



Tennessee Tobacco Situation & Outlook

Kelly Tiller

Carter County
Tobacco Meeting

Elizabethton, TN

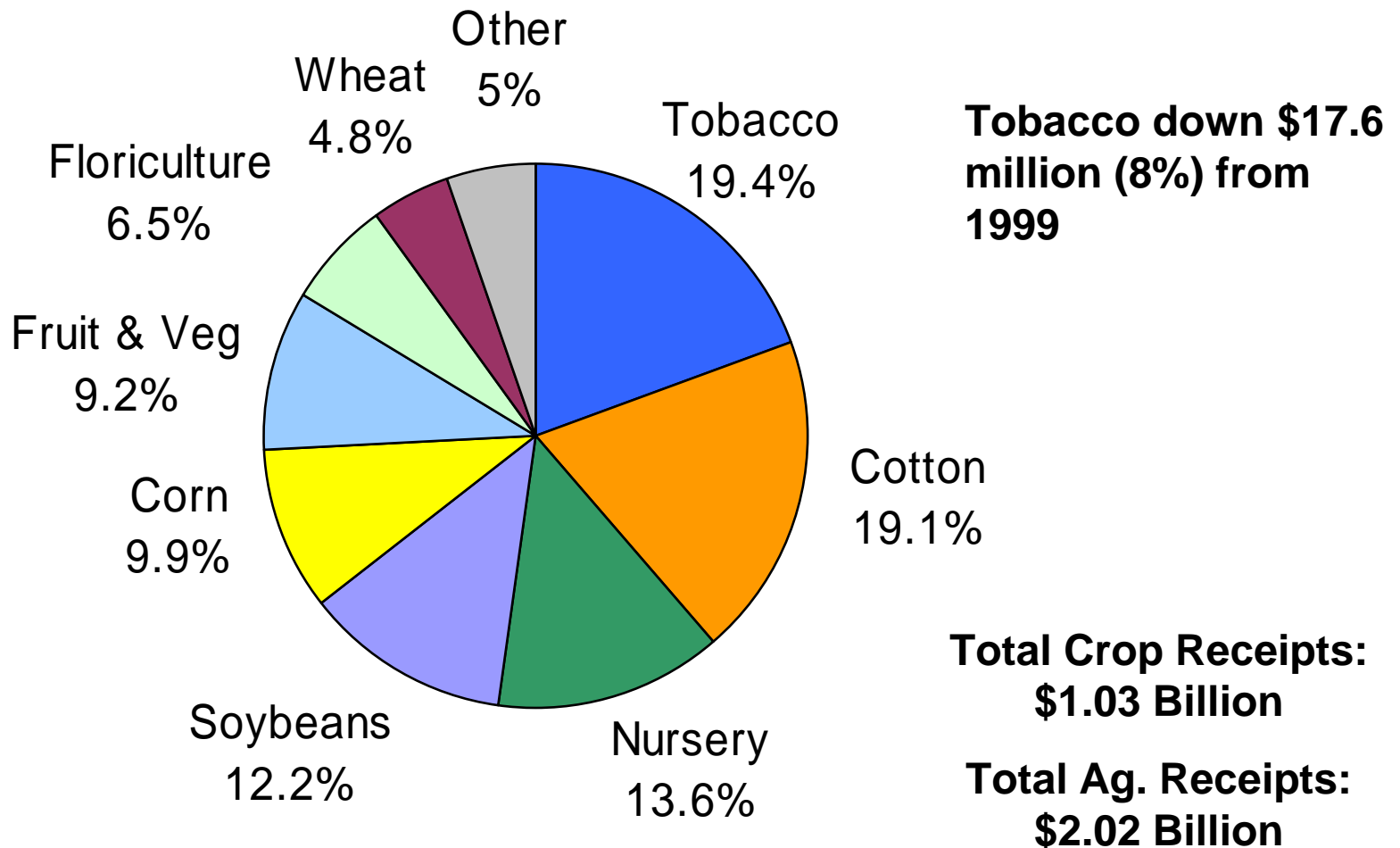
February 28, 2002



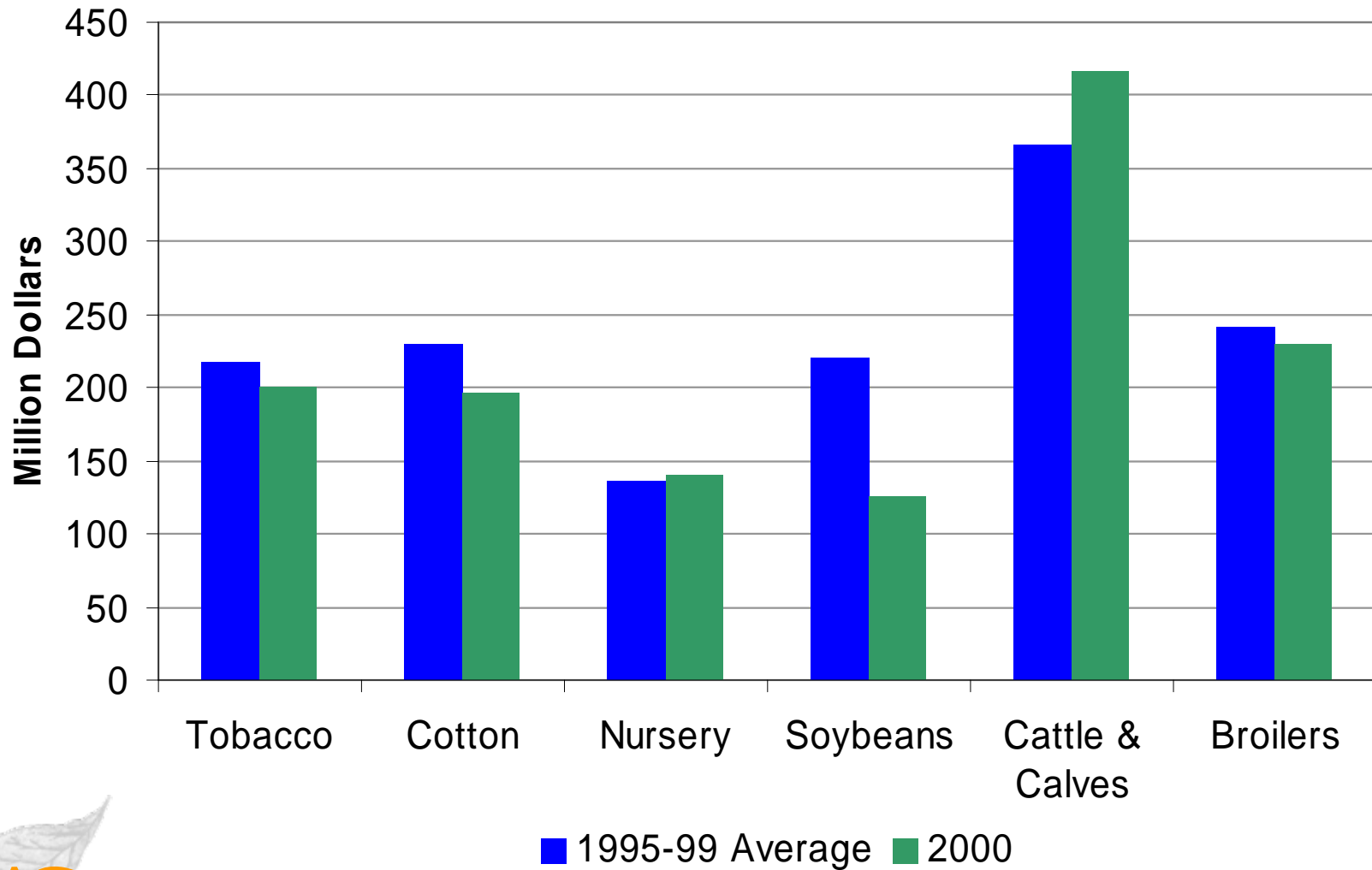
Tobacco Production & Income in Tennessee

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 distance. 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

