 20 percent or more. A price decline of this magnitude would likely reduce the number of family farms growing tobacco by more than 50 percent and would be devastating to many communities which experience high production costs and which depend on tobacco income, but lack off-farm employment opportunities. Even with lower and more volatile prices, U.S. tobacco production without a tobacco program would increase in concentrated areas that experience low production costs. The elimination of the program would also have adverse effects on land values, property tax bases, and the sale of agribusiness goods and services in certain rural areas. Without a program, tobacco companies would have access to lower cost domestic and foreign leaf, resulting in slightly lower cigarette prices (and thus slightly higher cigarette sales) and/or higher tobacco company profits.

CCC Net Expenditures For Tobacco



Source: USDA. Note Negative Expenditures Are Govt. Revenues

USDA Tobacco Industry and Program Data

U.S. Tobacco Farm Quotas (1995)	**347,000**
U.S. Tobacco Farms (1992 Census)	**124,000**
Avg. Tobacco Per Farm (1992 Census)	**6.7 acres**
Value of U.S. Tobacco Prod. (1992-95 Avg.)	**$2.7 billion**
Gross Value Per Acre of Tobacco (1992-95 Avg.)	**$3,833**
Taxes Collected on Tobacco Products (1995)	**$15 billion**
U.S. Tobacco Trade Surplus (1995)	**+$5.9 billion**

Index