



Farm Policy Perspectives & the Tobacco Situation

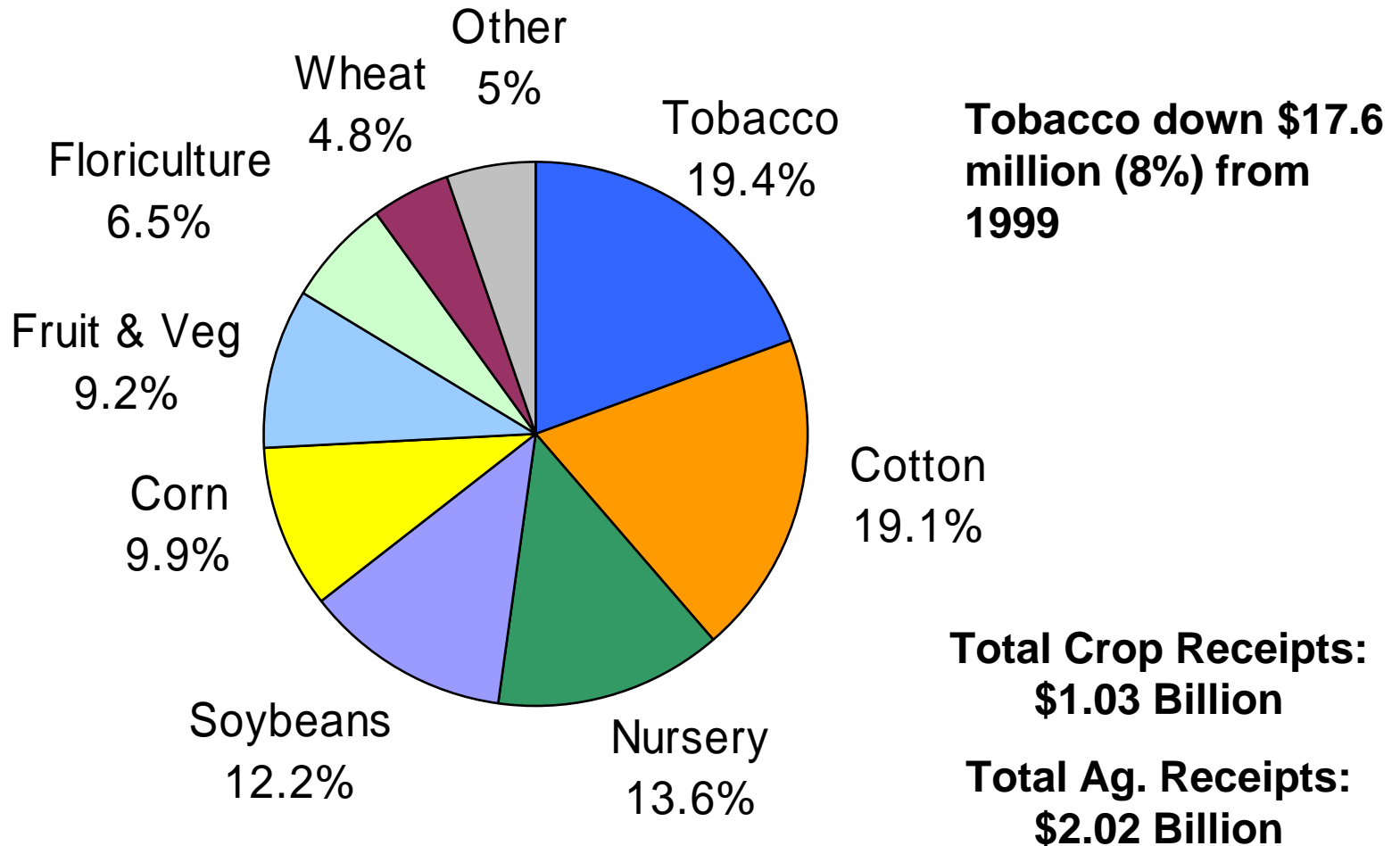
Kelly Tiller

National Crop
Insurance Services
KY/TN Regional/State