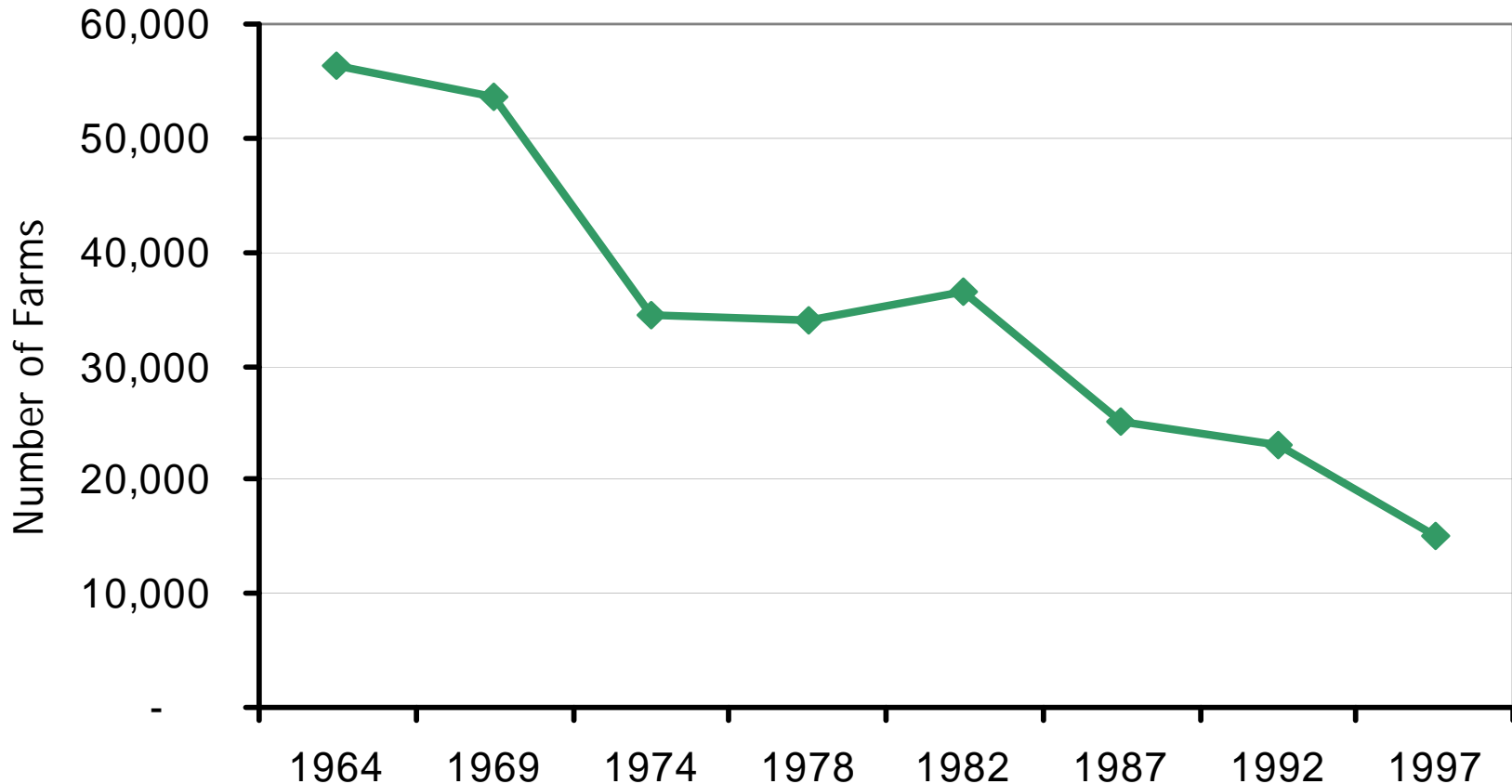


TN Crops: Return Above Variable Cost

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



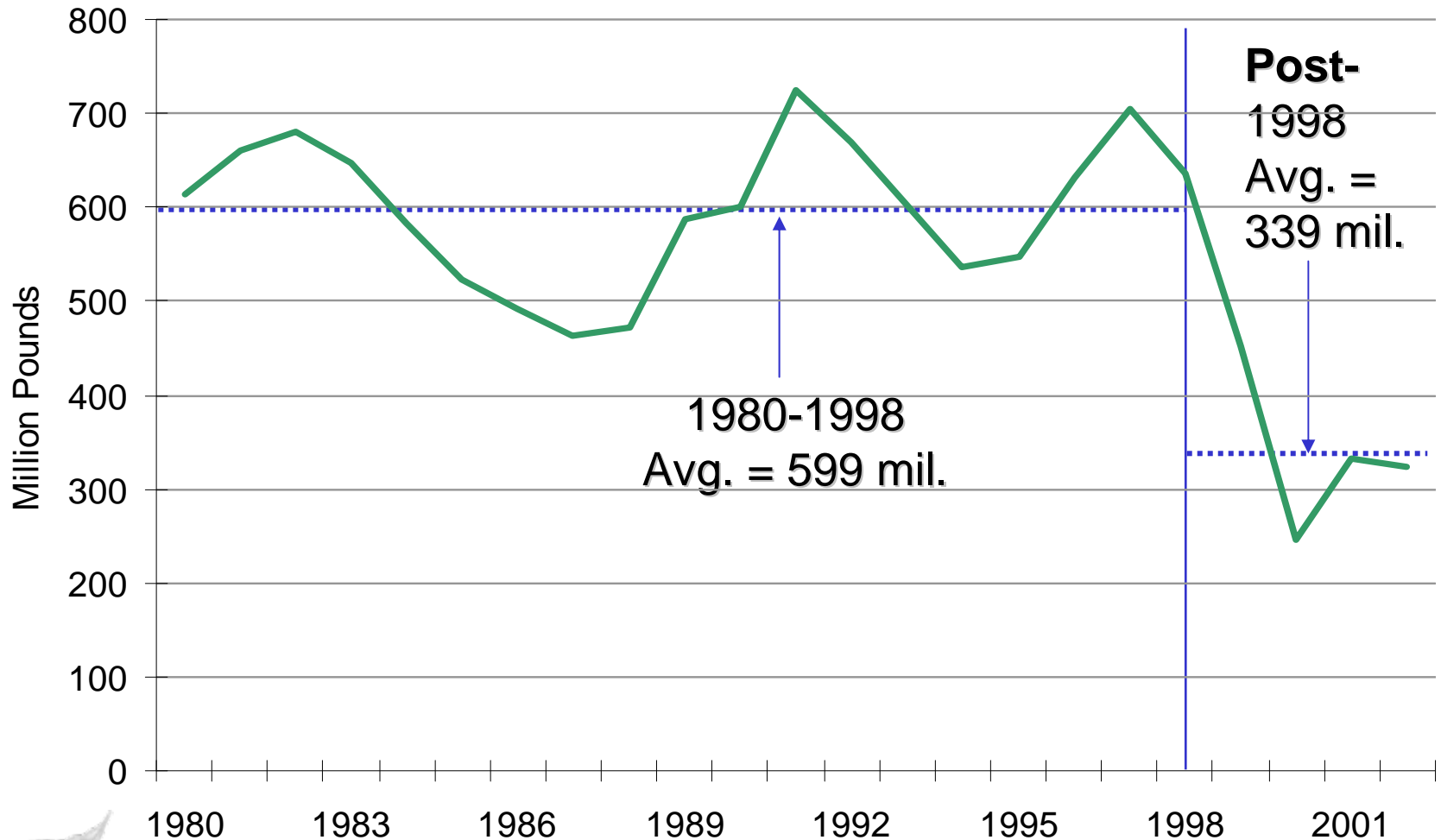
Number of TN Tobacco Farms*



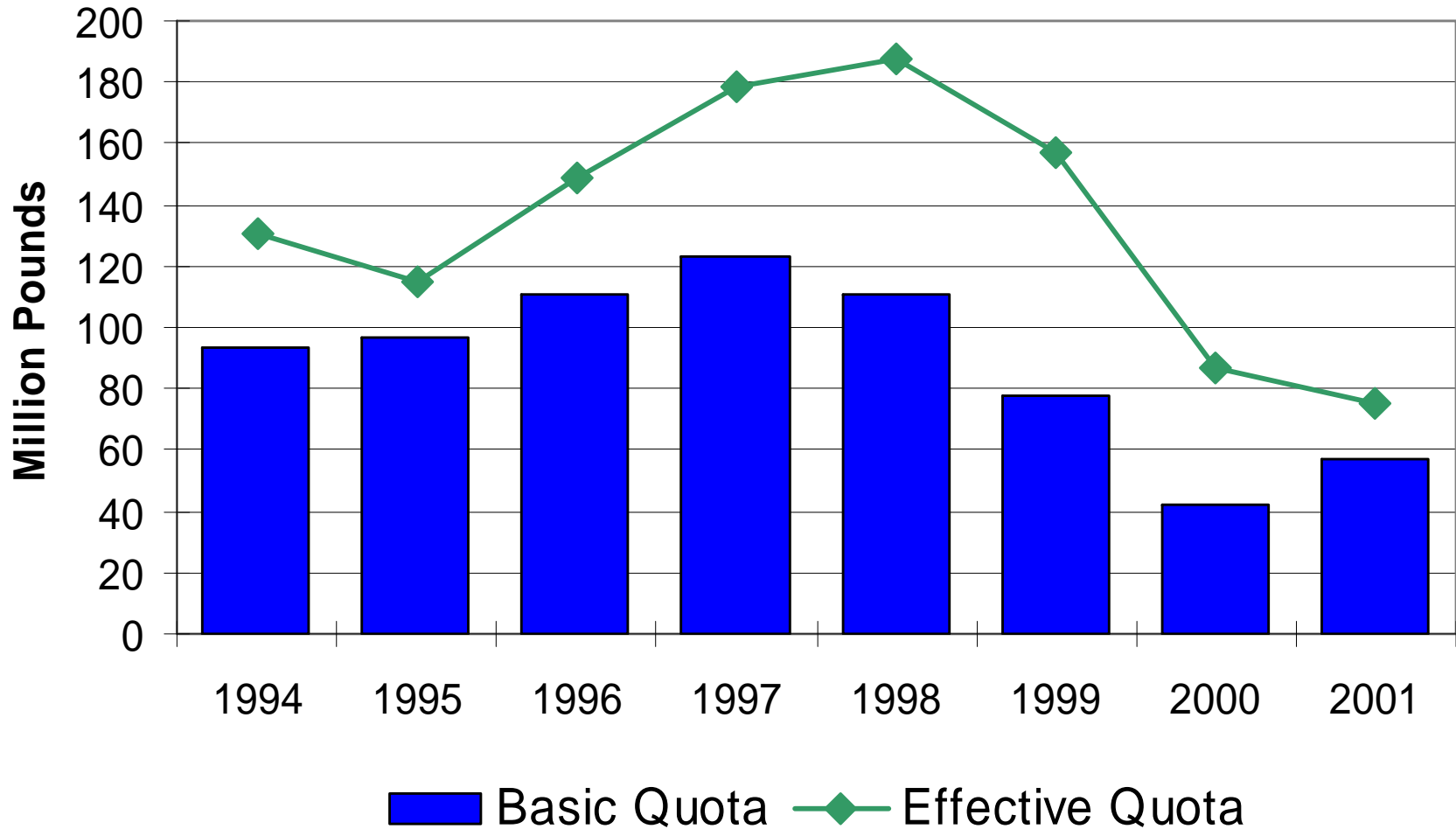
* Number of Tennessee farms deriving the majority of their income from tobacco production.



