

The background of the slide is a close-up photograph of tobacco leaves. The leaves are arranged vertically, showing their characteristic shape and texture. They range in color from bright green to a pale yellow, suggesting they are in various stages of maturity or have been partially cured. The lighting is soft, highlighting the veins and edges of the leaves.

Tennessee Tobacco Situation and Outlook

January 2002

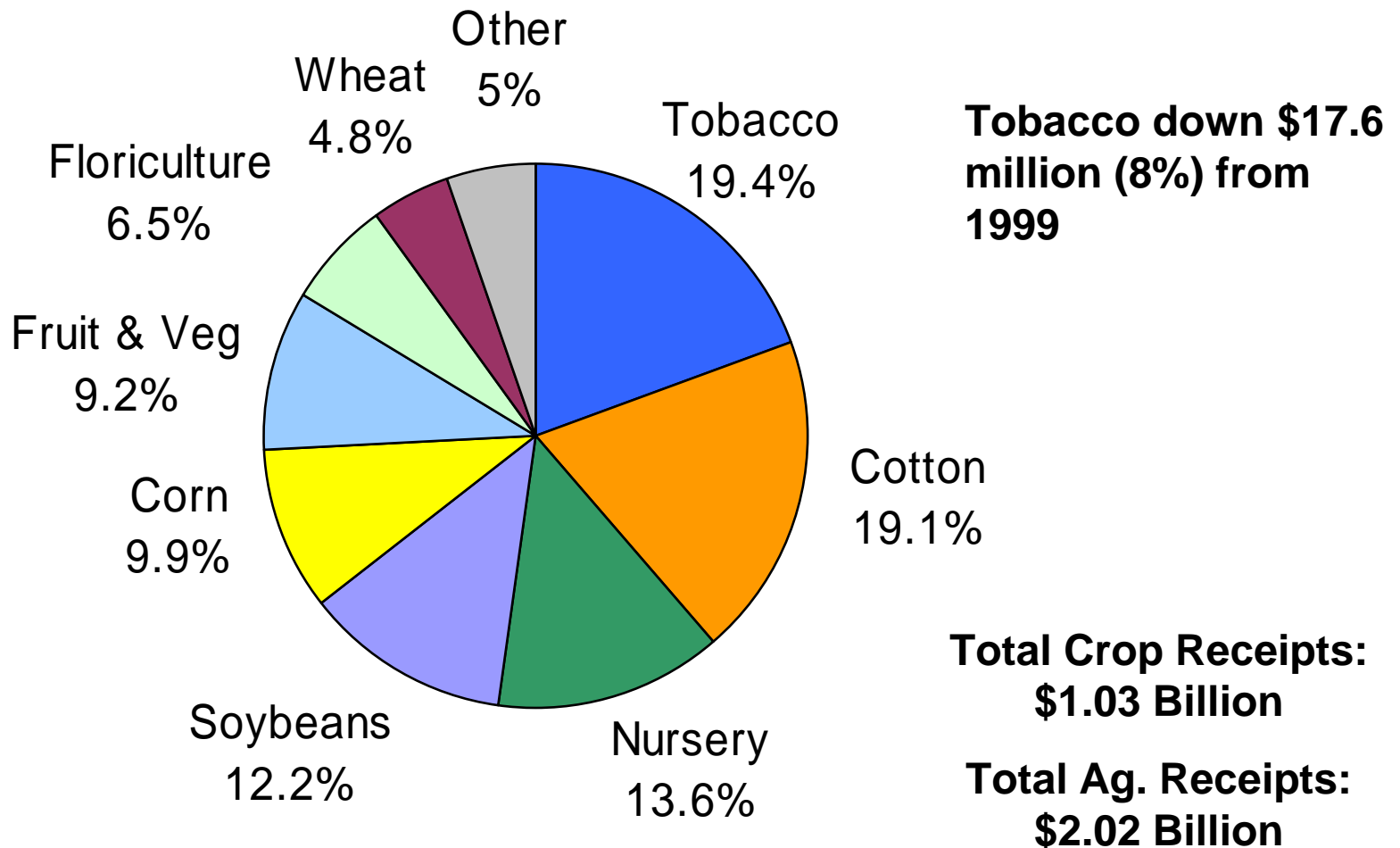
Kelly Tiller

Agricultural Policy Analysis Center
Department of Agricultural Economics
University of Tennessee

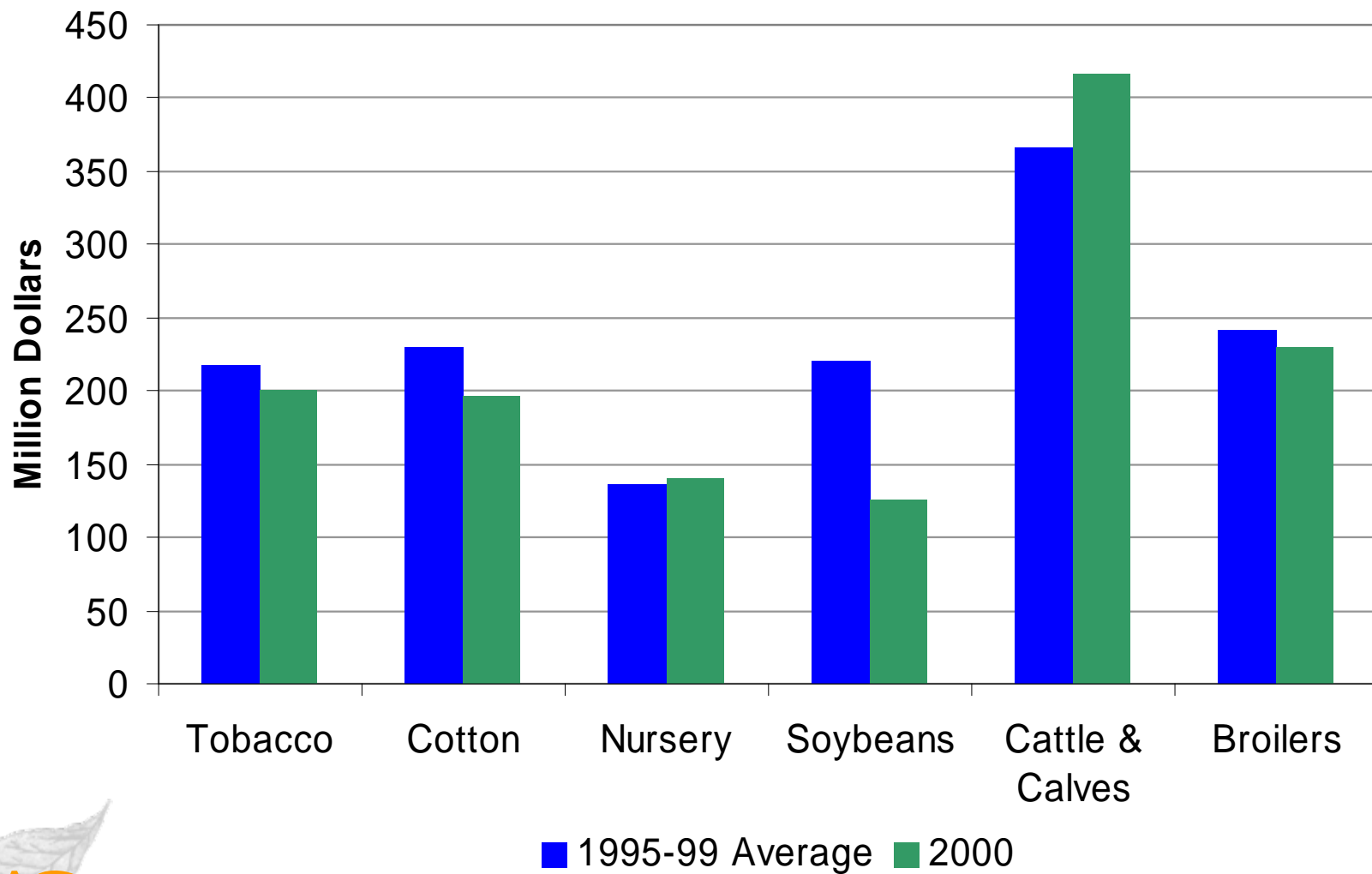
Tobacco Production & Income in Tennessee

A photograph of a vast tobacco field in Tennessee. The plants are lush green and arranged in neat rows, stretching towards a line of trees in the background. The soil is a rich brown color, and the overall scene is bright and clear.

