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tobacco testimony

DRAFT

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Mr. Chairman and members of the Committee, my name is Dallas R. Smith and I am the Deputy Under Secretary for Farm and Foreign Agricultural Services, in the U.S. Department of Agriculture. I appreciate the opportunity to meet with you and share the USDA perspective on the proposed tobacco settlement. My hope today is to look toward the countryside and to place a human face on these tobacco discussions. I believe that to understand the implications of changing public policies related to tobacco, one needs to see the human faces.....an elderly widow with a tobacco quota, a young farmer, the local merchant, and even the rural community as a whole. They are the tobacco stories in rural America, and our decisions should be made with them in mind. Before we get to the economic story of these rural communities, please allow me to go over the background and specifics of USDA's historic involvement with the "tobacco program."

The Tobacco Program

Government tobacco programs began with passage of the Agricultural Adjustment Act of 1933 (the 1933 Act). Over the years, the major aims of the program have been to stabilize prices and to assure a balanced flow of tobacco. Growers have benefitted from the higher prices they have received because of the marketing quotas and price supports. Tobacco manufacturers have been assured adequate supplies of the types and qualities of leaf needed for

their particular products. The Agricultural Adjustment Act of 1938, which remains the foundation of today's tobacco program, authorized the implementation of marketing quotas. The quotas set specific limits on the amount of tobacco farmers can sell without penalty.

Many legislative changes have been made since 1938, but the authority for marketing quotas, which balance the flow of tobacco through marketing channels, continues. The Secretary of Agriculture is required to establish a national annual marketing quota for each kind of tobacco and hold a referendum every three years in which producers of these various kind of tobacco decide whether to continue the program. If two-thirds of the producers voting in a particular referendum approve their quotas, then marketing quotas are in effect and production of that kind of tobacco is eligible to be pledged as collateral for price support loans from the Commodity Credit Corporation (CCC).

The Agricultural Act of 1949 (1949 Act) authorizes the price support program for tobacco. A price support level is set for each kind and grade of tobacco. To be eligible for price support, growers must adhere to strict marketing quotas or constraints on production called acreage allotments, as well as other program requirements related to the proper use of pesticides and complying with the conservation requirements found in the Food Security Act of 1985.

Price support activities are administered by producer-owned cooperative associations through loan agreements with CCC. Under the agreements, the associations arrange for receiving, redrying, packing, storing, and, eventually, selling the tobacco under loan. The CCC loans these associations the money necessary to pay the support price to producers and to process and store the tobacco until it is sold. Thus, the tobacco becomes not only the

collateral, but also the means of repaying the loan.

Eligible producers receive the loan rate for their kind and grade of tobacco when a commercial buyer does not bid at least the loan level. Annual loan rates for each grade are determined by USDA, based on trends in market prices, and the share of particular grades under loan. The weighted average of various grade loan rates must equal the overall support level for each kind of tobacco.

The No-Net-Cost Tobacco Program Act of 1982 amended the 1949 Act to require that all producers who are eligible for price support, must pay no-net-cost program assessments into a CCC account or fund established by their cooperative association to cover potential program losses. Beginning with the 1982 crop, if proceeds from the sale of collateral securing the CCC loans are insufficient to repay fully the loan plus interest and other carrying charges, producers must make up the balance from their no-net-cost account or fund. On the other hand, when proceeds from the sale of the tobacco from a particular co-op exceed the loan amount, the CCC retains the the net gain and used to offset other crop loans or put in a CCC account to help pay for future losses.

Since 1994, importers of burley and flue-cured tobacco have also been required to pay no-net-cost assessments on imported tobaccos. Tobacco producers and purchasers of all kinds of tobacco, together with importers, are assessed non-refundable marketing assessments that Congress has in recent years established at 1 percent of the national price support level for the applicable kind of tobacco, paid equally by producers and purchasers. Collections from marketing assessments, including those from importers, totaled $22 to $34 million during the last four fiscal years.

The marketing assessment is a Federal budget deficit reduction program and does not directly fund program administration. However, the marketing assessment assures that tobacco producers and purchasers pay more through assessments than the administrative cost of the tobacco production adjustment and price support program.

USDA Tobacco Related Activities

Several USDA agencies have responsibilities related to tobacco including the Farm Service Agency, Risk Management Agency, Agricultural Marketing Service, Foreign Agricultural Service, Economic Research Service, National Agricultural Statistics Service, and the Cooperative State Research, Education, and Extension Service. These Agencies are responsible for an array of activities that range from information collection and dissemination to determining price supports, quota levels, and grading tobacco. The FY 1995 Agriculture and related Agencies Appropriations Act, prohibits the use of present and future Agricultural Research Service funds to carry out research on tobacco and tobacco products.

