

# Tobacco Policy and Market Outlook

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There's been lots of talk and questions lately about the President's Tobacco Commission, a quota buyout, a new production permit system, and tobacco settlement money. This display provides information about the Tobacco Commission's report, policy changes they recommend, and Tennessee's settlement money.



# What Is The President's Tobacco Commission?

Executive Order 13168, signed by the President on September 22, 2000, established the:

“President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health”

Which is more commonly referred to as the “President's Tobacco Commission”

# Who Was On The Commission?

- Co-Chairs:

- Rod Kuegel, President, Burley Tobacco Growers Cooperative
- Matt Myers, President, Campaign for Tobacco-Free Kids

- Members:

- LynnCarol Birgmann, Exec. Director, Kentucky ACTION
- Art Campbell, Asst. Sec., Economic Development Admin.
- Jimmy Hill, Flue-cured Tobacco Grower
- John Seffrin, CEO, American Cancer Society
- Andy Shepherd, Flue-Cured Tobacco Grower
- Ronald Sroufe, Burley Tobacco Grower
- Cass Wheeler, CEO, American Heart Assn.
- Jesse White, Jr., Co-Chair, Appalachian Regional Commission

# What Was The Process For Making Recommendations?

- The Commission held two public forums (in Louisville and Raleigh) in November to solicit input; over 450 growers and others participated
- Commission held regular public meetings to discuss the issues and comments
- Sub-committees were formed for grower issues, health issues, and economic development issues
- Preliminary report was released in January with opportunity for input and comments prior to finalizing the report in May

# What Did The Commission Conclude?

- "... strong action is necessary to prevent long-term economic suffering for tobacco farmers and their communities. Unless action is taken, tens of thousands of farmers and residents of their communities will struggle to survive and many will not make it ..."
- "... Eliminating the U.S. tobacco program would not be beneficial to tobacco growers, their communities, or public health ..."
- "... Instead, significant changes must be made to current federal tobacco policy – changes that will eliminate artificial production costs caused by the quota system and allow producers who want to quit tobacco production to do so ..."

# What Policy Changes Did The Commission Recommend?

- Compensate quota owners and growers for economic losses: \$8/lb to quota owner, \$4/lb to grower who exits production, \$2/lb to grower remaining in production
- Restructure the federal tobacco program by replacing quotas with production permits – quota value reduced to zero, price supports and no-net-cost program remain
- Provide technical & financial assistance to tobacco farmers and communities to diversity
- FDA regulation of tobacco products (FDA not on the farm)
- Support state tobacco prevention and cessation programs
- Funded by a 17-cent increase in the federal cigarette excise tax

# Where Does The Commission Report Stand Today?

- Presently, the Commission's recommendations are still a "report"
- No statements have been made by the Bush administration about the report
- No legislation has been introduced; Commission's desire is for enabling legislation to be introduced next session (January 2002)
- Intention is for any legislation to be comprehensive, i.e., include components for public health, growers, and rural communities

# What Is Happening To Tennessee's Master Settlement Money?

- By next summer, Tennessee will have received over a half a billion dollars in settlement payments
- Last winter, two legislative committees were formed (1 for ag, 1 for health) to make recommendations to the state legislature about the use of settlement money
- The ag committee recommended that half of the settlement money be used for agricultural development programs (e.g., diversification, marketing, ag processing, herd improvement) and educational assistance (scholarships)
- Last week, the legislature passed a state budget that includes ALL of the tobacco settlement money as "general revenue"; it has not yet been signed by the governor

# What Is The Tobacco Equity Reduction Program (TERP)?

- Replace quotas with production permits to get production into the hands of active growers
- Quota owners and growers of record for the 2000 crops receive compensation based on their average basic quota for 1997-1999
- Quota owners receive \$8/lb, tobacco growers receive \$4/lb if they permanently discontinue tobacco production or \$2/lb if they decide to obtain a production permit to continue growing tobacco
- Buyout payments made over 5 years, except quota owners with less than 1,000 pounds who are eligible to receive full TERP payment in first year; no payment limitations
- Issued to active growers only (100% at risk, providing significant contribution of land, labor, capital, equipment, or management), permits cannot be leased, rented, sold, or transferred
- Initial production permits for growers issued based on prior year's effective quota and crop share split (if applicable)

# What Is TERP, continued

- Permits assigned to individual, not to a farm; leasing/sale of quota eliminated
- Permits must be fully utilized (75% marketed) or forfeited
- Quota formula remains as is, consisting of (1) company purchase intentions, (2) export average, and (3) reserve stock adjustment
- Price support formula remains, with opportunity for tobacco loan associations to recommend lower price support levels
- All tobacco is to be federally graded
- All imported tobacco must meet the same pesticide regulations as U.S. grown tobacco
- Phase II payments will likely be reduced/eliminated if an excise tax is used to fund TERP
- Establish a Tobacco Grower Advisory Board to provide input to government agencies (e.g., USDA, EPA, FDA, USTR) on the production impacts of proposed regulatory and rule changes