TN Crop Cash Receipts, 2000



TN Ag Cash Receipts, 1995-99 Average & 2000

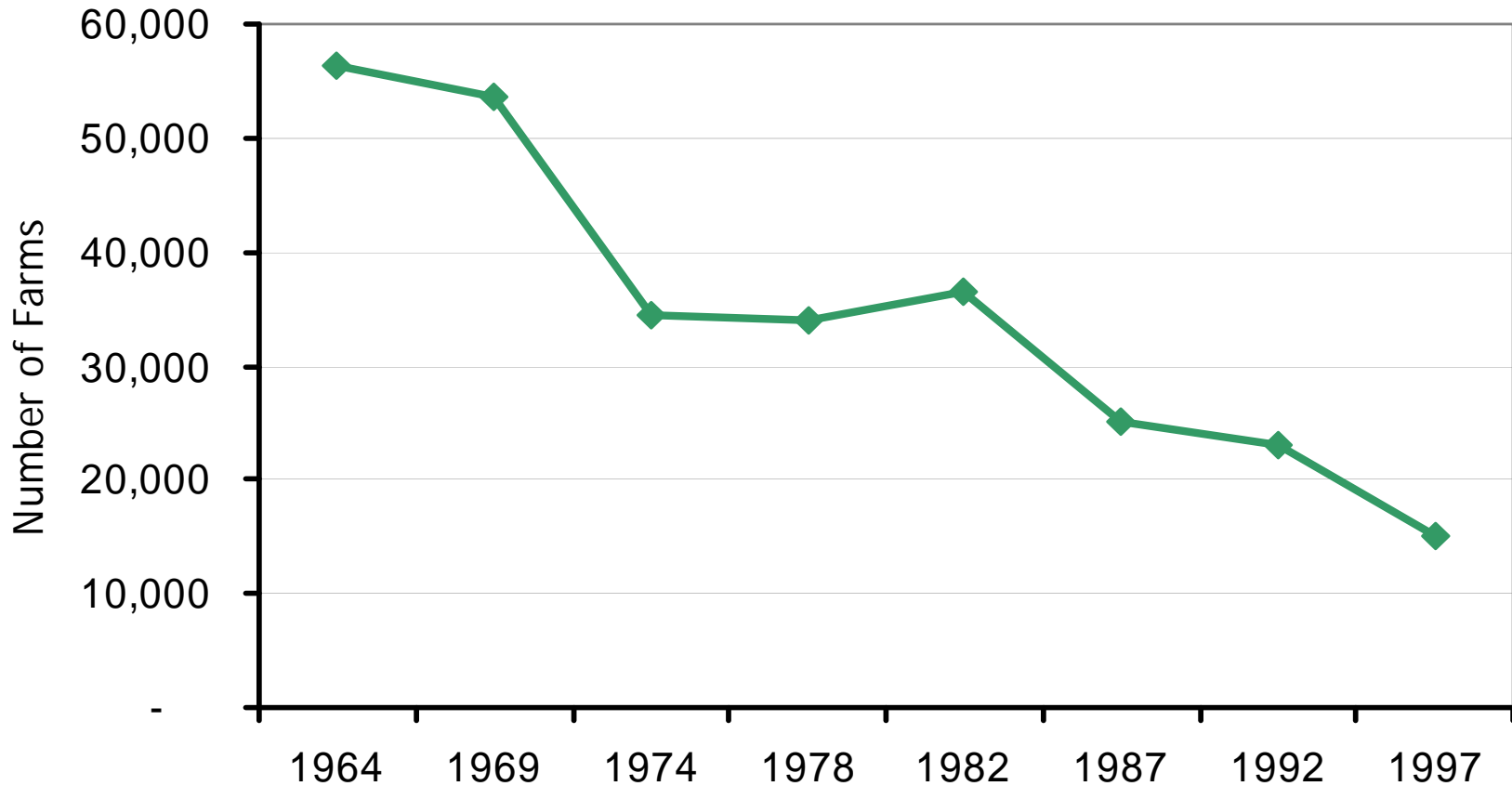


TN Crops: Return Above Variable Cost

Crop	Yield	Price	Returns/Acre
Corn	120 bu/ac	\$2.00/bu	\$117
Soybeans	40 bu/ac	\$5.40/bu	\$139
Cotton	625 lbs/ac	\$0.62/lb	\$132
Wheat	45 bu/ac	\$2.70/bu	\$29
Burley	2,250 lbs/ac	\$1.90/lb	\$1,722



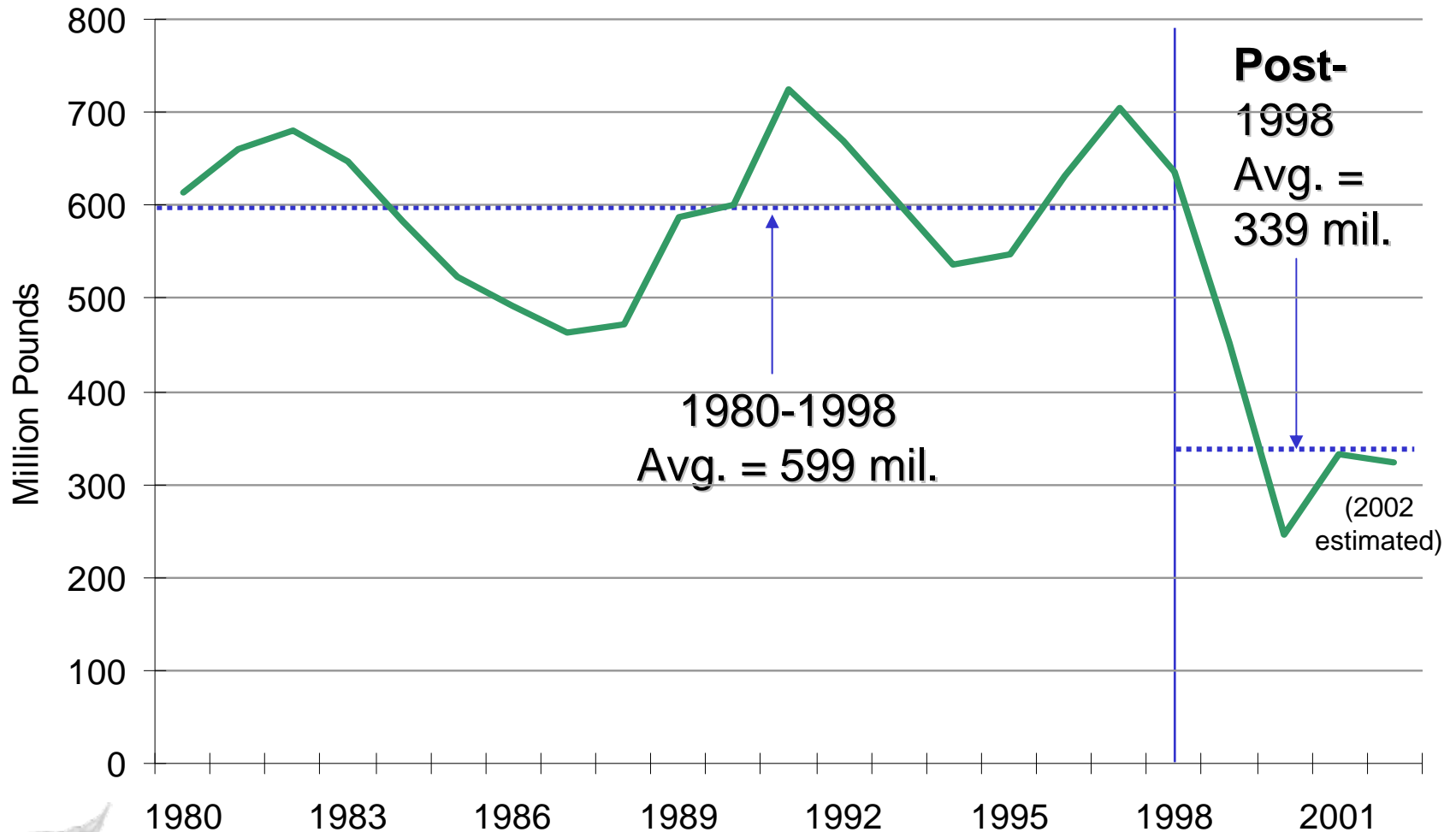
Number of TN Tobacco Farms*



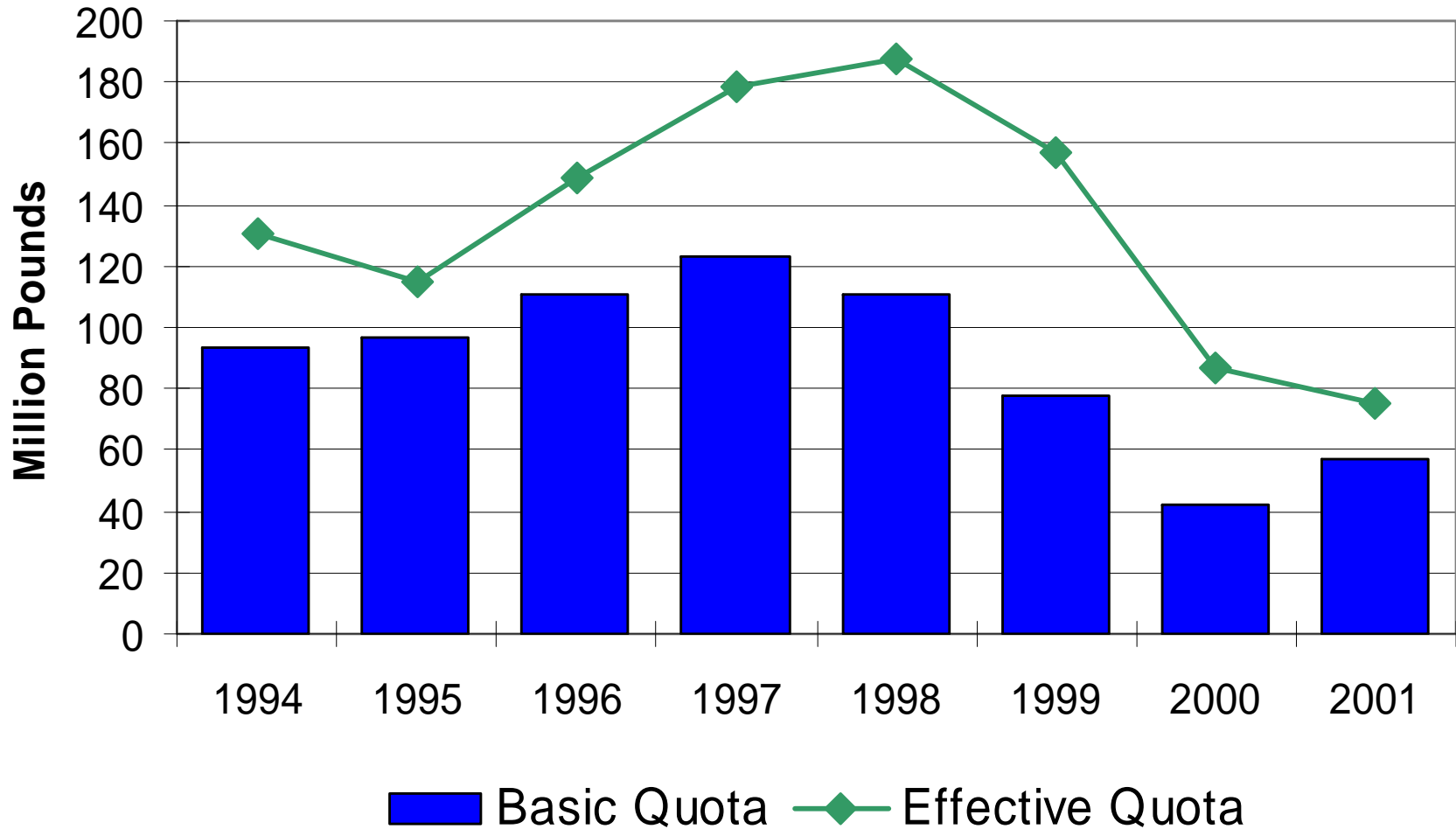
* Number of Tennessee farms deriving the majority of their income from tobacco production.