The Farm Service Agency (FSA) is responsible for establishing price supports and quota levels for different kinds of tobacco; conducting referenda to see if tobacco producers want to continue the tobacco program; establishing and collecting no-net-cost and tobacco marketing assessments; and monitoring compliance with the various provisions of the production control program.

The Risk Management Agency works with private insurance companies to provide tobacco farmers with crop insurance coverage, so important to the producers now that the ad hoc disaster assistance programs are no longer available. The Federal Government subsidizes

the cost of multiple peril crop insurance through direct premium subsidies and administrative reimbursement to companies. The Agricultural Marketing Service (AMS) is responsible for the independent inspection and grading of domestic leaf tobacco prior to sale in auction warehouses, the certification of leaf tobacco offered for import, and the designation of markets. AMS is also responsible for market news and stock reports. Most AMS tobacco program costs are covered by user fees.

The Foreign Agricultural Service collects, compiles, and publishes statistics and other vital information on the world tobacco situation. This information is used by a wide variety of organizations and is the only comprehensive, timely public source of international tobacco data in the world. In addition to the world tobacco industry, the academic community, the media and health groups are regular users of this data. The publication of the monthly circular "Tobacco: World Markets and Trade" is the vehicle used to deliver this information. The Foreign Agricultural Service also monitors world trade barriers and conditions, and seeks to ensure fair and equitable treatment of U.S. tobacco in international markets.

The Economic Research Service provides economic analysis on various aspects of the tobacco economy. The "Tobacco Situation and Outlook" circular, published three times a year, is the major agency publication on tobacco in which supply, demand and cost of production data are analyzed by the agency. Economic impact studies and demographic profiles of the sector are also periodically part of the assessment. The National Agricultural Statistics Service provides information about tobacco acreage, yields, production and prices by kind of tobacco on a timely basis. The Cooperative State Research, Education, and Extension Service, as the outreach arm of the Department, provides tobacco farmers with technical assistance and training, in the same

manner as it does for producers of other commodities.

Tobacco in the Economy

U.S. cigarette consumption, though stable since 1993, has declined nearly one-fourth since peaking at 640 billion cigarettes in 1981. Even with this decline, however, consumer spending for all tobacco products totaled about $50 billion in 1996. About 94 percent of total was for cigarettes, with cigars, snuff, chewing and smoking tobacco accounting for the remainder. In 1996, about $13.4 billion in taxes were collected on the sale of tobacco products, including $5.8 billion by the Federal Government and $7.6 billion by State and local governments.

Tobacco is in most years the sixth largest cash crop grown in the United States, behind corn, soybeans, wheat, hay and cotton. In 1997, farm sales value of tobacco totaled $2.85 billion, about 2 percent of the value of sales of all farm commodities and about 3.5 percent of crop sales. The United States exported nearly $1.4 billion worth of leaf tobacco and tobacco products valued at over $5.2 billion in 1996.

Tobacco is a major crop of economic importance in several States. According to the 1992 Census of Agriculture, about 124,000 U.S. farms produced tobacco (table 1). About 62 percent of the farms on which tobacco was produced are located in North Carolina and Kentucky, the major-producing states.

The Tobacco Farm. The average U.S. tobacco farm grew about 6.7 acres of tobacco. Tobacco acreage per farm varied geographically, ranging from 2.1 acres in West Virginia to 33.9 acres in Connecticut. Acreage also varies by kind of tobacco grown. In states where flue-cured tobacco predominates, average acreage varied from 16 acres to 26 acres. Among burley tobacco

producing states, acreage averages from 2 to 5 acres. The high average acreage in Connecticut comes from large vertically integrated cigar wrapper operations.

Tobacco farms are about one-fourth the size of the average U.S. farm and relatively small, averaging 126 acres of land with only 35 acres of harvested cropland in 1992. A fifth of these acres, or nearly 7 acres, are used to produce tobacco.

Tobacco Farm Income. Based on a 1994 survey of Kentucky and North Carolina farms that grow tobacco, these farms rely heavily on tobacco as a source of income. According to USDA's 1994 Farm Costs and Returns Survey (FCRS), tobacco accounts for an average of 51 percent of total farm value of production in Kentucky and 57 percent of total farm value of production in North Carolina.

Tobacco growers grow a mix of other field and specialty crops such as corn, soybeans, cotton and wheat and vegetables, which are often cited as an alternative to tobacco production. Costs and return data among major crops indicate substantially larger acreages of other crops would be needed to generate the same return as tobacco (table 2). For most tobacco producers, however, no other legal farm commodity has the economic potential to replace income earned from the sale of tobacco.

Quota Distribution. About 98 percent of the tobacco grown in the United States is covered by the Federal tobacco program. The right to produce and sell tobacco has taken on a value that has been capitalized into land values, and thus, has become an integral part of the local tax base in tobacco producing areas.