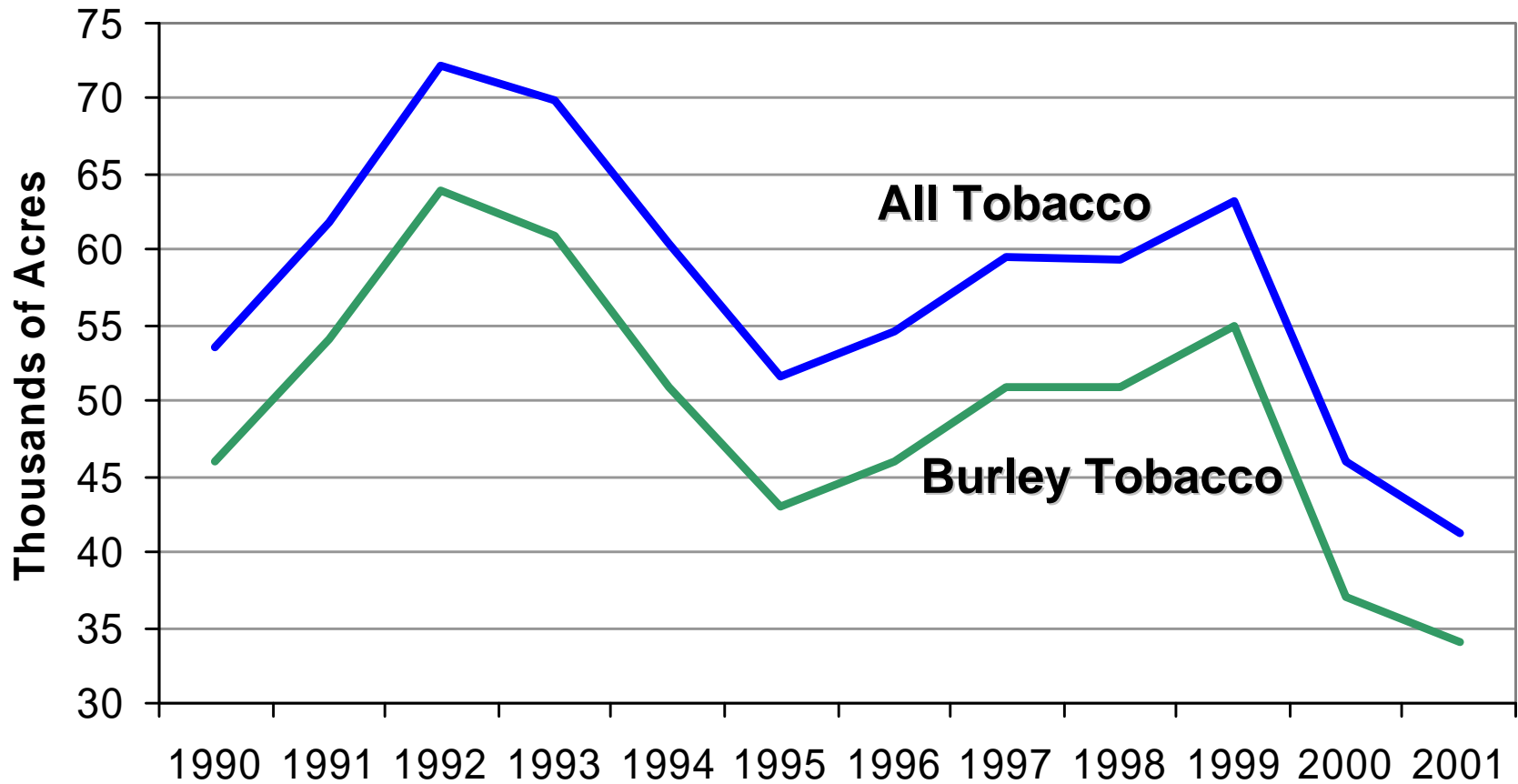
Burley Tobacco Basic Quota



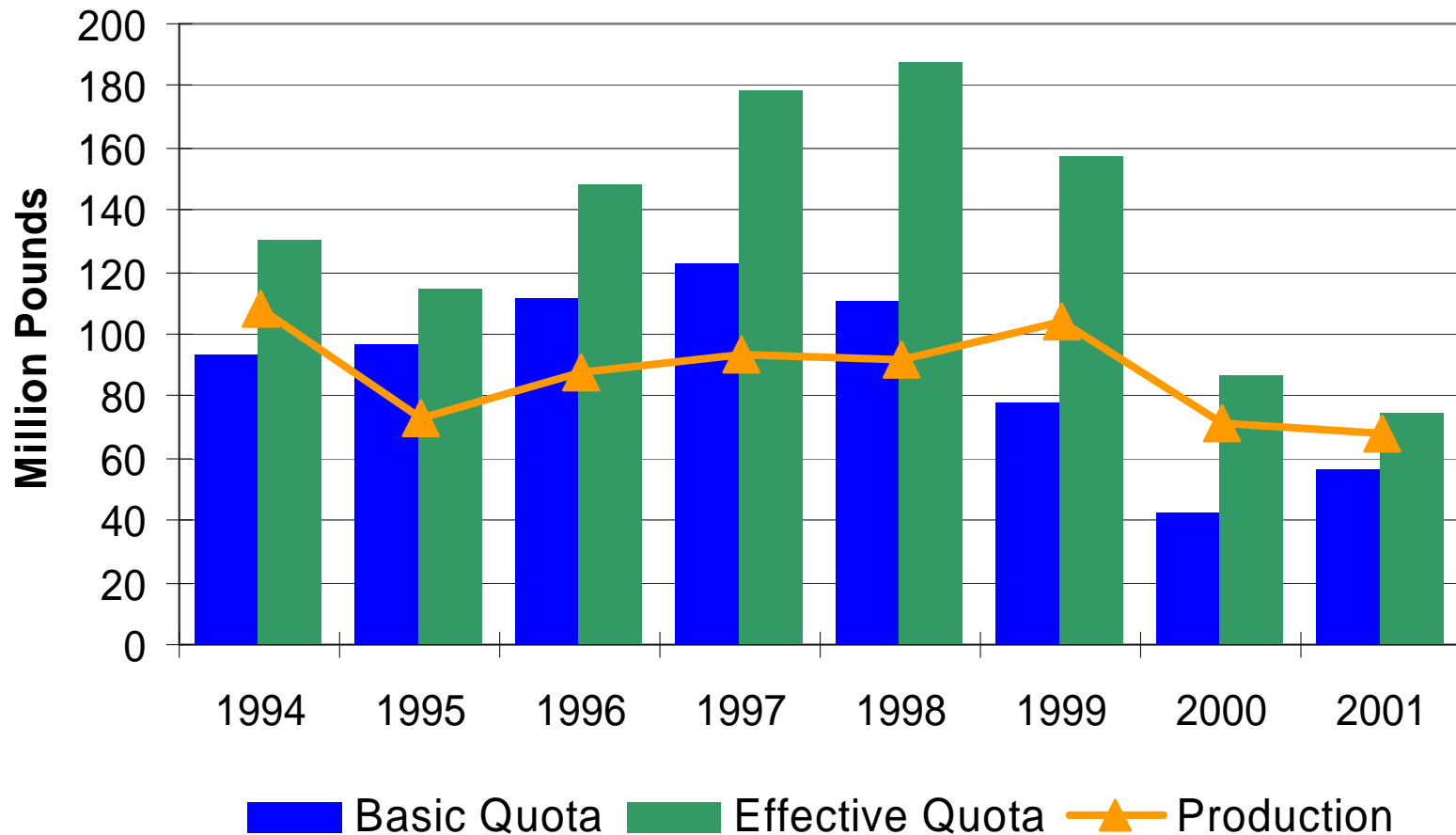
TN Burley Basic & Effective Quota



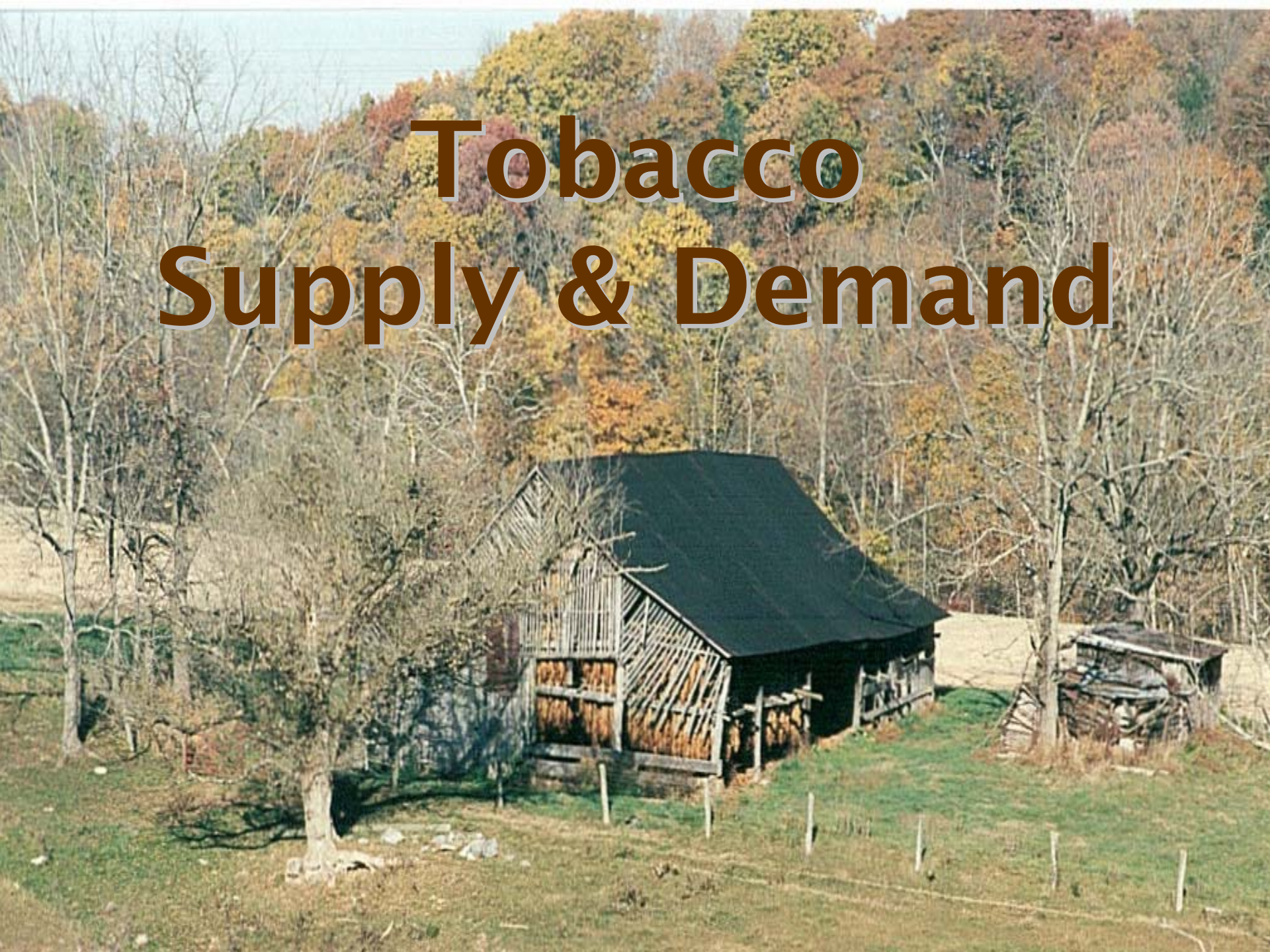
TN Harvested Tobacco Acreage



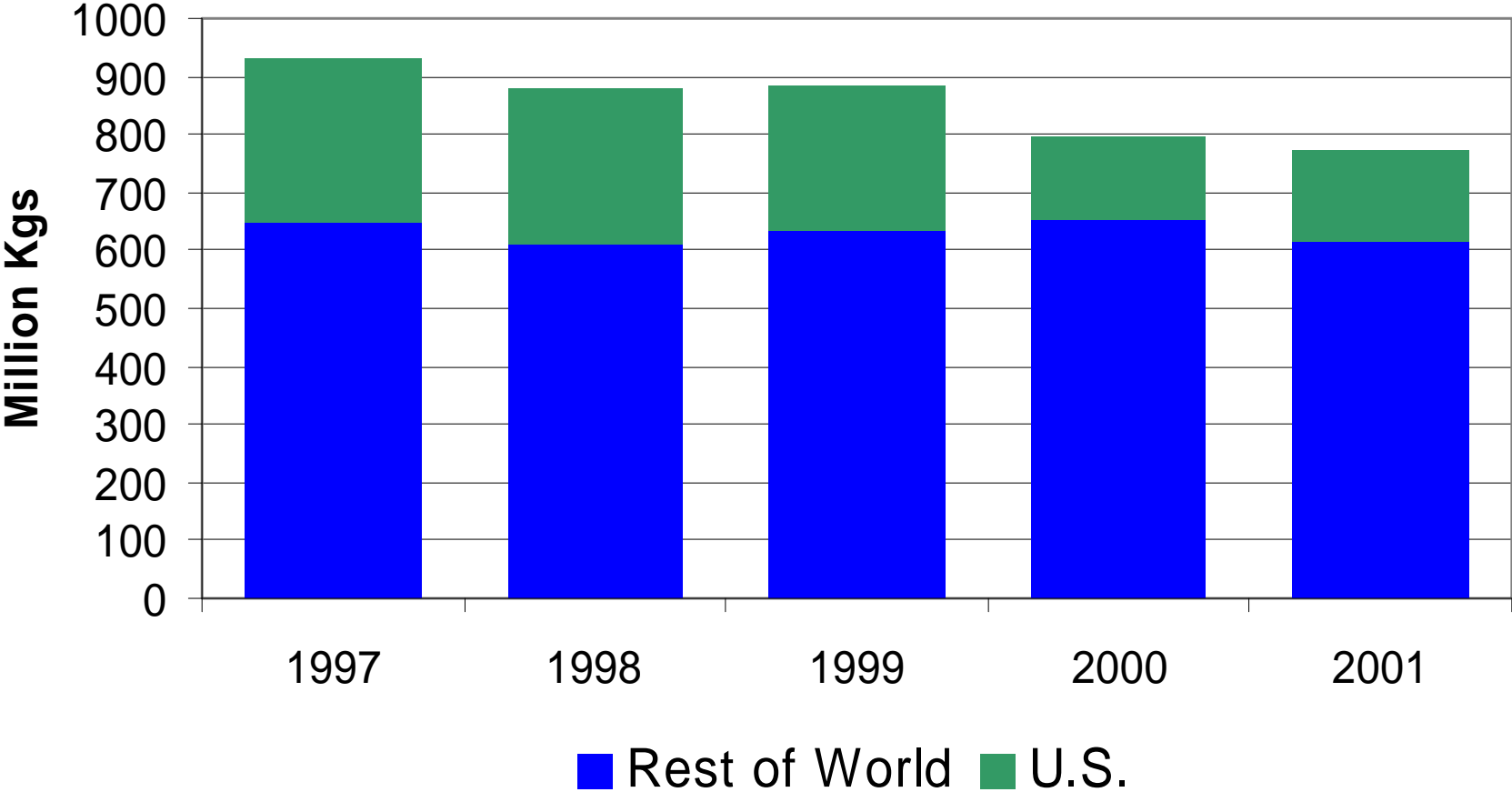