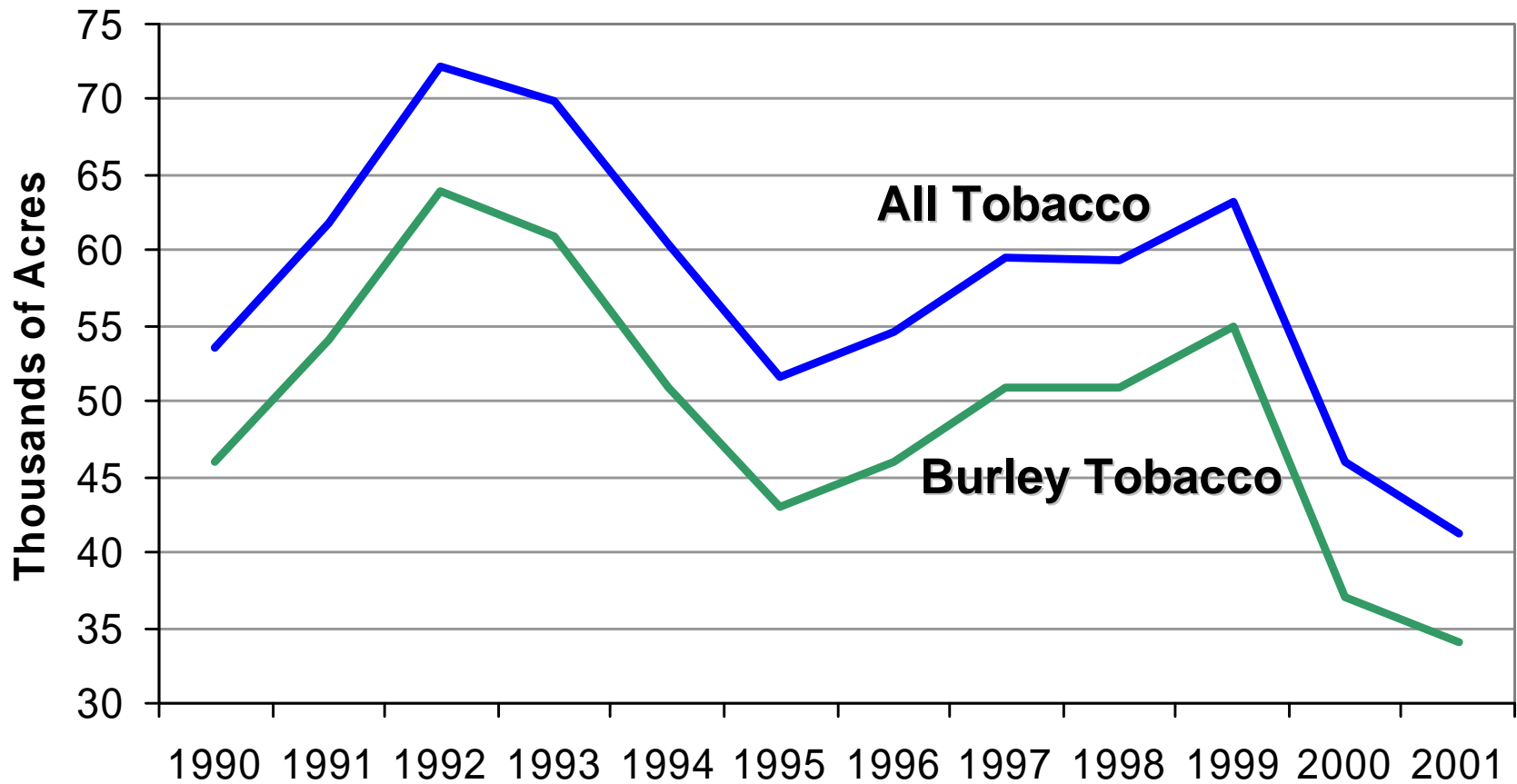
Burley Tobacco Basic Quota



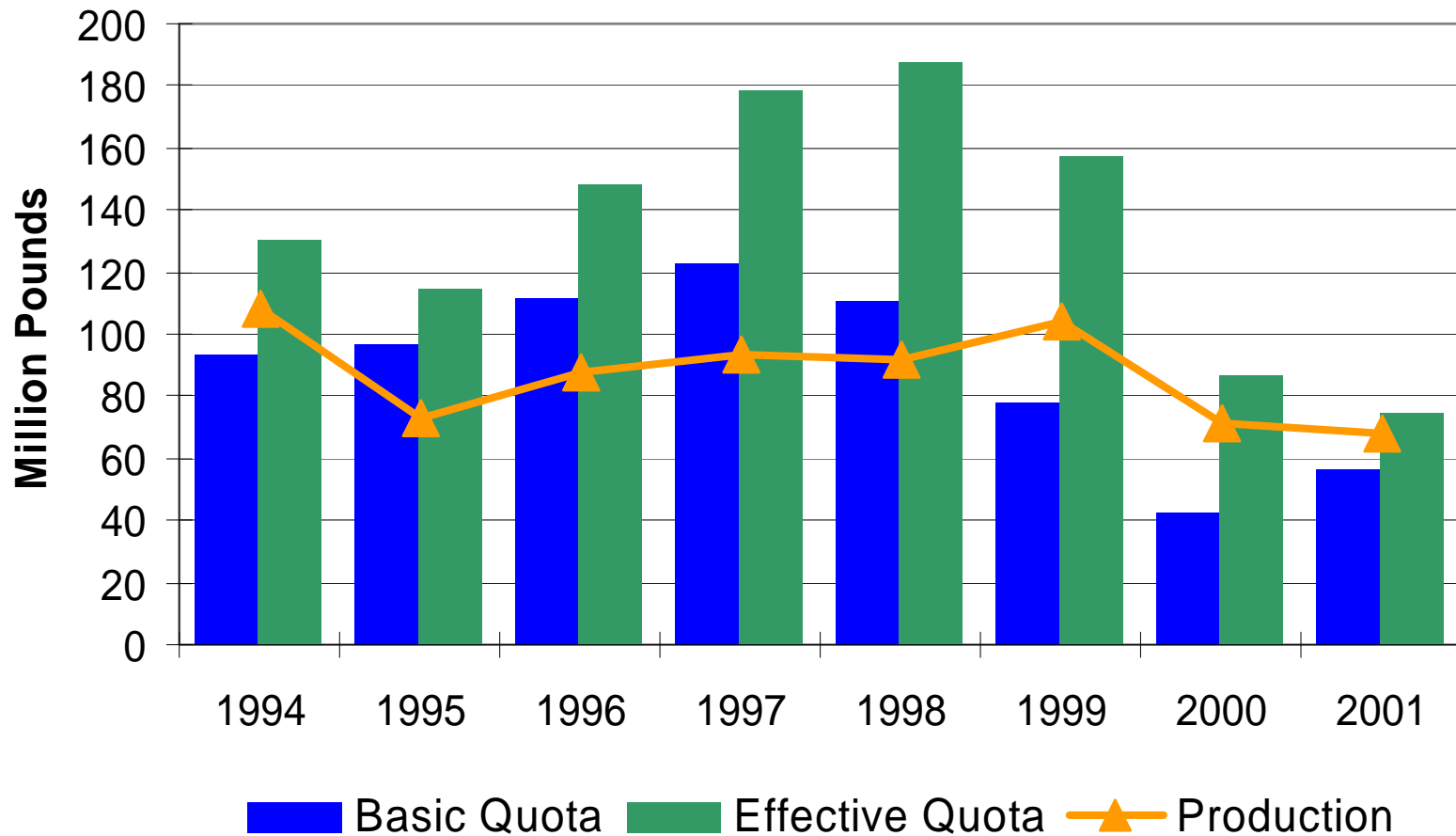
TN Burley Basic & Effective Quota



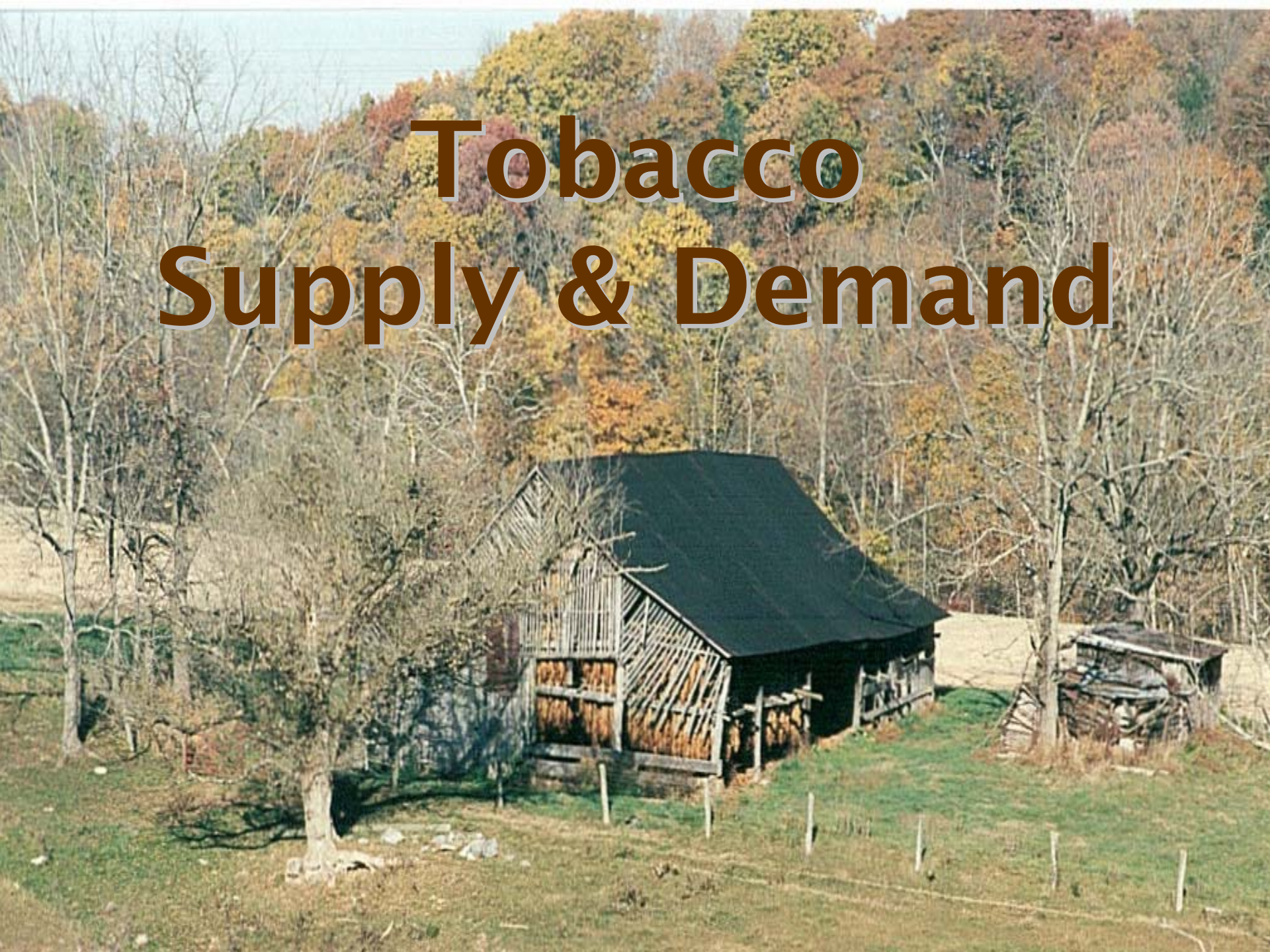
TN Harvested Tobacco Acreage



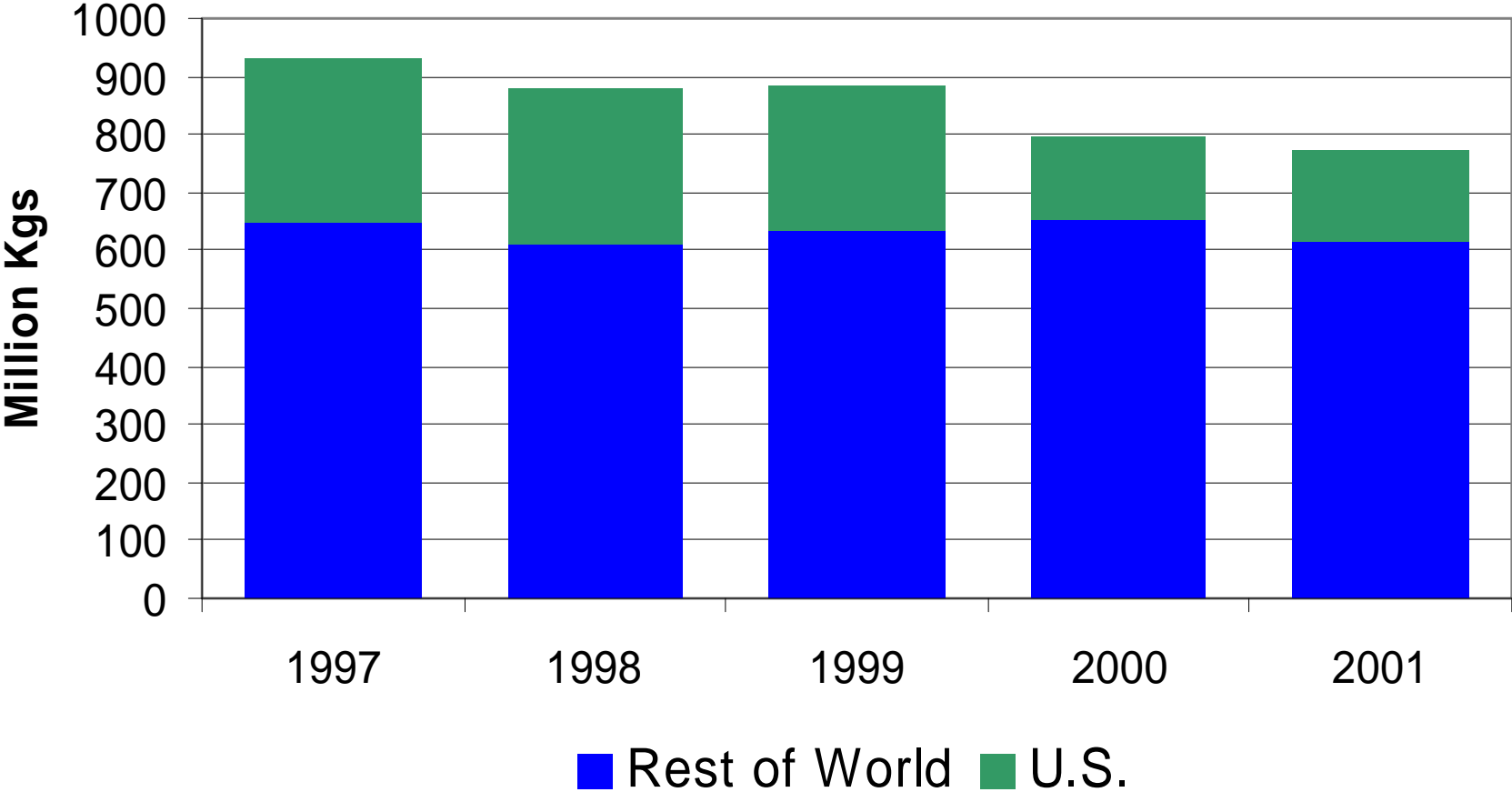
TN Burley Quota & Production



Tobacco Supply & Demand



U.S. & World Burley Production

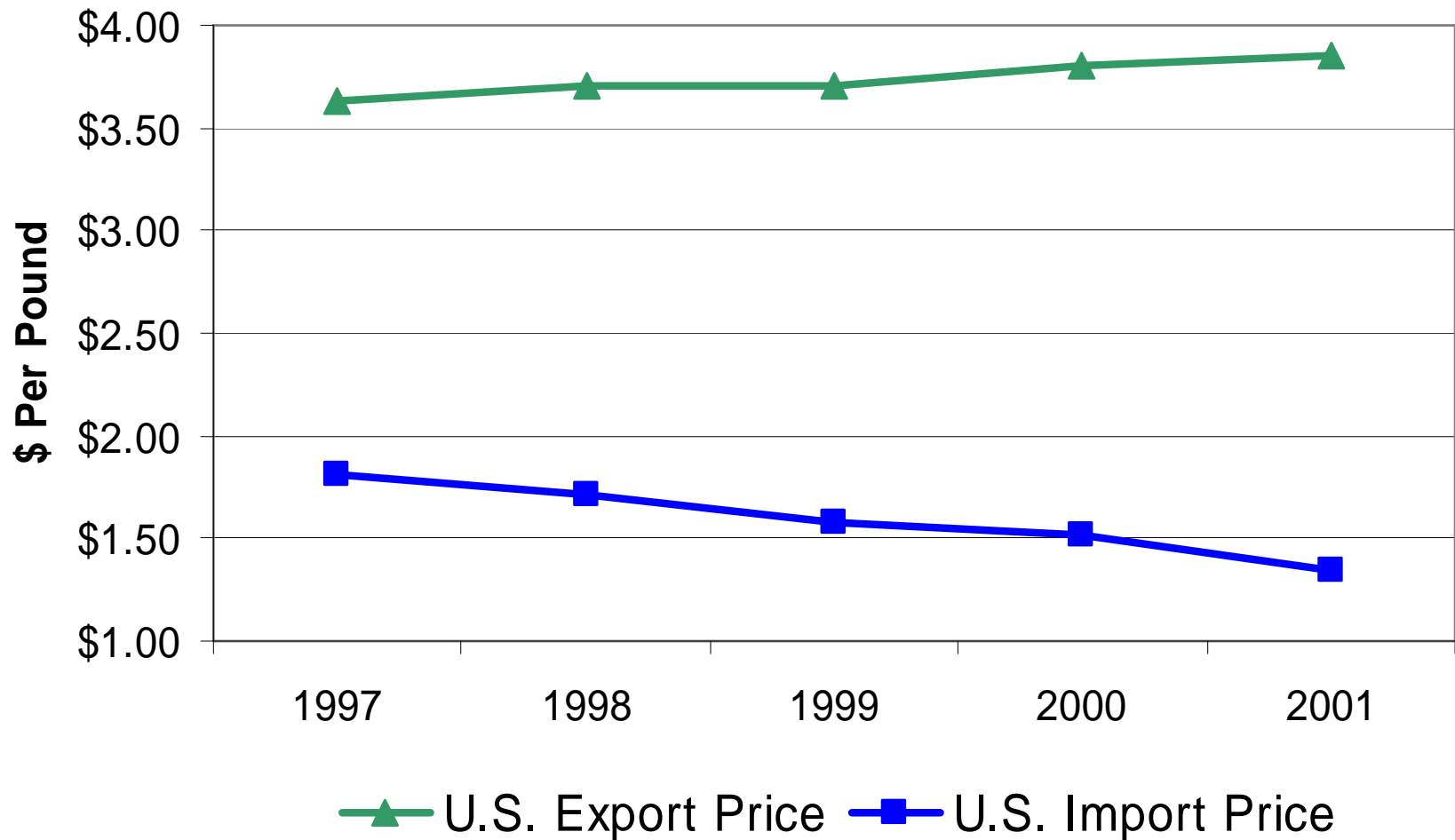