Although the number of farms growing tobacco totaled about 124,000 in 1992 and probably has shrunk to a somewhat smaller number by now, the number of individual quotas is

about three times larger. Many of these quotas are leased or rented to actual producers, providing income to non-tobacco growing owners, many of whom are widows of farmers active in the program in the 1940's and 50's or retirees. In 1996, 338,523 tobacco quotas were distributed among 17 states (table 3). Seventy-one percent of the quotas were in Kentucky and Tennessee.

With a change in the law in 1982 allowing sales of quotas within counties, there has been considerable consolidation of flue-cured quotas. In addition, increased mechanization has allowed larger operating units. The average size of effective flue-cured quotas in 1996 was nearly 21,500 pounds, about 10.3 acres. In contrast, burley quotas averaged only 2,800 pounds or about 1.25 acres per farm. Lack of mechanization, a shorter time since quota sales have been permitted, smaller farms, and other factors have prevented greater consolidation of burley quotas. Most allotments for kinds of tobacco, other than flue-cured and burley, are also relatively small.

The distribution of individual tobacco quotas by size further reveals the fragmentation of the rights to produce tobacco. As indicated earlier, flue-cured tobacco quotas are much larger than other kinds of tobacco quotas. Still, 56 percent of flue-cured quotas are 5 acres or less, while only 11 percent are 20 acres or more (table 4).

Burley quotas are very small (table 5). Three-fourths of the burley quotas are 2,500 pounds or less. Burley quotas are implemented in pounds only, while flue-cured quotas are determined and implemented in acres and pounds. One-third of the burley quotas are 1,000 pounds or less and almost one-half of Tennessee's quotas are 1,000 pounds or less. Farms on average produce about 2500 pounds per acre. Most of the allotments for fire-cured, dark air-cured and cigar filler and binder tobaccos are less than 5 acres. These kinds of tobacco are grown

primarily in Kentucky, Tennessee, Virginia and Wisconsin.

About 65 percent of the quota or quota equivalent distributed to farms in the United States goes to Kentucky and Tennessee (table 6). Quotas are effective in 17 states and 4 additional States grow tobacco outside the quota program. Producers decide in triennial referenda if they want to have a price support-production control program for their kind of tobacco during the following three years.

Quota Ownership. Another measure that provides insight into the fragmentation and wide holdings of quota is the fact that about 463,000 individuals own quotas in the United States. Because of multiple ownership of individual quotas, this number is somewhat larger than the individual quota number. For 1996, about 113,000 people are listed as owners of flue-cured quota, about 2.6 persons per quota. Over time, as the original quota owners have died, the quotas have been divided among heirs (table 7).

Of the flue-cured quota owners, 15.3 percent were African-American, and 0.7 percent were Native Americans. South Carolina and Florida had the highest concentration of minority owners with more than 20 percent of he owners being African-American. In some counties, African-American ownership of tobacco quotas was much higher. For example, over 30 percent of the quota owners in Granville, Halifax and Warren counties in North Carolina and Marion, Sumter and Williamsburg counties in South Carolina were African-American. Most of the Native American quota owners were located in Robeson County, North Carolina, where almost 20 percent were Native American.

About 43 percent of the quota owners are female, with North Carolina having the highest proportion. Fifty-four percent of flue-cured quotas are owned by males and the remainder by

business entities such as corporations and partnerships.

In contrast to flue-cured tobacco, only 1.1 percent of the owners of burley quota are African-American (table 8). The ratio of ownership per quota was substantially smaller for burley, about 1.2 versus 2.6 for flue-cured. However, considerably less consolidation of quotas has occurred for burley tobacco in part due to the continuance of spring lease and transfer provisions (table 9).

Tenure Arrangements. An estimated 340,000 tobacco quota owners do not grow tobacco. Many of these owners are part-owners or partial owners of relatively small quotas. However, in many cases, the income from quota leasing or renting is an important component of their total income. Most tobacco producers own at least part of the quota they grow, but some own no quota. Although not sampling the entire flue-cured population, a survey of farms in 1991 showed only seven percent of the flue-cured operators owned the entire tobacco quota they produced, about 21 percent rented all their quota and the remaining 72 percent both owned and rented quota.

Based on a survey of farms in 1989 that may not reflect burley belt population averages, 48 percent of operators grew their entire tobacco acreage on quotas or allotments they owned. About 19 percent rented all their burley quotas, and the remaining 33 percent produced tobacco on acreage combining owned, rented, or leased quota in 1989. The lease and transfer of quota refers to an arrangement whereby the tobacco is grown on a farm other than the farm to which the quota is assigned. The lease and transfer of flue-cured quotas was eliminated in 1987, but reinstated to cover disaster conditions, in what is commonly called "fall transfers," beginning in 1988. Renting refers to growing the quota on the farm to which the quota is assigned.