TN Burley Quota & Production



Tobacco Supply & Demand



U.S. & World Burley Production

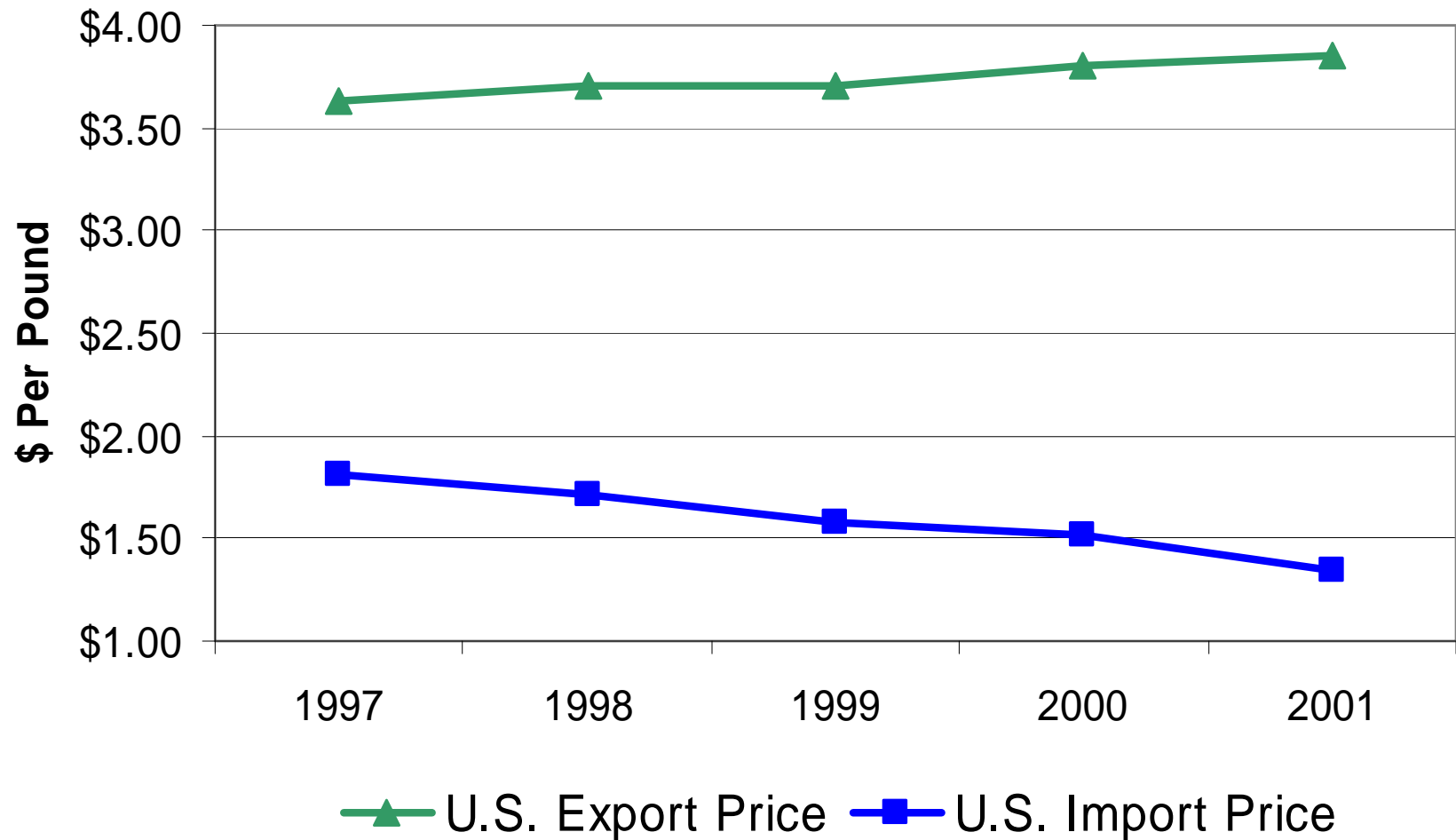


Contributing To Leaf Demand Drop

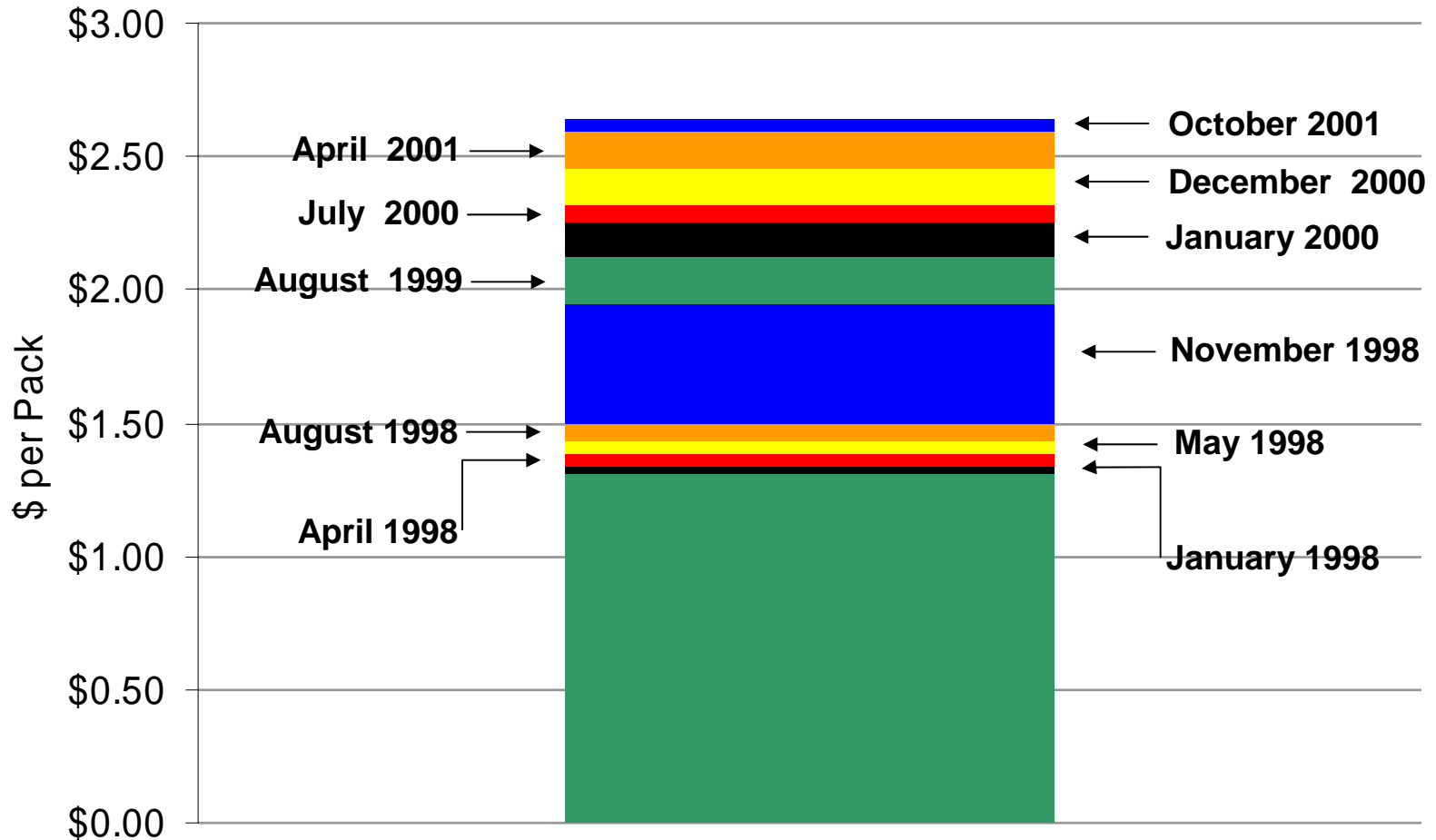
- **Cigarette manufacturing is declining**
 - Cigarette consumption is down but stabilizing
 - Significantly higher retail prices
 - Health concerns contribute toward trend
 - Some production moving overseas
- **Imports of foreign leaf are up**
 - Manufacturers are using less U.S. leaf in cigarettes
 - 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