Contributing To Leaf Demand Drop

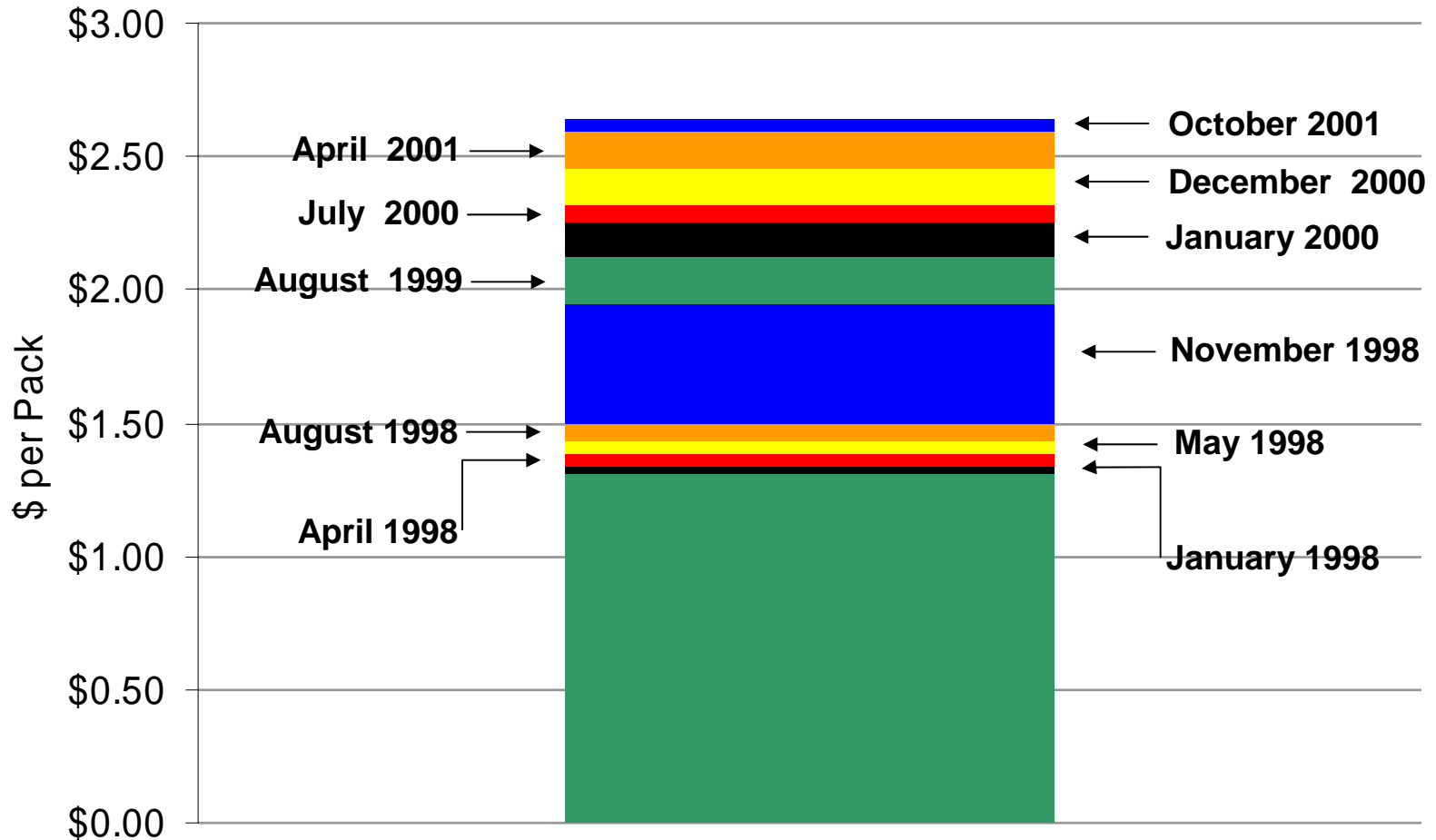
- **Cigarette manufacturing is declining**
 - Cigarette consumption is down but stabilizing
 - Significantly higher retail prices
 - Health concerns contribute toward trend
 - Some production moving overseas
- **Imports of foreign leaf are up**
 - Manufacturers are using less U.S. leaf in cigarettes
