Tobacco - farmers

ANALYSIS OF S. 1415 - UNIVERSAL TOBACCO SETTLEMENT ACT

A bill (S.1415) entitled "Universal Tobacco Settlement Act" was introduced on November 7, 1997 "to reform and restructure the processes by which tobacco products are manufactured, marketed, and distributed; to prevent the use of tobacco products by minors: to redress the adverse health effects of tobacco uses; and for other purposes." Although not specified in the bill, it has been estimated that the equivalent of a 62 cent per pack of 20 cigarettes increase in Federal excise taxes would be needed to cover payments agreed to in the June 20, 1997, proposed Tobacco Settlement.

In addition to the hike in cigarette prices, S.1415 would place additional prohibitions on advertising, would require stronger warning labels and would ban smoking in most public places. Although most of the impact on consumption would result from higher cigarette retail prices, these additional measures could also be a factor in reduced cigarette consumption.

An increase in cigarette prices of 62 cents per pack over about 8 years would cause consumption to decline 8 to 12 percent, assuming a price elasticity of -.25 to -.4. U.S. consumption would decline by about 50 billion cigarettes solely because of the settlement costs. A decline of this magnitude would drop both flue-cured and burley quotas by about 50 million pounds below baseline levels annually by 2006. Lost income to flue-cured and burley producers would total around $180 million annually. In addition, quota owners would lose about $40 million, warehouse operators might lose $8 million and other input suppliers and hired farm workers could lose $50 million or more in income annually.

The original provisions of S. 1415 incorporated the farm component of what is commonly referred to as the "Ford Bill". Under this provision, the tobacco price support-production control program would remain intact. Price supports, quota levels, and assessments would be calculated the same as they are now. However, beginning in 1999, compensation would be made to eligible quota owners, quota lessees, and quota tenants for lost tobacco quota resulting from a decline in demand for domestically produced tobacco.

Annual payments for lost quota would be $4.00 per pound times the amount by which quota falls below the 1994-1996 base quota average. Quota lessee and quota tenant payments are calculated by formula to equal about one-half the amount paid the quota owner.

In addition to funds earmarked specifically for tobacco farmers, the Ford Bill would create the "Tobacco Community Revitalization Trust Fund" for tobacco producers and growing communities for the purpose of adjusting to the impact of the legislation. The proposal would earmark $2.1 billion per year for the Fund for years 1 through 10; $500 million per year for years 10 through 25; and amounts sufficient to cover tobacco program costs, as calculated annually by the USDA for years 26 and after.

The USDA would administer the Fund, which would be used for payments for lost tobacco quota and other costs. Payments for lost tobacco quota cannot exceed $1.6 billion in any calendar year. By 2001, quotas would decline to the point that the $1.6 billion cap would become effective. By 2009, cumulative payments could total more than $15 billion.

Based on what we have been able to determine, there is still a lack of agreement on how the farm component of the Tobacco Settlement will be structured. However, the tobacco farm leadership appears to be nearing a compromise on parts of the Ford and Robb Bills. The problems in flue-cured tobacco, our largest quota kind of tobacco, seem to be in two main areas: 1) whether there will be price support reductions for flue-cured tobacco - - there appears to be strong resistance to this among some groups and individuals, including Senator Helms, and 2) finding an agreeable procedure for getting flue-cured tobacco quota transferred to actual producers. We also understand that the burley tobacco leadership will basically push for the "Ford Bill".

Based on a conversation with personnel at the Flue-Cured Tobacco Cooperative Stabilization Corporation on March 12, they, along with the burley tobacco leadership, plan to meet with Senator Ford's staff on March 16 to review their recommendations for the farm component of the Tobacco Settlement. If recommendations are delivered to Senator Ford's office on March 16, it may well be March 19-20 before recommendations are converted to bill language.

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Elena -

(1) A good summary of the tobacco program & how it came to be.

(2) Some farm income info from USDA

(3) USDA's analysis of S.1415

Tom

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