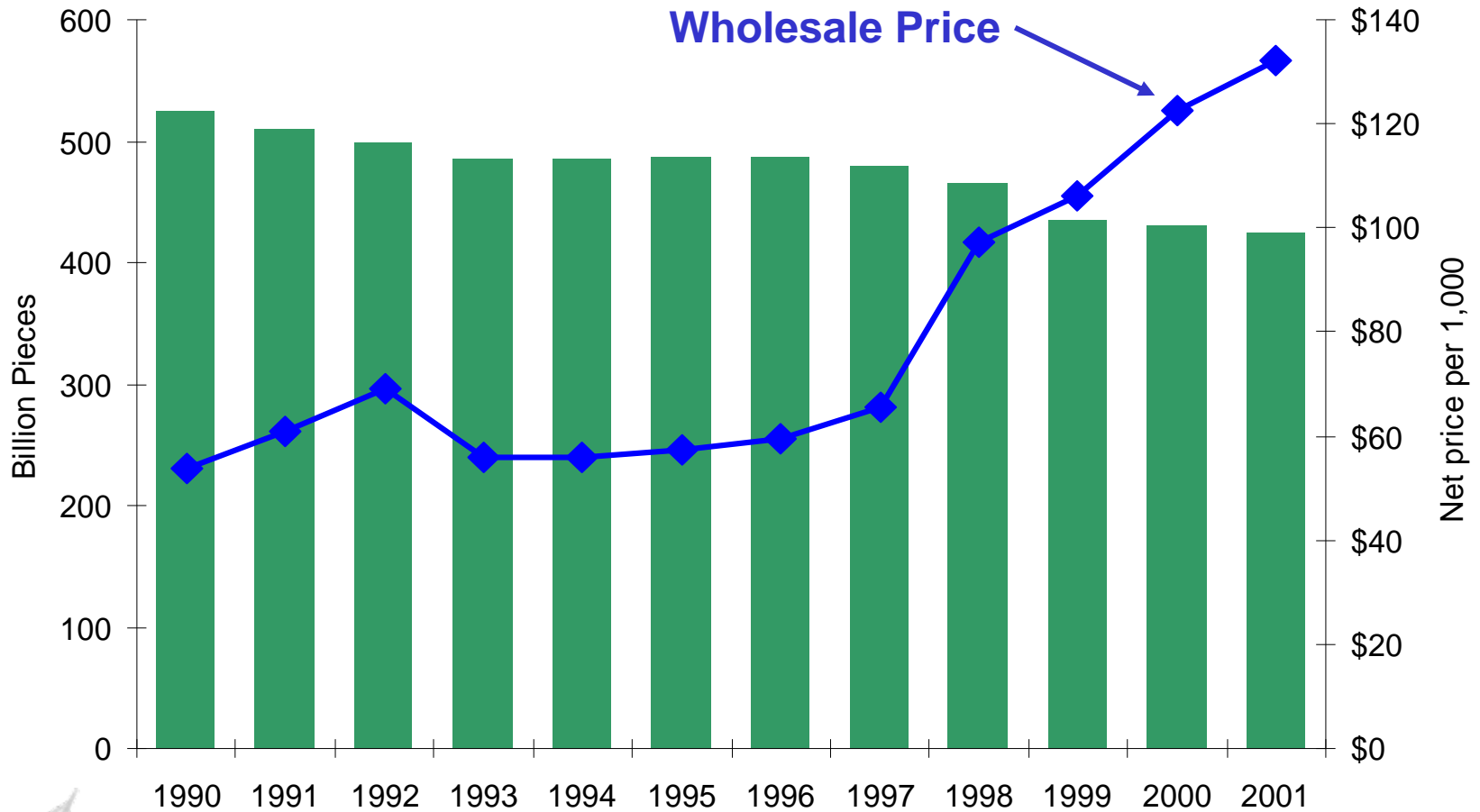
U.S. Burley Import & Export Prices



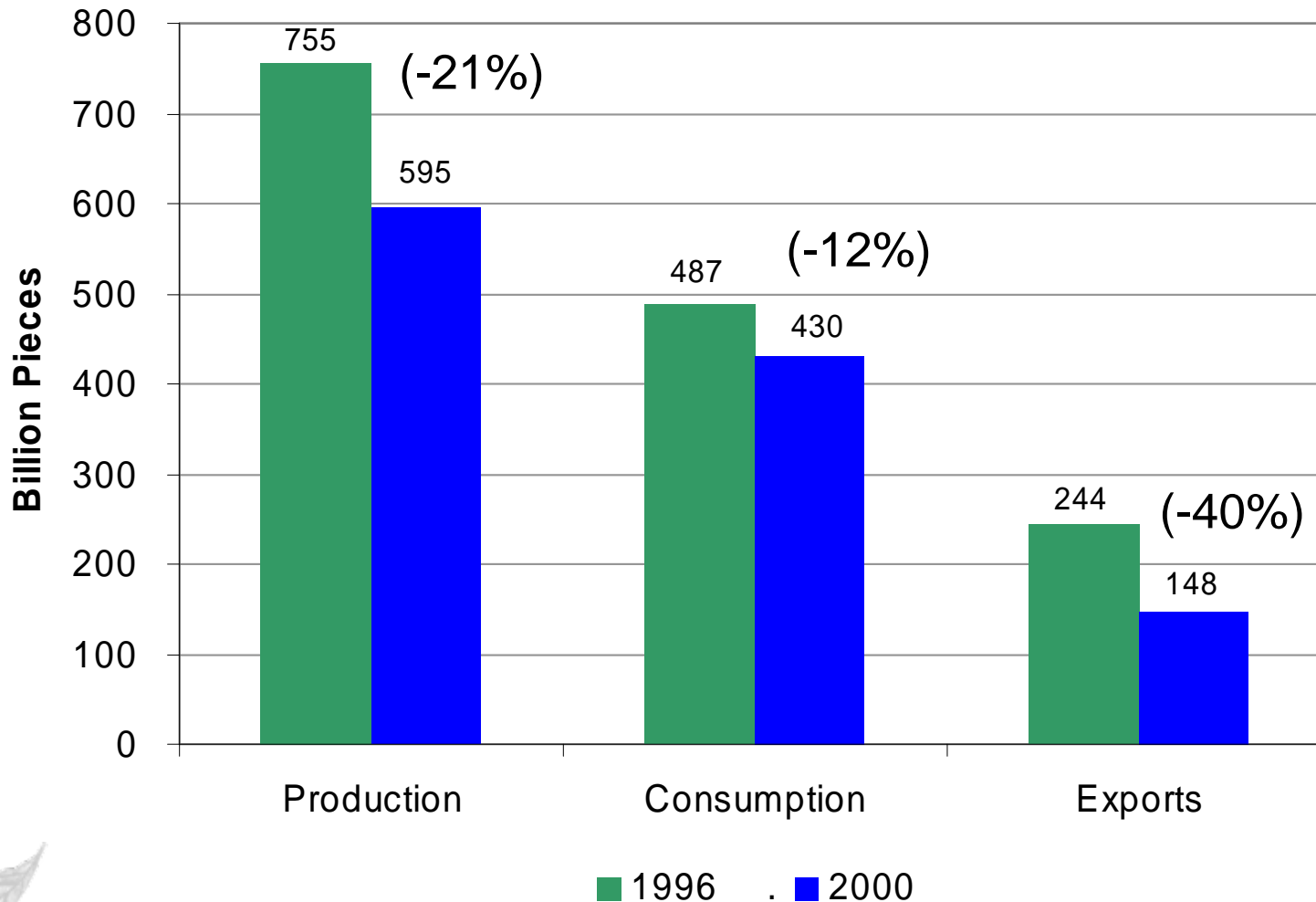
Change in Wholesale Cigarette Price Since January 1998



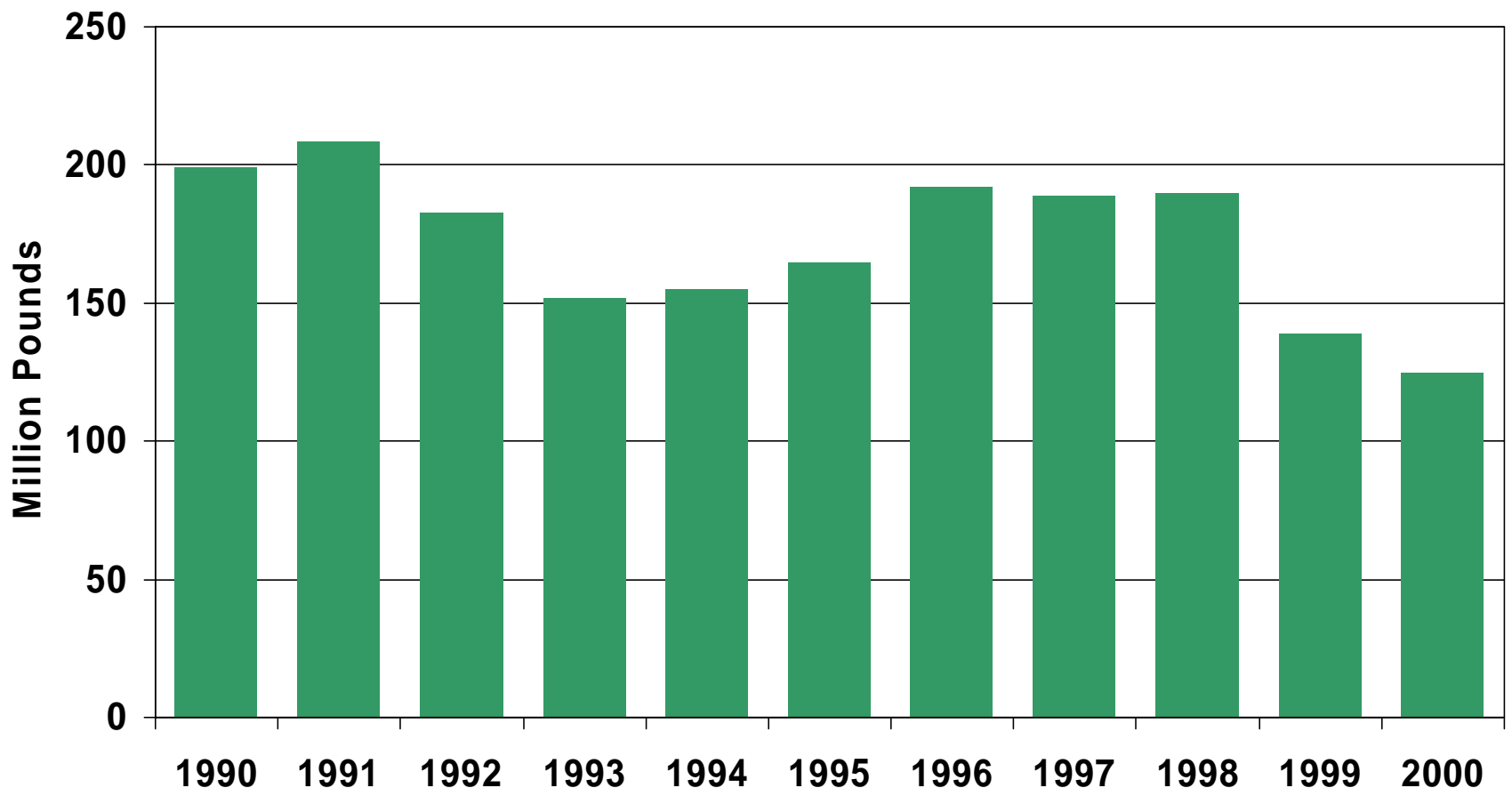
U.S. Cigarette Consumption & Wholesale Price