 - U.S. leaf price is significantly higher than the world price
- **Exports of U.S. leaf are down**
 - U.S. price significantly above world price
 - Still a quality differential, but diminishing some



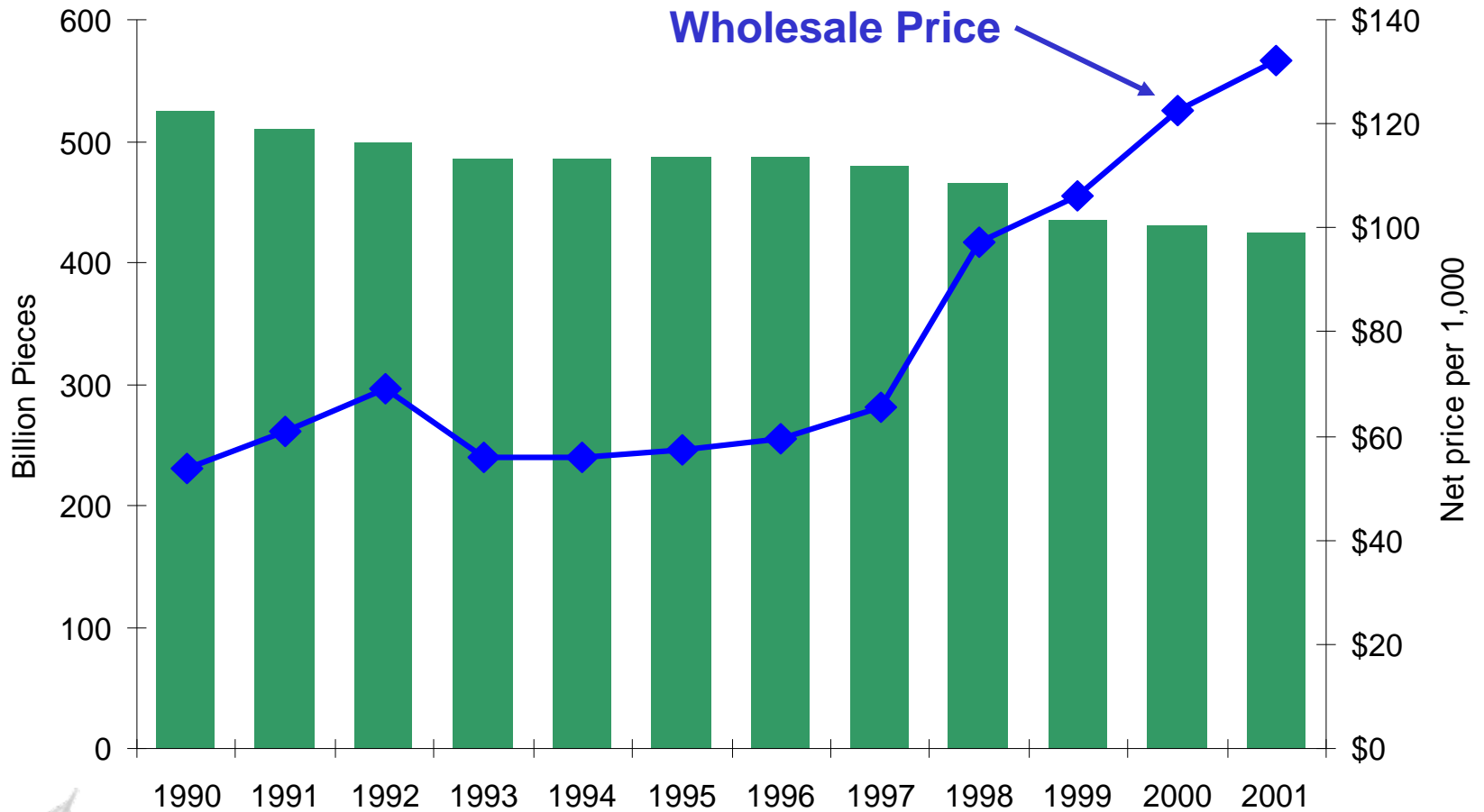
U.S. Burley Import & Export Prices



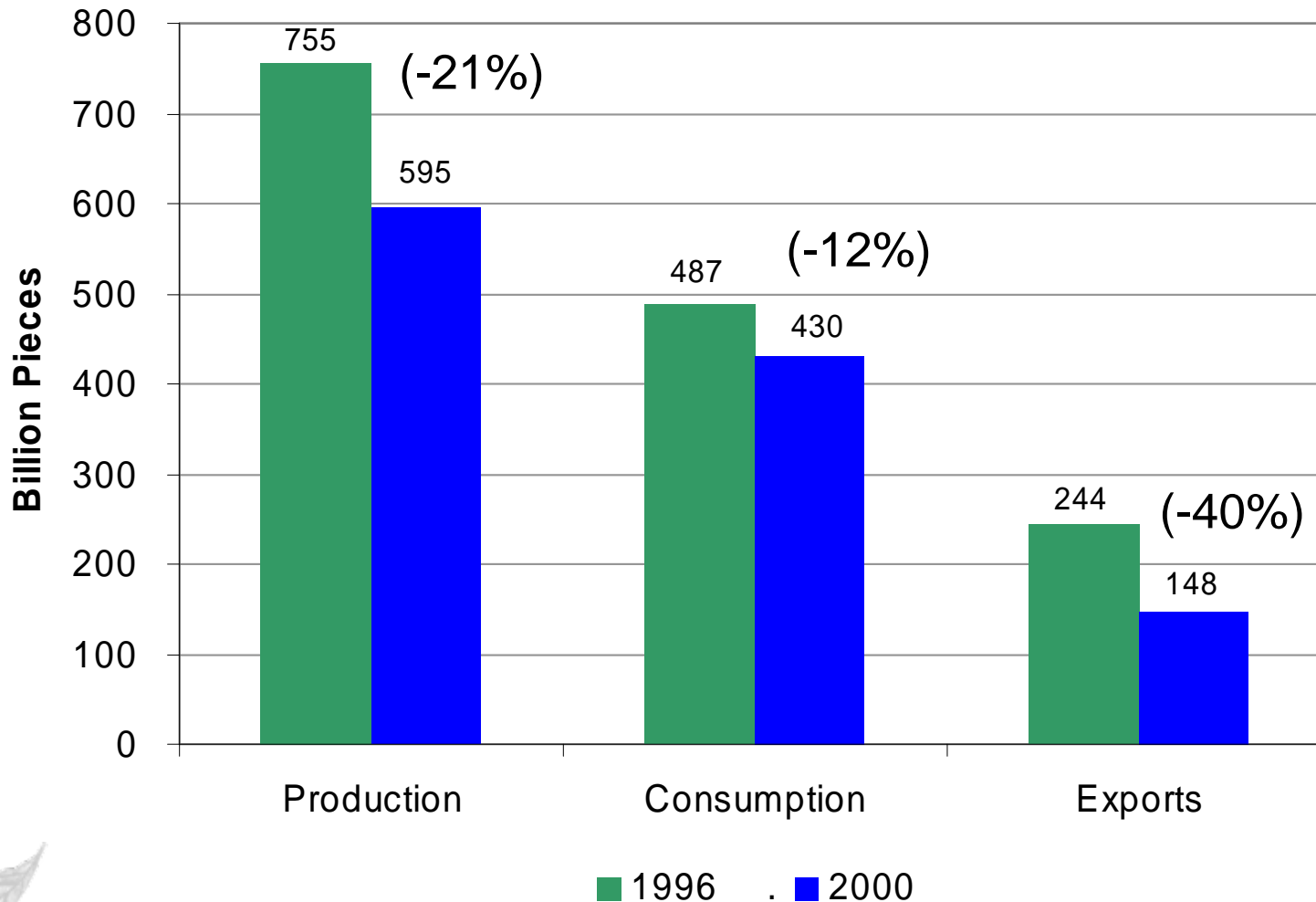
Change in Wholesale Cigarette Price Since January 1998