Although farms producing tobacco with the largest proportion of owned quota tend to be smaller, these owners more frequently have off-farm jobs or are semi-retired. Producers with larger acreages tend to rent more quota and are more vulnerable to changes in the marketplace.

Tobacco Farmer Borrowing. In 1996, USDA made 6,155 direct operating loans to tobacco producers totaling $456.5 million (tables 10 and 11). About 53 percent of the loans were made to Kentucky producers and 67 percent were made to Kentucky and Tennessee producers.

About 7.2 percent of the producers who borrowed directly were of a minority race and 5.9 percent were female. The proportion of minority direct borrowers was lower than the proportion of minority quota owners in flue-cured States but was the reverse in burley producing States. This likely reflects the tendency for flue-cured quotas to be divided among several heirs and the relatively small number of minority owners of burley quota. Many banks now require crop insurance as collateral in order to secure operating loans. If the subsidized crop insurance program was eliminated, loans might not be available to tobacco producers

The Farm Service Agency is involved in two types of operating loan programs, direct and guaranteed. With direct borrowing, USDA is the lender whereas with guaranteed loans the funds are loaned by banks with a percentage of the repayment guaranteed by the Department. Direct borrowers usually have no other options for borrowing and are the most financially vulnerable of tobacco producers.

Proposed Tobacco Settlement

Tobacco represents a lifetime of investments and the main source of income for many people, especially in North Carolina, Kentucky, Tennessee, Virginia, South Carolina and Georgia,

and they are concerned about the proposed tobacco settlement and the potential negative affects it could have on the rural economies of their states.

Although the final form of the settlement will not be known until Congress approves legislation codifying the agreement, the economic affects are expected to be significant, affecting tobacco farmers, quota owners, hired workers, input suppliers, other merchants, and local governments. The affect could be greater for marginal producers and production areas.

Based on an analysis by USDA, the price of cigarettes is likely to increase under the proposed settlement. And a 50-cent per pack increase, for example, could reduce annual flue-cured marketings 3 to 9 percent and burley marketings 2 to 9 percent. The amount of decline depends on assumptions relative to how much cigarette prices would increase and how much consumption would decline given a specific amount of price increase. In addition, the net present value of quotas would decline producing a corresponding decline in the property tax base.

Helping Tobacco Farming Areas

We believe that a varied mix of rural enterprises, including different types and sizes of farms, contributes to the economic well-being of rural America.. Through the USDA Commission on Small Farms that Secretary Glickman recently established, the Department is working to promote the economic strength and financial vitality of small farmers across the nation. The tobacco producer is a primary example of the economically successful small farmer, and we are committed to making sure those interests are reflected in any final tobacco agreement.

Tobacco quota owners, tobacco farmers, and rural areas where tobacco is concentrated should receive a part of the proposed tobacco settlement monies. Many scenarios can be

envisioned, including continuing the current program. If the current program is discontinued, we will work with Congress to determined an appropriate level of compensation.

We believe that, to be acceptable in tobacco-growing areas, an economic assistance program would need to recognize a quota owner's claim for a continued, though finite, income stream from the capitalized value of the quotas; recognize that some tobacco producers own little if any quota, but have specialized tobacco production investments with few viable alternative income opportunities; and compensate other legitimate stakeholders for losses from reduced or anticipated reductions in tobacco production.

Financial assistance to tobacco growing areas could be universal or selective. A universal assistance program would permit all stakeholders to receive some form of assistance because of reduced demand and uncertainty about the future of the tobacco industry. A selective assistance program would target specific numbers or groups for eligibility for assistance. Payments under an assistance program could be all-at-once or spread over several years. Spreading the payments over several years is generally preferable so that a smoother transition can take place.

Much discussion has centered around the Federal Government's involvement in the current tobacco program. This discussion has heightened as the affects of the proposed tobacco settlement are being evaluated. One option relative to financial assistance for tobacco producing regions would be for the Federal Government to eliminate the program by purchasing all tobacco quotas, removing CCC form the responsibility of supporting tobacco prices.

Impact of Eliminating the Program

If the tobacco program was eliminated, tobacco prices would probably decline. The

decline might be in the 30 to 40 cents per pound range, probably reflecting the current payment for the privilege to grow tobacco. Tobacco production would likely increase as large efficient producers expand production while small inefficient producers contract. However, the amount of increase is uncertain because competitor countries might lower their prices to remain competitive with the United States. Tobacco production would likely shift to more efficient production regions within the United States. Flue-cured production would probably move away from the higher-cost Piedmont regions of Virginia and North Carolina to the Coastal Plain of North Carolina, South Carolina, Georgia and Florida. Higher wage rates because of greater competition for workers in factories and the uneven terrain of the Piedmont are major reasons for movement away from this region.