U.S. Cigarette Production, Consumption & Exports

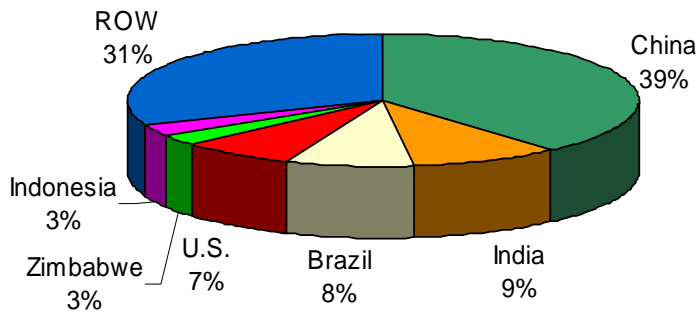


U.S. Exports of Burley Tobacco

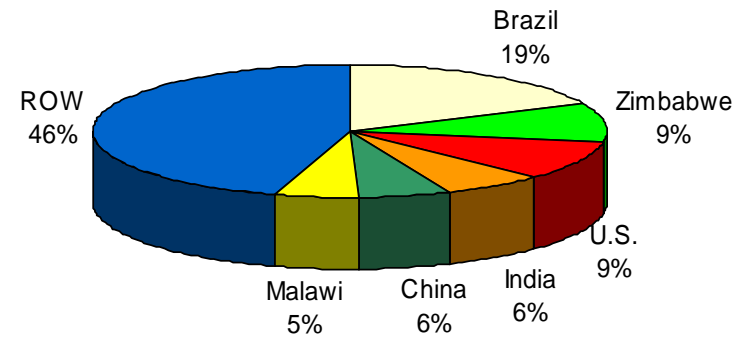


World Tobacco Production, Exports & Imports, 2000

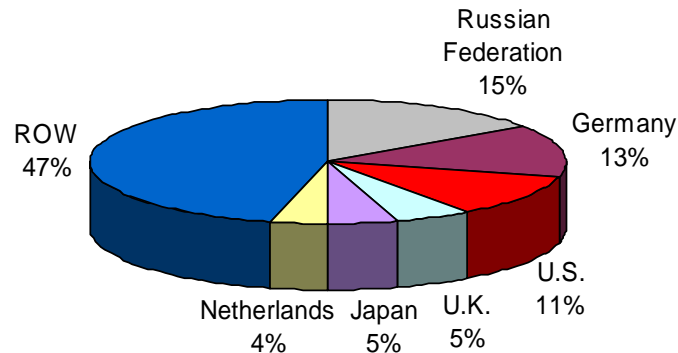
World Tobacco Production



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

	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	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

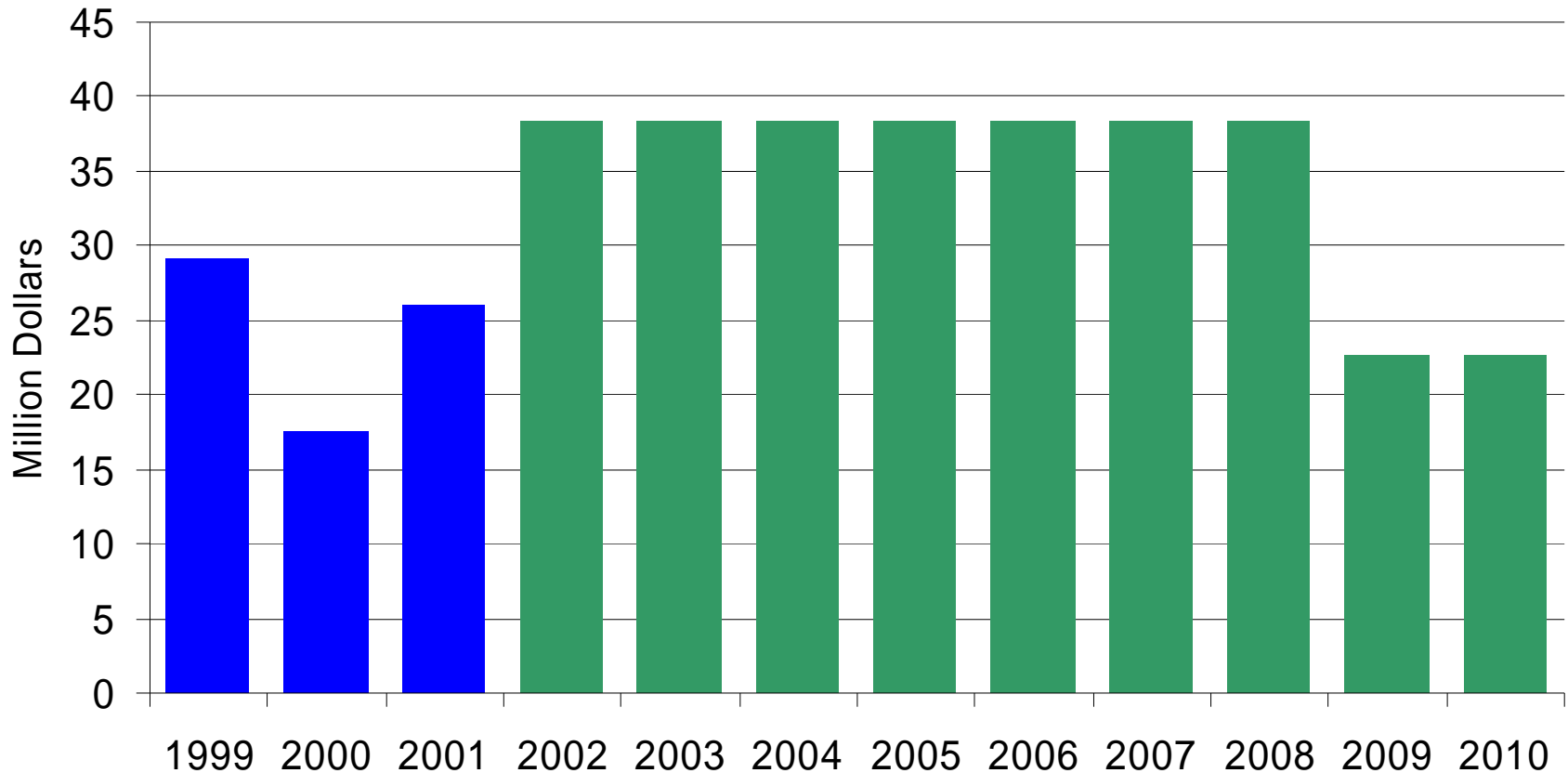


Phase II in TN

- 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

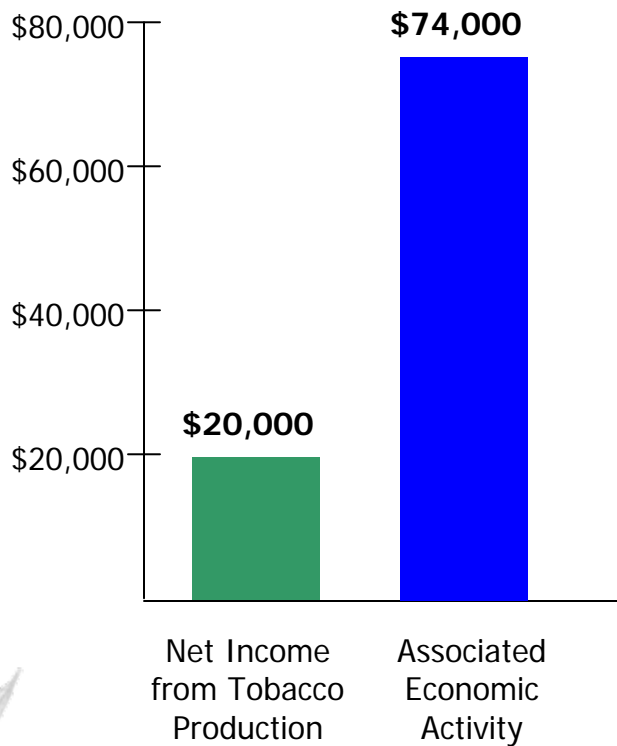


* 2002-2010 payments are projected and may be adjusted downward as cigarette consumption declines.