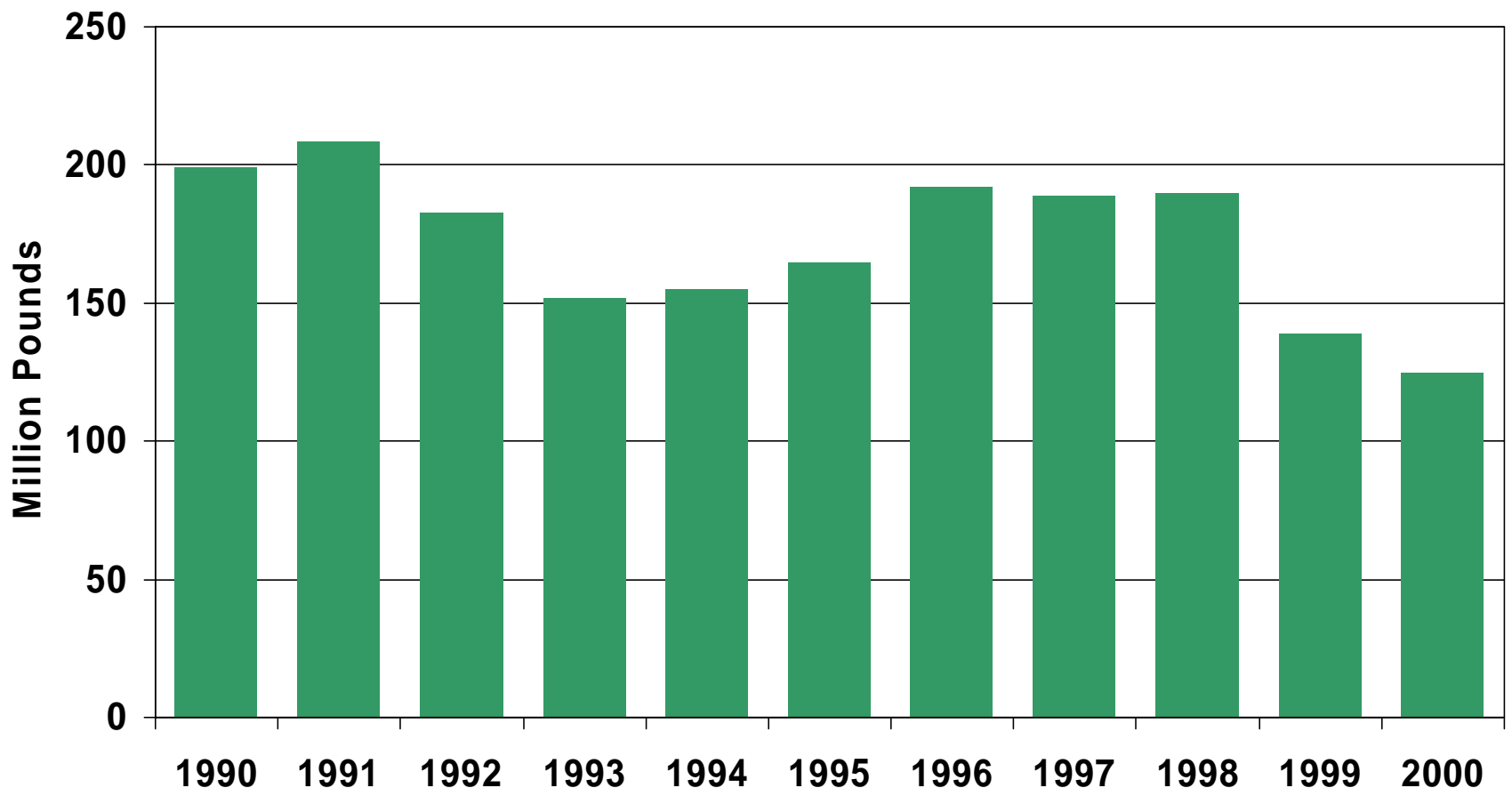
U.S. Cigarette Consumption & Wholesale Price



U.S. Cigarette Production, Consumption & Exports

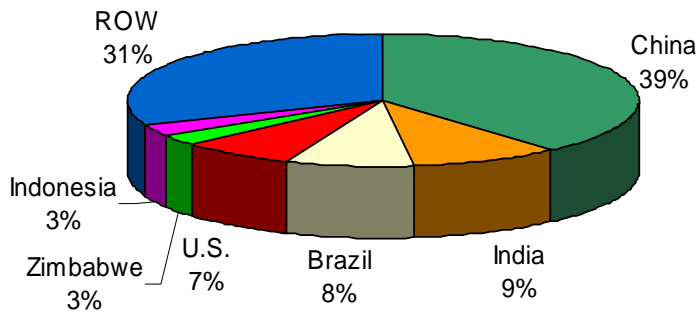


U.S. Exports of Burley Tobacco

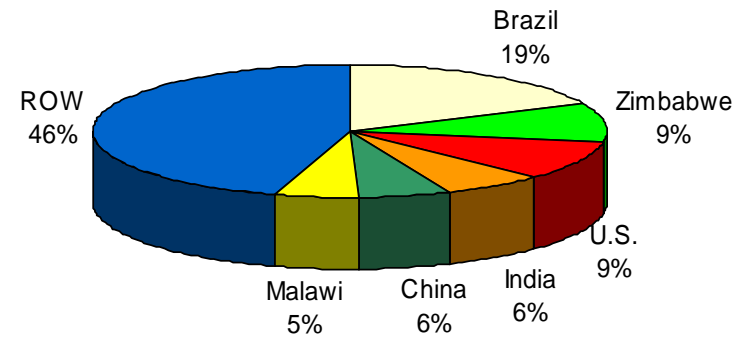


World Tobacco Production, Exports & Imports, 2000

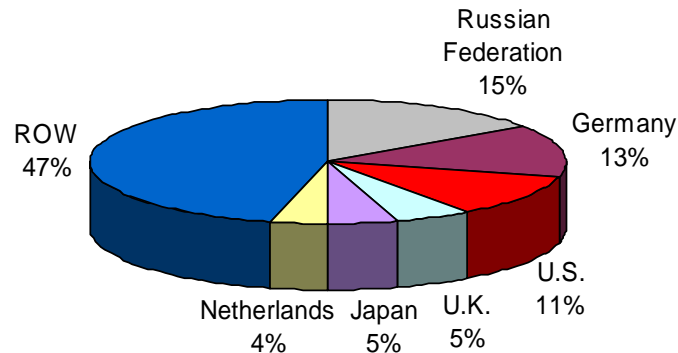
World Tobacco Production



World Tobacco Exports



World Tobacco Imports



A New Reality

**What impact does the U.S.
have on the world
tobacco situation?**

VERY LITTLE

U.S. is just another player



2002 Burley Quota Outlook

	1999	2000	2001	2002
Mfg Purchase Intentions	291	242	225	227.4
Exports	186	159	144	138.8
Stock Adjustment	-37	-161	-37	-42
Secretary Adjustment	+13	+7	0	?
Basic Quota	453 (-29%)	247 (-45%)	332 (+34%)	324.2 (-2.3%)





Tennessee Tobacco Settlement Update

Tobacco Settlement Review

- Major manufacturers settled states' class action suits in 1998 for \$206 billion over 25 years
- Master Settlement Agreement (MSA) payments: no strings attached, states' discretion (legislature)
- A separate agreement signed in 1999 (Phase II) providing growers and quota owners direct compensation for reduced incomes, \$5.15 billion over 12 years
- Phase II payments based on each state's 1998 share of basic quota, up to state Phase II boards to allocate



TN Tobacco Settlement Spending

- Expect to receive \$4.8 billion over 25 years, payments average about \$195 million per year
- Payments go to state's general fund, legislature determines annual use
- State has received over \$550 million to date (FY02)
- General interest in spending half on agriculture and half on tobacco health issues
- All payments through FY02 committed to general budget to cover budget deficit

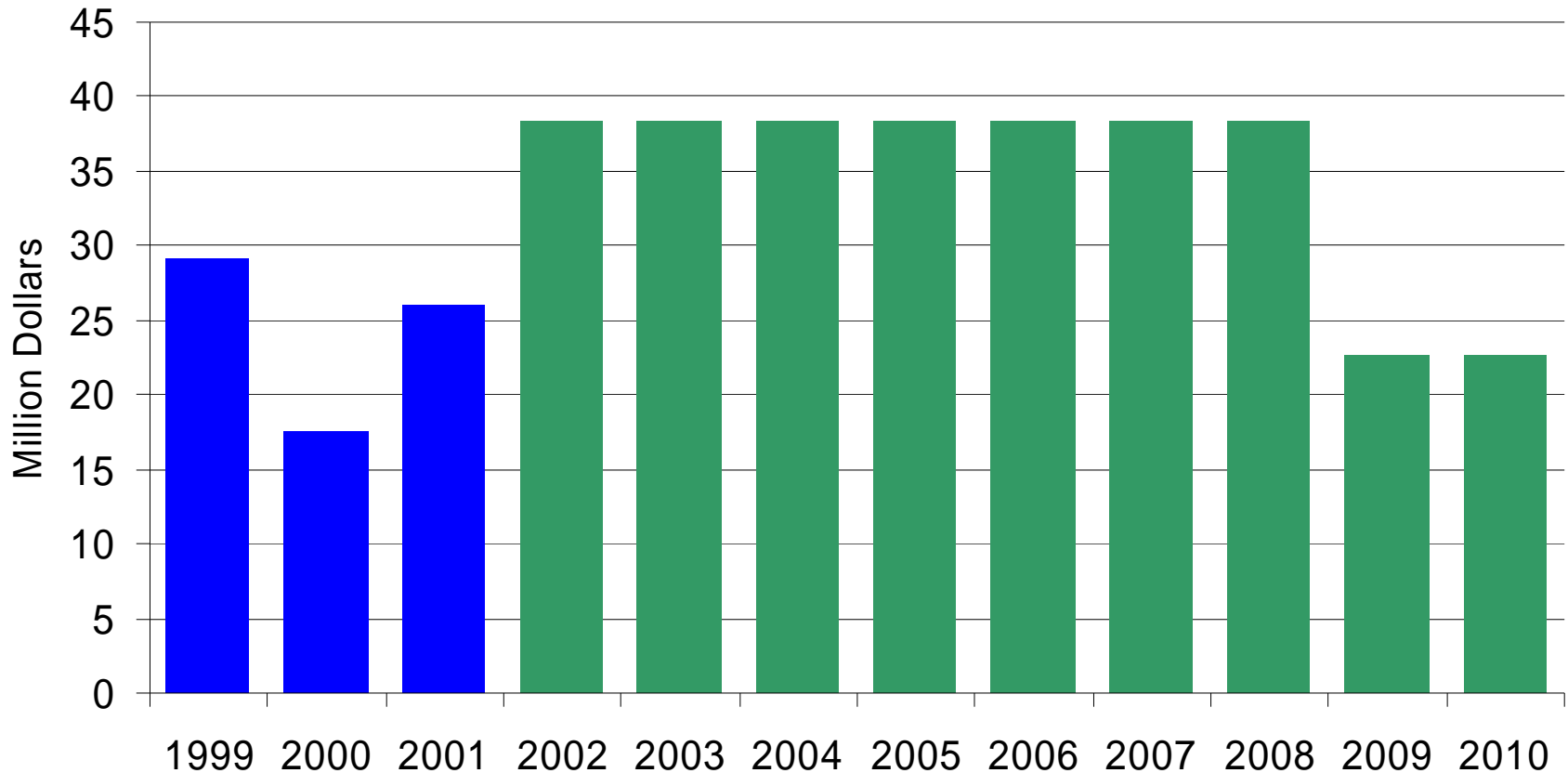


Phase II in TN

- Tennessee projected to receive \$390 million 1999 to 2010
- Only cigarette tobaccos eligible (burley eligible, dark tobaccos not eligible)
- Tennessee Tobacco Farmers Certification Board determines allocation among growers and quota owners, determines payment basis
- 80% allocated to growers and 20% to quota owners in 1999 and 2000; 90/10 split for 2001
- Payments have been based on the previous year's crop production records