For burley tobacco, marginal production regions in Tennessee, North Carolina, and eastern Kentucky would lose production to central and western Kentucky. The biggest losers would be marginal producers in all the regions. Producers with little quota, high costs and much debt would be especially vulnerable. Many of these producers would default on loans.

If private insurance companies were to assume the full unsubsidized underwriting of tobacco policies, the potential affect on producers would likely be significant. We could expect an immediate price increase to the grower to at least cover the cost of the current premium subsidy. Small and limited resource farmers would likely be most affected in a totally private insurance market due to the high cost of insurance. The affect of tobacco crop insurance availability is significant and eliminating the "safety net" for tobacco producers could have a negative influence on the economies of entire communities.

In the 1996 crop year, crop insurance covered 554,352 acres of legally grown tobacco

representing over $1.15 billion in liability protection, and returned over $90 million back to the farm economy in the form of indemnity payments for crop losses (Table 12). Without crop insurance, these are losses that farmers themselves would have had to absorb, and continue to support their families' livelihood. Since many growers rely on tobacco to pay their bills, without crop insurance many of these farming operations would collapse under such losses.

Minority farmers would likely be the most severely affected by the elimination of crop insurance on tobacco. For example, the Raleigh Regional Service Office, which covers the east coast from North Carolina to Maine, services about 20 percent of all African-American operated farms. On this group of farms, tobacco accounts for more than half of total crop sales on nearly 33 percent of these farms

The affect on world tobacco trade of eliminating domestic program controls and maintaining our current trade policy with regard to both exports and imports, is somewhat unclear. U.S. production will increase, farm prices fall, and production to become concentrated on large farms. Small farms and communities in the traditional tobacco producing regions would likely suffer economically.

The results would include an increase in lower priced U.S. exports and a downward pressure on tobacco prices in other countries. Some countries would see production fall, but total world tobacco production would not likely change. Although trade patterns would change, it is unclear who the winners and losers would be. It is likely the U.S. would see imports decline and exports expand as U.S. prices fall. However, selected low cost foreign producers may be able to take advantage of the shifting patterns to increase their share of the U.S. and world market.

The affect of a policy that eliminated the domestic program controls, removed barriers to

imports into the United States, such as the tariff rate quota currently in place, and that did not aggressively pursue equitable treatment for U.S. exports is also difficult to access. But it can be assumed that it would not result in the reduction of total world production and consumption.

World tobacco prices would fall and production in the high cost producing countries would decline. Many developing countries that depend heavily on tobacco as a source of foreign exchange would suffer lost revenue. The affect on world tobacco trade would depend on the relative change in prices and the actions individual countries took to protect their domestic tobacco producers.

World tobacco consumption would likely increase as world prices fall. In the United States, imports may fall as domestic tobacco became more price competitive. U.S. exports could, in some cases, be completely at the mercy of trade barriers imposed on U.S. tobacco by importing and consuming countries such as China, the largest producing and consuming country in the world.

One can see that the affects of eliminating Federal Government support for tobacco would go beyond small marginal producers. Input suppliers, warehouse operators, and the property tax base of local communities would suffer in marginal production areas unless sufficient economic activity replaced that currently generated by tobacco. Let's take a closer look at the communities and people we are talking about.

Southside Virginia

Southside Virginia is a region containing the largest flue-cured tobacco producing counties in Virginia. This area borders North Carolina and its major tobacco producing region,

and could be argued as typical of all the many rural communities that are dependent upon tobacco for economic vitality. An excellent study entitled Tobacco's Important Role in the Economy of Southside Virginia by William Wise and Dixie W. Reaves of Virginia Tech focuses on six counties that include Brunswick, Charlotte, Halifax, Lunenburg, Mecklenburg, and Pittsylvania. The following comments borrow from their work.

How important is tobacco to these counties? In 1992, of the farms with sales over $10,000, tobacco sales accounted for 68 percent of the region's total agricultural sales. Farms with sales less than $10,000 represent 23 percent of the farms producing tobacco, but they account for just over 2 percent of total tobacco sales. For the counties, tobacco represents 67 percent of agricultural sales in Lunenburg County, 72 percent in Pittsylvania County, and 79 percent in Halifax County. In Lunenberg and Halifax Counties, 10 percent of all household income is generated from tobacco. In the six county area, the total annual regional output attributed to tobacco totals $756 million.