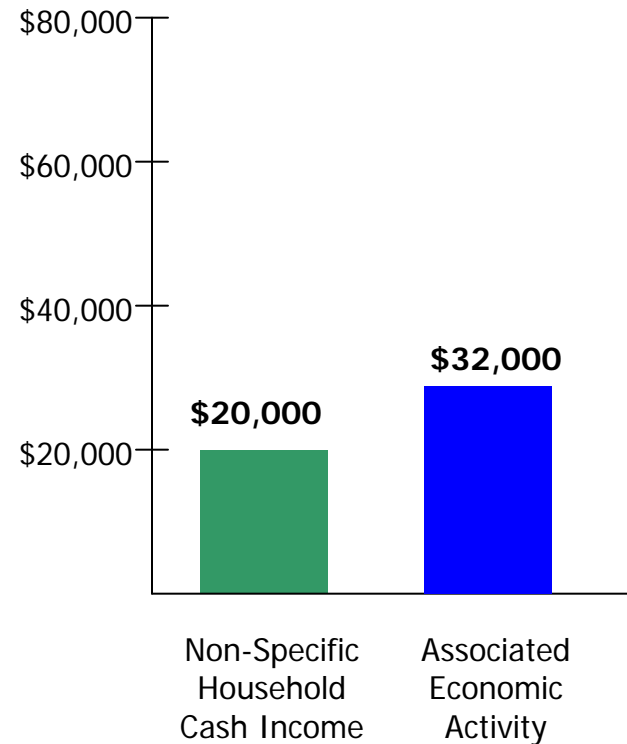


TN Tobacco Multiplier Effects

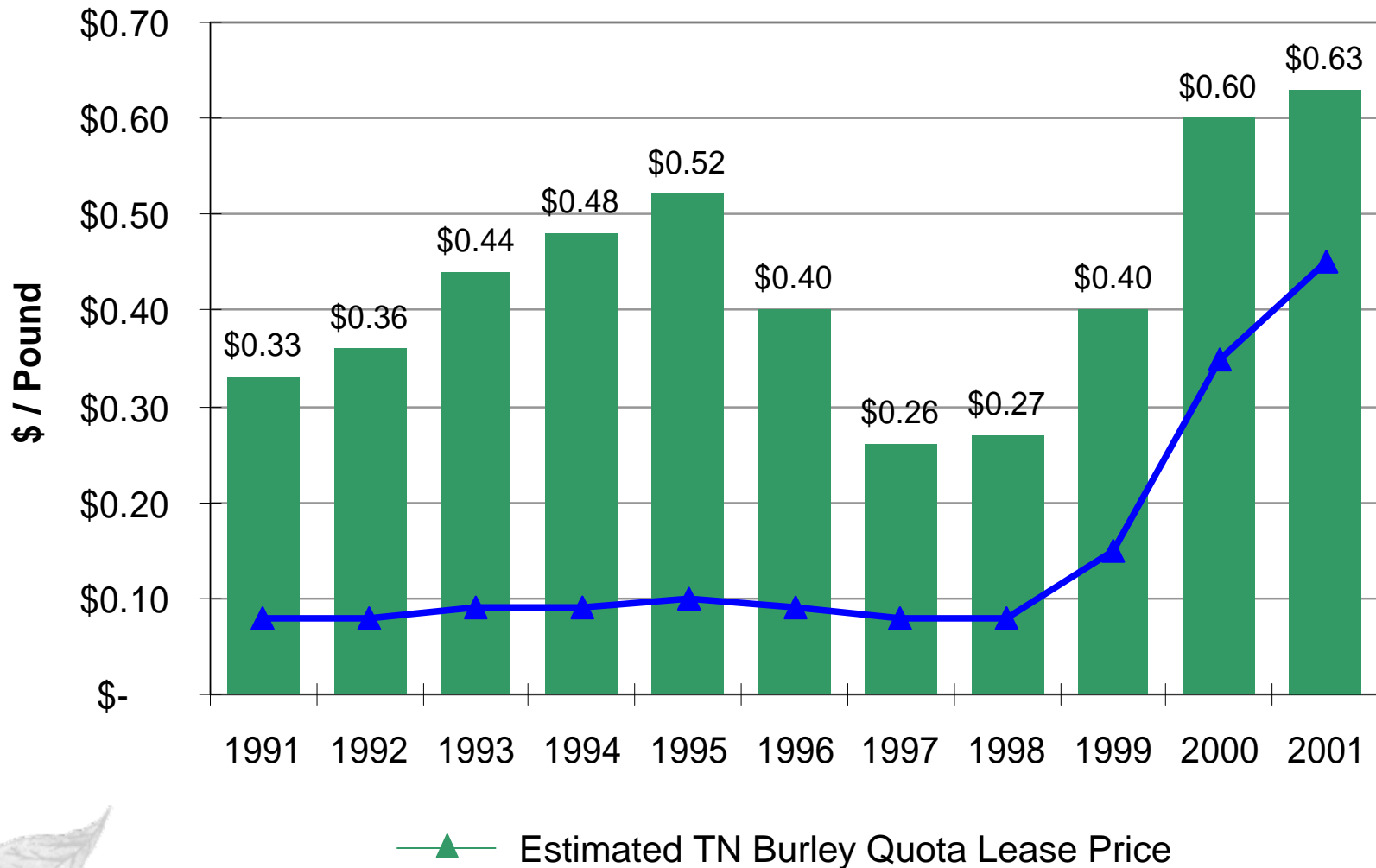
If a tobacco grower in Tennessee produces 10 acres of tobacco and nets \$20,000 in income, the total value of the economic activity associated with producing that crop is \$74,000.



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**
 - **Not likely**
- **Federal cigarette excise tax, either new or existing**
 - **Even less likely**
- **Tobacco settlement (Phase I) funds**
 - **Possible, but very unlikely, difficult to coordinate across states, types**
- **Phase II funds**
 - **Difficult to coordinate across states, not enough money alone, but 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)**
 - **User fees, 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



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?

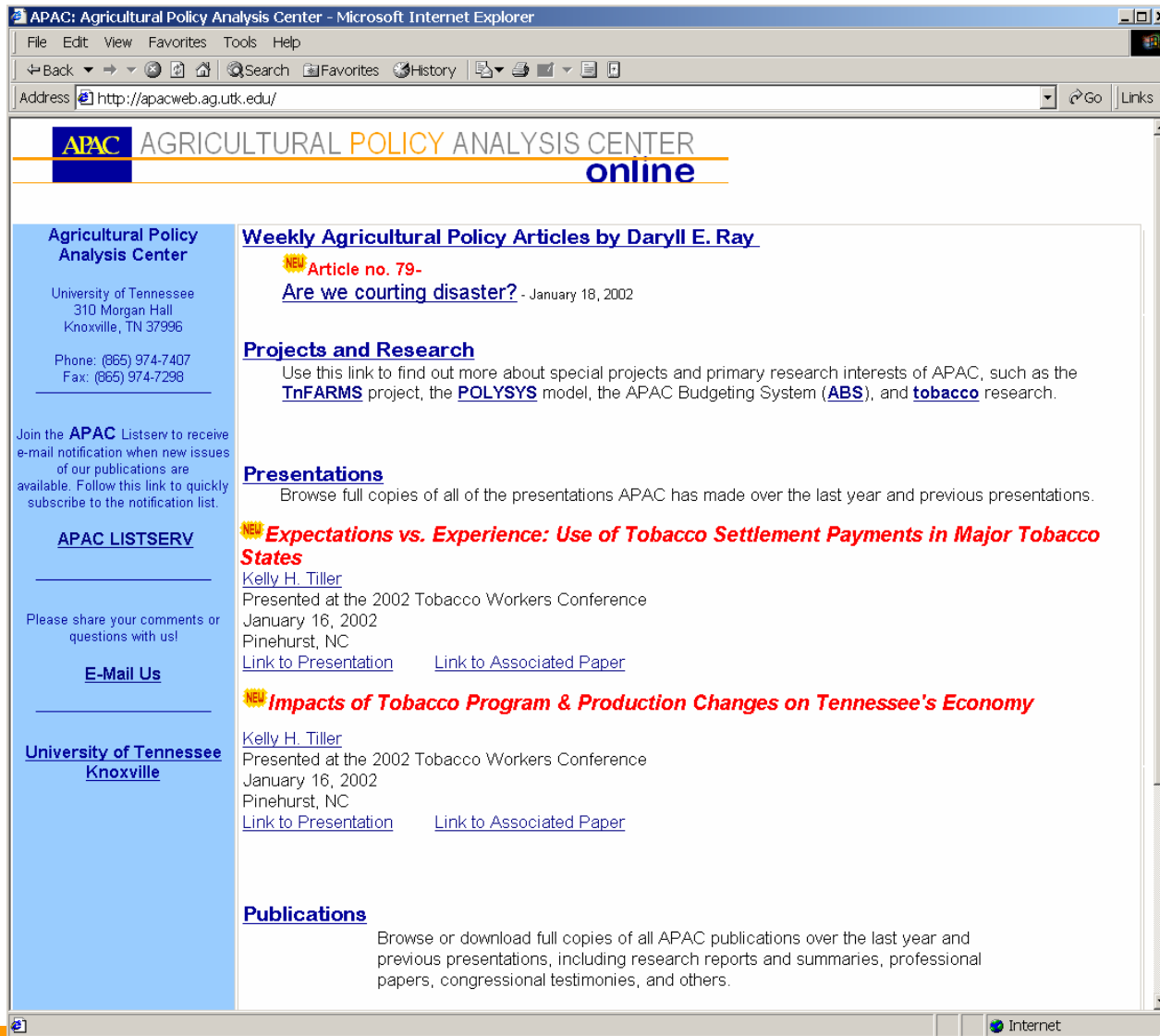


Other Issues

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