TN Phase II Payments

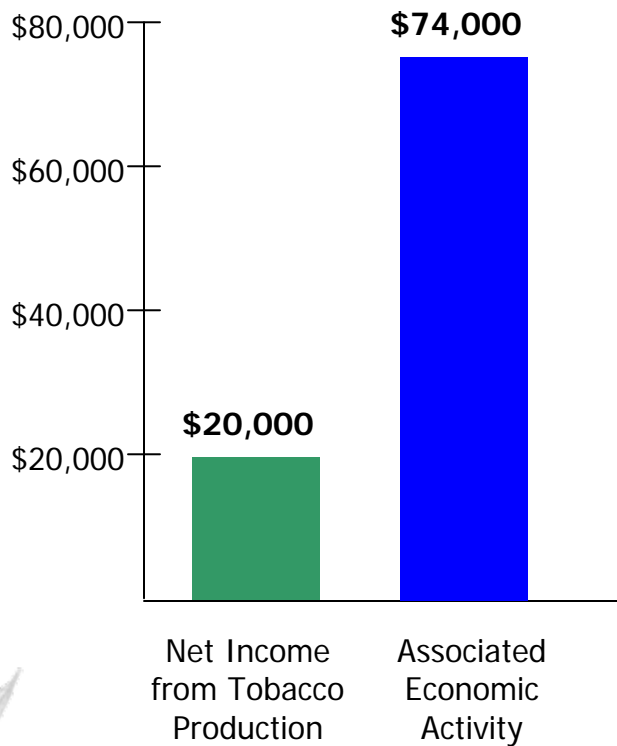


* 2002-2010 payments are projected and may be adjusted downward as cigarette consumption declines.

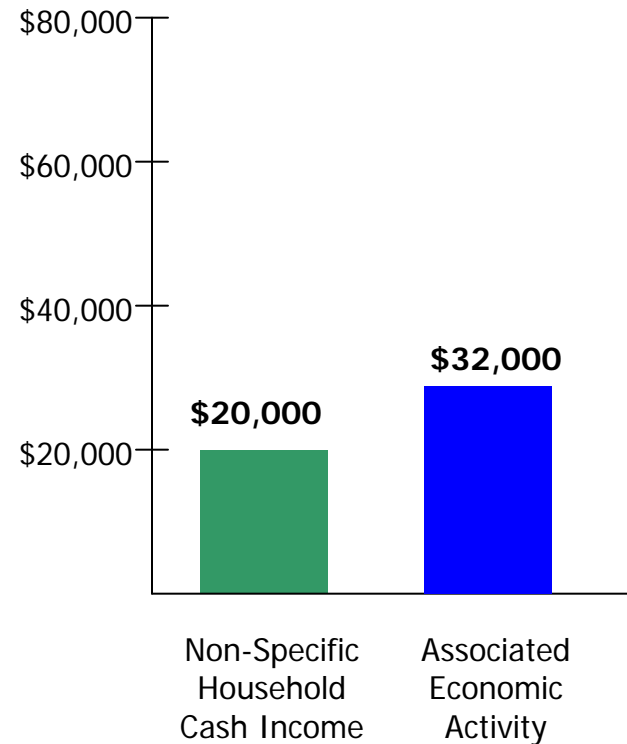


TN Tobacco Multiplier Effects

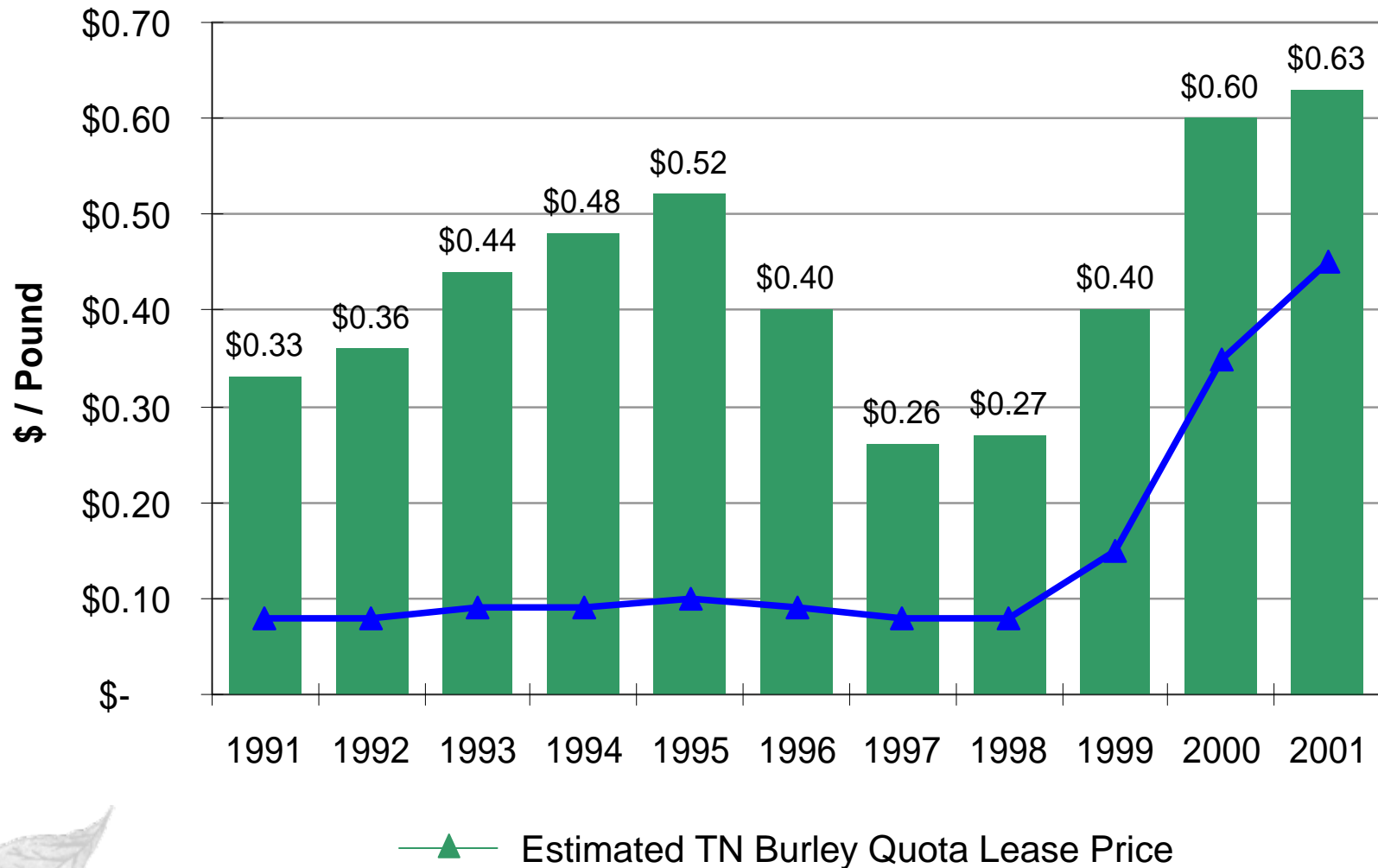
If a tobacco grower in Tennessee produces 10 acres of tobacco and nets \$20,000 in income, the total value of the economic activity associated with producing that crop is \$74,000.



If the same producer receives a lump sum payment of \$20,000, the total economic impact of that money is \$32,000.



Avg. KY Burley Quota Lease Prices



Other Tobacco Issues



Tobacco Issues & Uncertainties

- Tobacco quota buyout possibilities
- Long-term effects of contracting
- Future of the federal tobacco program
- New production technologies, GMOs
- FDA regulation, legal uncertainties

Tobacco Quota Buyout

- **Most recent interest sparked by release of the President's Tobacco Commission report in 2001**
 - Recommended a mandatory quota buyout over 5 years
 - Quota owners paid \$8/lb, growers paid \$4/lb if they quit tobacco or \$2/lb if they remain in tobacco production
 - Recommended a new tobacco production permit system
 - Recommended paying for the buyout (about \$15 billion total) with federal cigarette excise taxes, about \$0.17/pack
- **\$8/lb figure first surfaced in 1998 when tobacco settlement legislation was debated (Lugar/Ford)**



Status of the Commission Report

- Presently, the Commission's recommendations are still a "report"
- No legislation has been introduced
- Funding a buyout with a federal cigarette excise tax would be difficult, at best
- Other buyout/funding proposals are being discussed



Buyout Questions to Address

- **Appropriate payment rate(s)**
- **Payment basis**
- **Payment period**
- **Tax treatment, payment limits**
- **Program provisions (if any)**
- **Paying for a buyout**



Buyout Funding Possibilities

- **Federal general budget, e.g., farm bill, special program**
 - **Fat chance**
- **Federal cigarette excise tax, either new or existing**
 - **Even fatter chance**
- **Tobacco settlement (Phase I) funds**
 - **Very unlikely, difficult to coordinate across states and types**
- **Phase II funds**
 - **Difficult to coordinate across states, not enough money, would likely be “pulled into” any buyout**
- **Lawsuits**
 - **Proceeds from settlement of federal or grower anti-trust suits**
- **Tobacco company funds (via increase in cigarette prices)**
 - **Would likely have strings attached**



Maryland's Buyout Experience

- Voluntary buyout of Maryland type 32
- Funded by \$78 million from state's tobacco settlement over 10 years
- Participants paid \$1/lb annually for 10 years, based on 1996-1998 average production
- Must permanently quit tobacco and convert land to other agricultural uses for 10 years
- Through 2001, 66% of Maryland's 981 eligible producers participating, accounting for 81% of production



New Buyout “Calculator” Tool

- **Excel spreadsheet created by Daniel Green and Will Snell at the Univ. of Kentucky**
- **Allows you to put in your own specific farm data**
- **Allows you to play around with different buyout payment scenarios**
- **Allows you to compare expected returns**
- **Available for download at the UK Tobacco Economics Online website in early February**
 - <http://www.uky.edu/Agriculture/TobaccoEcon/>



You Input Farm & Buyout Details

Specify buyout ...