In general, this region has a higher percentage of persons in poverty, a higher unemployment rate, and a lower per capita income than the rest of Virginia. The population of the region also tends to be more elderly and less well educated than the population in other parts of the state. These conditions, in general, are fairly typical of tobacco growing areas throughout the country. Given the above, the importance of tobacco's contribution to the local economies of these areas takes on added significance. The ability to move to new economic activities is rather limited in these regions, and decisions made regarding the future of tobacco production have the potential to impact negatively.

The Human Faces

In his recent trip to tobacco country, Secretary Glickman met many tobacco quota owners and farmers. The Secretary met an elderly widow who owns a quota. She is a typical quota holder, married to a tobacco farmer in the 1940's, she became the owner of the quota when he died. She is now highly dependent on the lease amount she gets from the quota, indicating that it makes the difference in her quality of life, as it complements her Social Security check helping to pay for food, housing, and decent clothing.

Many of the producers the Secretary met were limited resource and minority farmers, and typical of the group that the he wants to help by the work of the recently established Commission on Small Farms. It is interesting to note that while African-American operated farms are about as likely as all U.S. farms to harvest corn and soybeans, they are twice as likely to harvest tobacco. In tobacco growing states, the proportion of African-American operated farms harvesting tobacco is nearly three times that of all farms in the region. These facts, coupled with the fact that nearly 90 percent of farms operated by African-Americans nationally had total sales of less than $25,000, further highlight the impact of tobacco on minority owned farms.

The Secretary also met a young entrepreneurial producer who owns no quotas, but has managed to piece together 75 leases, from quota owners like the woman described above. Annual production of 600,000 pounds of quota tobacco returns over $200,000 to the quota owners. What we have is a highly successful small farmer contributing to the incomes and taxes of the whole community.

The local merchant is another important part of the picture, as tobacco farmers put cash on the barrel head, purchasing needed inputs and other products needed for family and farm.

Typical of the local businesses impacted by tobacco was an implement dealer who explained to the Secretary's party just how critical the tobacco farmer is to his business.

As local merchants maintain and increase business, the whole community benefits with increased economic activity and a larger level of sales and property taxes paid. It is estimated that a 100 acre producer generates $450,000 in annual sales, which in turn, using a standard multiplier effect of five, generates $2.25 million in economic activity for a community. In tobacco dependent areas, one can readily see that these tobacco sales are critical.

Conclusion

We are at an historic crossroads regarding public policy and tobacco. In closing, I hope that we are leaving you with a sense of what tobacco means to the rural economies of many of our counties. We hope we have succeeded in putting a human face on these difficult discussions. Our rural tobacco growing communities will need our help, as we transition to new public policies on tobacco. USDA stands ready to work with you to make sure the citizens of these rural communities are not left behind.

Table 1--Number of farms, acres, and average acres of tobacco on farms growing tobacco, 1992

State	Farm	Tobacco average	Average tobacco acreage per farm
	Number	Acres	
Alabama	14	335	23.9
Connecticut	43	1,456	33.9
Florida	233	6,928	29.7
Georgia	1,658	40,403	24.4
Indiana	2,946	9,170	3.1
Kansas	12	37	3.1
Kentucky	59,373	268,140	4.5
Maryland	951	8,470	8.9
Massachusetts	27	400	14.8
Missouri	454	1,846	4.1
North Carolina	17,625	283,900	16.1
Ohio	3,487	11,006	3.2
Pennsylvania	1,348	8,445	6.3
South Carolina	1,965	50,194	25.5
Tennessee	22,953	75,621	3.3
Virginia	8,444	55,419	6.6
West Virginia	1,003	2,072	2.1
Wisconsin	1,729	7,379	4.3
Other States	5	12	2.4
United States	124,270	831,233	6.7

Source: Census of Agriculture, Bureau of the Census.

Table 2--Estimated average costs and returns for selected vegetable and field crops in North Carolina, 1994

Crop	Gross revenue 1/	Cash variable expenses 2/	Net above cash variable expenses
	Dollars per acre		
Sweet potatoes	1,627.50	1,118.92	508.58
Cucumbers, Processing	992.00	1,041.62	95.63
Cucumbers, Fresh market	440.00	466.61	-26.61
Bell peppers, Fresh market	717.50	864.81	-62.56
Snap beans, Fresh market	983.50	600.06	383.44
Watermelon	675.00	485.86	190.63
Cabbage, Fresh market	1,900.00	1,016.36	883.64
Tomatoes, Fresh market	4,332.00	3,735.50	596.50
Corn	278.20	157.86	120.34
Soybeans	170.91	95.10	75.81
Cotton	623.80	291.70	331.90
Flue-cured tobacco	4,089.80	1,884.68	2,205.12

1/ Average price times average yield per acre. Source: USDA, NASS.
2/ Vegetable expenses are based on Extension enterprise budgets from North Carolina State University. Budgets modified to represent average production practices for 1994. Field crop expenses are from USDA's cost-of-production accounts.

Table 3--Tobacco: Quota Summary Table--1996

State	Number of Quotas and Allotments	Flue-cured Quotas	Burley Quotas	Other Allotments
Alabama	32	29	3	0
Arkansas	4	0	4	0
Florida	310	310	0	0
Georgia	2,710	2,668	42	0
Illinois	2	0	2	0
Indiana	8,819	0	8,799	1/ 20
Kansas	26	0	26	0
Kentucky	151,668	0	134,424	1/ 17,244
Minnesota	39	0	0	1/ 39
Missouri	1,389	0	1,389	0
North Carolina	44,488	31,541	12,947	0
Ohio	9,332	0	8,777	1/ 555
South Carolina	4,840	4,840	0	0
Tennessee	88,457	0	79,319	1/ 9,138
Virginia	19,724	4,311	13,814	1/ 1,599
West Virginia	3,124	0	3,124	0
Wisconsin	3,559	0	0	1/ 3,559
TOTAL	338,523	43,699	262,670	32,154

1/ Dark air-cured in Indiana, fire-cured and air-cured in Kentucky and Tennessee, cigar filler and binder in Minnesota, Ohio and Wisconsin and Virginia fire-cured and sun-cured in Virginia.

Table 4--Distribution of flue-cured quotas by size, 1996

Acreage allotment	North Carolina	South Carolina	Georgia	Virginia	Florida	All States 1/
Acres	----------Percent----------					
.01-1.00	6.3	9.6	5.0	8.6	12.7	6.9
1.00-3.00	32.3	26.9	21.6	32.2	13.3	30.9
3.01-5.00	19.5	17.8	14.1	17.2	7.7	18.6
5.01-10.00	20.3	19.5	20.8	18.1	11.3	19.9
10.01-20.00	11.9	12.8	16.1	11.9	12.7	12.3
20.01-50.00	7.3	10.0	15.2	9.1	25.7	8.4
50.01- 100.00	1.8	2.6	5.6	2.3	12.7	2.3
100.01- 199.9	0.4	0.8	1.4	0.5	3.3	0.5
200.01 and over	0.1	0.1	0.2	0.1	0.7	0.1
	----------Number----------					
Number of quotas 2/	31,541	4,840	2,668	4,311	310	43,699

1/ Includes Alabama's 29 quotas.

Table 5--Distribution of burley quotas by size, 1996

Poundage quota 1/	Kentucky	Tennessee	Ohio	Indiana	Virginia	North Carolina	All States 2/
Pounds	----------Percent----------						
1 to 1,000	27.4	47.4	33.0	35.2	30.8	38.2	34.9
1,001 to 1,300	10.9	16.1	15.2	13.8	16.3	16.5	13.5
1,301 to 2,500	27.0	24.8	27.2	31.7	36.8	32.5	27.2
2,501 to 5,000	18.1	8.9	15.4	13.2	12.7	10.5	14.2
5,001 to 10,000	10.4	2.2	6.8	4.6	2.8	1.9	6.7
10,001 to 25,000	5.1	0.5	2.2	1.2	0.5	0.4	2.9
25,001 to 75,000	1.0	0.1	0.2	0.3	0.1	0.0	0.5
75,001 and over	0.1	0.0	0.0	0.0	0.0	0.0	0.1
	----------Number----------						
Number of quotas	134,424	79,319	8,777	8,799	13,814	12,947	262,670

1/ About 2,100 pounds is equivalent to an acre.
2/ Includes Missouri and West Virginia.

Table 6--Tobacco quota volume summary--1996

State	Quota or equivalent (1996) pounds
Alabama	831,964
Arkansas	6,296
Florida	19,786,497
Georgia	108,982,940
Illinois	2,076
Indiana	18,719,913
Kansas	86,171
Kentucky	469,182,917
Minnesota	57,442
Missouri	6,386,692
North Carolina	655,687,269
Ohio	21,339,960
South Carolina	112,023,099
Tennessee	169,008,880
Virginia	115,241,896
West Virginia	6,239,970
Wisconsin	9,116,800
Total	1,722,676,576

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Table 7--Flue-cured quota ownership, 1996

State	Number of Owners	Race				Sex		
		White	Black	Indian	Other	Male	Female	Corporation
	Number	Percent						
North Carolina	78,556	85.9	8.6	1.0	0.1	52.6	43.8	3.6
South Carolina	16,580	77.9	22.0	0.0	0.1	54.9	41.1	4.0
Georgia	6,519	93.8	6.2	0.0	0.0	60.3	35.0	4.7
Virginia	10,758	73.3	26.6	0.0	0.1	56.2	41.9	1.9
Florida	537	75.2	24.8	0.0	0.0	64.4	25.5	10.1
Alabama	62	91.9	8.1	0.0	0.0	72.6	22.6	4.8
United States	113,012	84.0	15.3	0.7	0.0	53.8	42.6	3.6