- payment rates
- payment years
- base years
- production plans

Buyout Characteristics

Enter the following payment amounts for the buyout:

Quota Owner's Portion: \$ per Lb.

Grower's Portion who quits production: \$ per Lb.

Grower's Portion who continues: \$ per Lb.

Enter the number of years the payments will be spread out over: years ?

Enter a discount rate: % ?

What base year(s) would you like to use? (Select more than one to use the average of several years)

1997 1998 1999 2000 2001

How many cents will the support price likely fall?: cents/Lb. ?

By what percent will your quota increase due to other producers opting out of % ?

If permits are granted, land for tobacco will rent at approximately: \$ per acre ?

SUBMIT

Farm Characteristics

Enter the effective quota produced in the following years:

1997	<input type="text" value="21000"/>	Lbs.
1998	<input type="text" value="19111"/>	Lbs.
1999	<input type="text" value="13569"/>	Lbs.
2000	<input type="text" value="7463"/>	Lbs.
2001	<input type="text" value="10000"/>	Lbs.

Enter the current basic quota you own: Lbs.

Do you lease these pounds out? Yes No

Enter the number of pounds you actually produce Lbs.

Enter the number of pounds you produce yourself on a share arrangement Lbs.

Enter the number of pounds produced on land you Lbs.

Without quota restrictions, approximately how much tobacco could you produce on land that you Lbs.

Enter the number of pounds you lease in: Lbs.

Enter the most likely lease price you would receive/pay this year: cents/Lb.

Farmer planning years ?

SUBMIT

Specify your farm ...

- quota
- production
- planning horizon
- lease rates



Compare Expected Returns

- Compare your expected returns under different buyout, production, and payment scenarios

Microsoft Excel - BuyoutCalculatorTN

File Edit View Insert Format Tools Data FlipEx Window Help

Type a question for help

Times New Roman 10 B / I

A1

Keep Program and Phase II

Farm Info

		NPV of Returns Over			
Production Returns		Net Expected Return/Lb./Yr.	10 Years (5% disc. Rate)	Number of Qualifying Lbs.	Total NPV of Production Returns
Owned Quota		\$0.68	\$5.27	10000	\$52,658.56
Leased-In Quota		\$0.23	\$1.79	0	\$0.00
Shares Quota		\$0.12	\$0.89	0	\$0.00
					\$52,658.56

Phase II Returns		Avg. Payment / Year / Lb.	NPV of payments over 10 Years	Number of Qualifying Lbs.	Total NPV of Phase II Returns
Quota Owner		\$0.03	\$0.20	10000	\$2,029.08
Grower		\$0.11	\$0.81	10000	\$8,116.31
Total NPV of All Payments					\$62,803.95

Buyout Eliminating Phase II

Buyout Info

Production Returns		Net Expected Return/Lb./Yr.	10 Years (5% disc. Rate)	Potential Permit Pounds	Total NPV of Production
Producing on Owned Land		\$0.38	\$2.95	19,375	\$57,143.37
Producing on Rented Land		\$0.14	\$1.11	0	\$0.00
(19375 Total)					\$57,143.37

Buyout Returns		Net Buyout Amount/Lb.	Net Payment Per Year/Lb.	NPV of Returns Over 10 Years (5% disc. Rate)	Qualifying Buyout Pounds	Total
Owned Quota		\$8.00	\$0.80	\$6.18	10000	\$61,773.88
Quit Producing		\$4.00	\$0.40	\$3.09	15500	\$47,874.76
Continue Producing		\$2.00	\$0.20	\$1.54	15500	\$23,937.38
Total NPV to Quit Producing						\$109,648.64
Total NPV to Continue Producing						\$142,854.62

Ready

NUM



Questions About Contracting

- **63.3% of all 2001 burley pounds contracted, compared to 26.3% in 2000**
- **About 80% of TN burley contracted in 2001**
- **About 80% of the 2001 flue-cured crop contracted**
- **What will be the impact of contracting on demand for U.S. burley exports?**
- **How will contracting evolve?**
- **Federal grading referendum this spring**



The Future of the Tobacco Program

- Can the issue of international price competitiveness be addressed within the current program?
- How will contracting affect the future of the program?
- What will happen to tobacco removed from pool stocks last year and existing loan stocks?
- Has quota stabilized around a new equilibrium range?
- What will happen to tobacco production if we don't have a program?

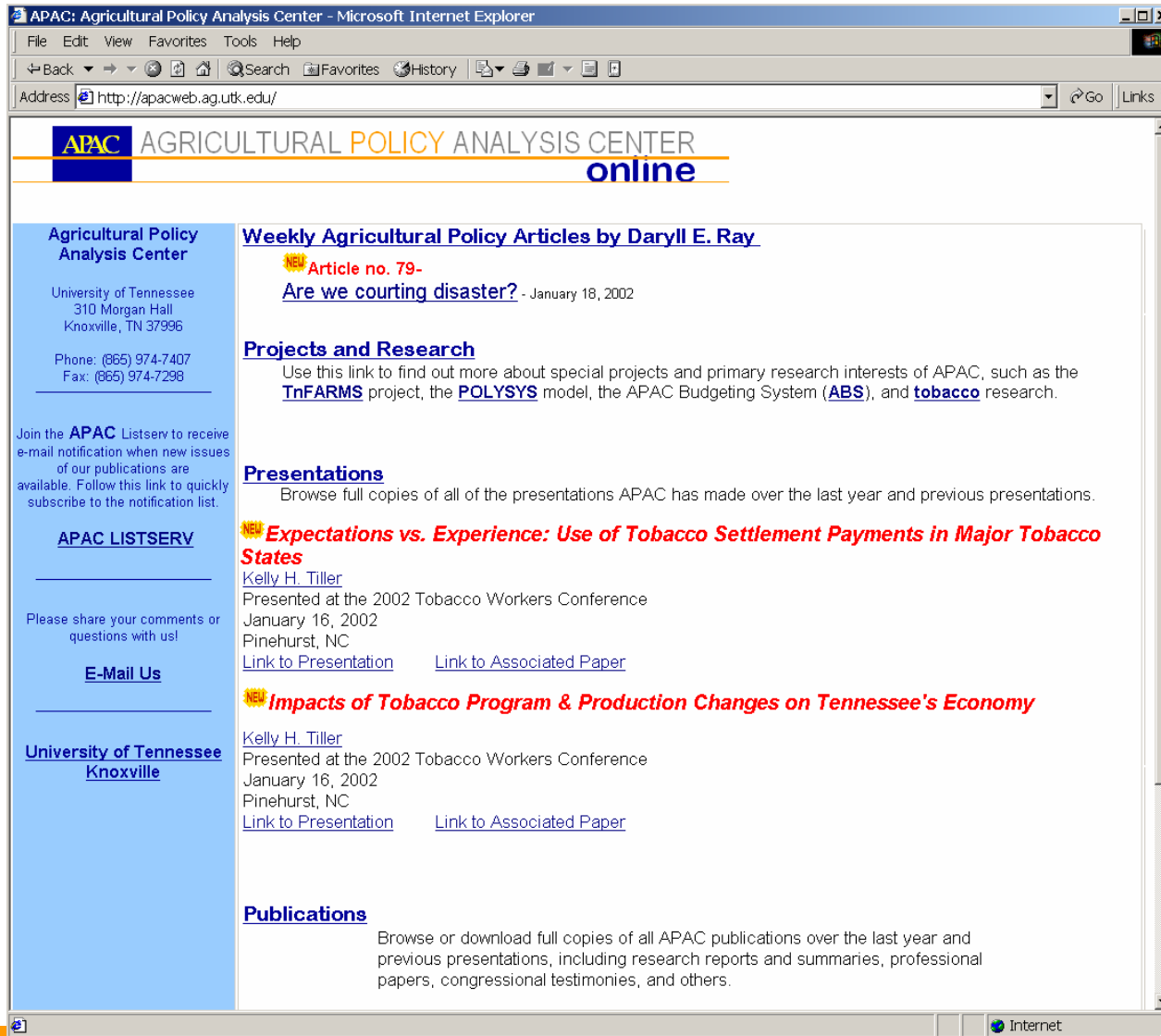


Other Issues

- How will new production technologies affect future production, e.g., reduced nitrosamines?
- How will GMO tobaccos affect the markets?
- What impacts would result from FDA regulation of cigarettes?
- Are there new tobacco production opportunities, e.g., pharmaceuticals, organic?
- How will health concerns, tax pressures, and legal challenges affect tobacco markets?



For More Information ... www.agppolicy.org



The screenshot shows a Microsoft Internet Explorer browser window displaying the APAC (Agricultural Policy Analysis Center) website. The address bar shows the URL <http://apacweb.ag.utk.edu/>. The website header features the APAC logo and the text "AGRICULTURAL POLICY ANALYSIS CENTER online".

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Projects and Research
Use this link to find out more about special projects and primary research interests of APAC, such as the **TnFARMS** project, the **POLYSYS** model, the APAC Budgeting System (**ABS**), and **tobacco** research.

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Expectations vs. Experience: Use of Tobacco Settlement Payments in Major Tobacco States
Kelly H. Tiller
Presented at the 2002 Tobacco Workers Conference
January 16, 2002
Pinehurst, NC
[Link to Presentation](#) [Link to Associated Paper](#)

Impacts of Tobacco Program & Production Changes on Tennessee's Economy
Kelly H. Tiller
Presented at the 2002 Tobacco Workers Conference
January 16, 2002
Pinehurst, NC
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