Table 8--Burley quota ownership, 1996

State	Number of Owners	Race			Sex		
		White	Black	Other	Male	Female	Corporation
	Number	Percent					
Kentucky	67,695	98.7	1.2	0.1	66.7	31.7	1.6
Tennessee	86,211	98.8	1.2	0.0	70.4	28.5	1.1
Ohio	11,819	99.6	0.3	0.1	63.4	35.3	1.3
Indiana	9,687	99.8	0.1	0.1	75.8	21.9	0.3
North Carolina	15,588	99.6	0.3	0.1	63.3	35.1	1.6
Virginia	18,614	99.8	0.2	0.0	58.8	39.6	1.6
Missouri	1,573	99.4	0.5	0.1	71.9	22.0	6.1
West Virginia	3,513	99.9	0.1	0.0	70.5	28.6	0.9
Other States 1/	88	98.9	1.1	0.0	72.7	27.3	0.0
United States	314,788	98.9	1.0	0.1	67.3	31.2	1.5

1/ Includes Alabama, Arkansas, Georgia, Illinois and Kansas.

Table 9--Number of quota owners that do not grow tobacco 1/

State	Number
Alabama	50
Florida	304
Georgia	4,908
Indiana	6,741
Kansas	21
Kentucky	126,381
Missouri	1,119
North Carolina	76,519
Ohio	8,332
South Carolina	14,615
Tennessee	71,485
Virginia	23,519
West Virginia	2,510
Wisconsin	4,077
United States	340,581

1/ Number of persons who own or partly own tobacco quota. These are estimates derived by subtracting the number of census tobacco producing farms from the number of people who have any ownership interest in quota.

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Table 10--Tobacco producers who borrowed money directly from the U.S. Department of Agriculture, 1996

State	Total	Minority Race	Females
	Number	------Percent------	
Alabama	1	0.0	0.0
Connecticut	5	0.0	0.0
Florida	38	26.3	5.3
Georgia	127	10.2	3.1
Illinois	1	0.0	0.0
Indiana	118	0.8	5.1
Kentucky	3,265	3.8	6.2
Maryland	18	22.2	5.6
Massachusetts	7	0.0	0.0
Missouri	17	11.8	5.9
North Carolina	900	16.9	6.4
Ohio	109	3.7	2.8
Pennsylvania	79	0.0	0.0
South Carolina	170	15.9	2.4
Tennessee	836	5.0	5.4
Virginia	385	15.8	8.6
West Virginia	61	3.3	6.6
Wisconsin	18	11.1	11.1
United States	6,155	7.2	5.9

Table 11--Tobacco producer borrowing directly from the U.S. Department of Agriculture, 1996

State	Total	Minority race or female
	Thousand dollars	- - - - Percent - - - -
Alabama	140	0.0
Connecticut	662	0.0
Florida	5,191	9.4
Georgia	11,483	16.4
Illinois	72	0.0
Indiana	11,257	5.8
Kentucky	235,451	4.7
Maryland	985	25.0
Massachusetts	607	0.0
Missouri	1,083	12.4
North Carolina	65,775	13.3
Ohio	9,202	4.2
Pennsylvania	7,997	0.0
South Carolina	18,920	11.7
Tennessee	54,397	8.6
Virginia	30,170	17.6
West Virginia	1,784	12.1
Wisconsin	1,345	1.5
United States	456,524	7.9

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Table 12--Crop insurance experience, 1996

State	Active Policies	Premium Subsidy	Producer Paid Premium	Liability
Alabama	8	8,794	22,159	813,484
Connecticut	50	254,783	163,810	8,323,047
Florida	202	170,877	95,365	11,048,167
Georgia	1,507	1,322,145	1,638,577	85,940,583
Indiana	826	181,954	154,735	6,255,038
Kentucky	30,688	5,440,093	1,971,111	180,142,413
Maryland	49	11,786	1,611	481,151
Massachusetts	36	110,498	20,344	3,389,363
Missouri	393	101,859	30,790	2,114,169
North Carolina	15,264	6,938,560	11,199,528	597,300,547
Ohio	1,670	297,747	118,359	6,974,524
Pennsylvania	17	3,916	1,721	149,276
South Carolina	1,814	1,532,377	2,066,857	112,598,552
Tennessee	9,356	2,042,685	1,090,157	48,109,306
Virginia	5,440	1,256,464	1,745,789	88,030,035
West Virginia	842	94,160	29,493	1,364,780
Wisconsin	557	58,756	98,263	3,978,546
United States	68,419	19,807,454	20,448,719	1,157,012,981