Committee Annual Meeting

Nashville, TN

February 19, 2002

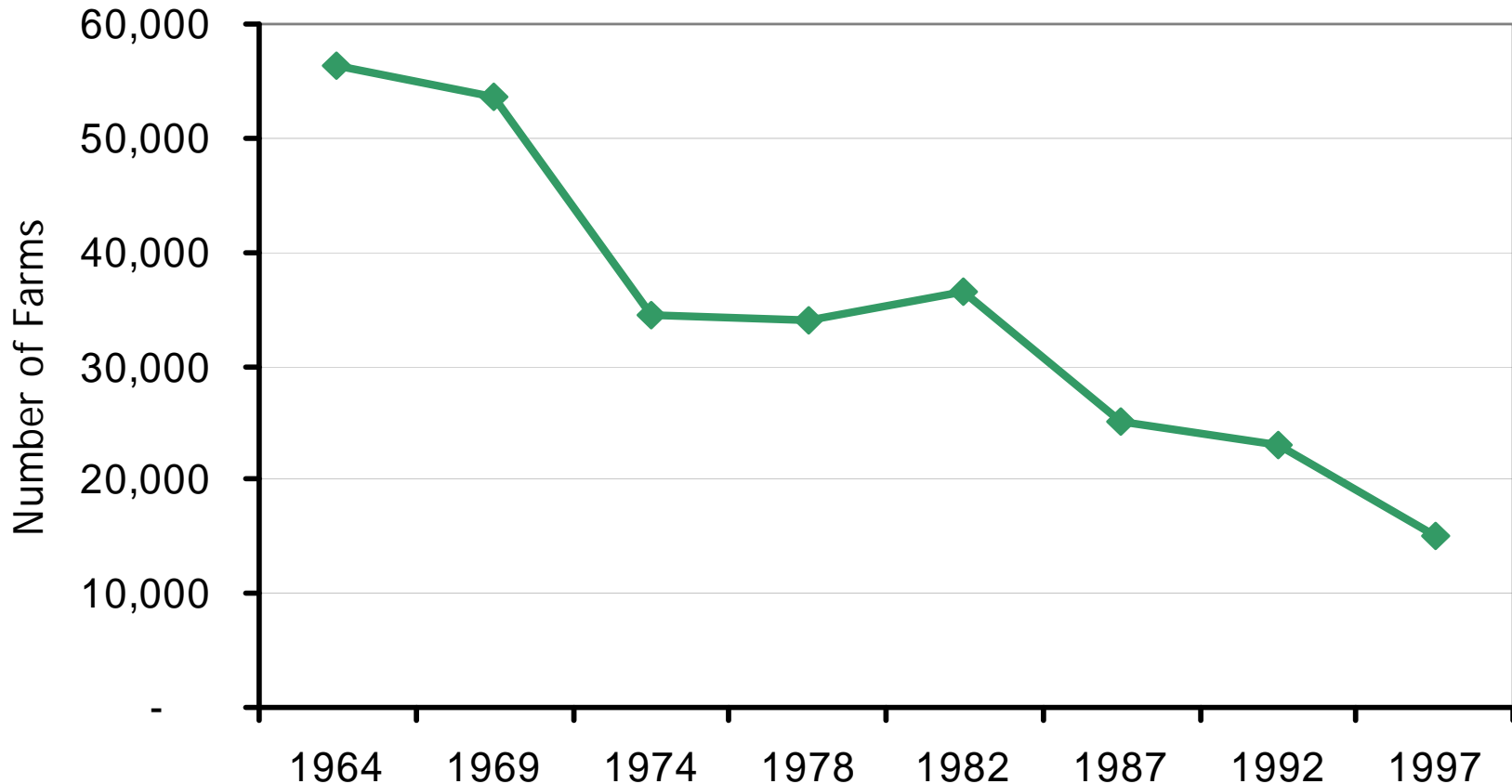
TN Crop Cash Receipts, 2000



TN Crops: Return Above Variable Cost

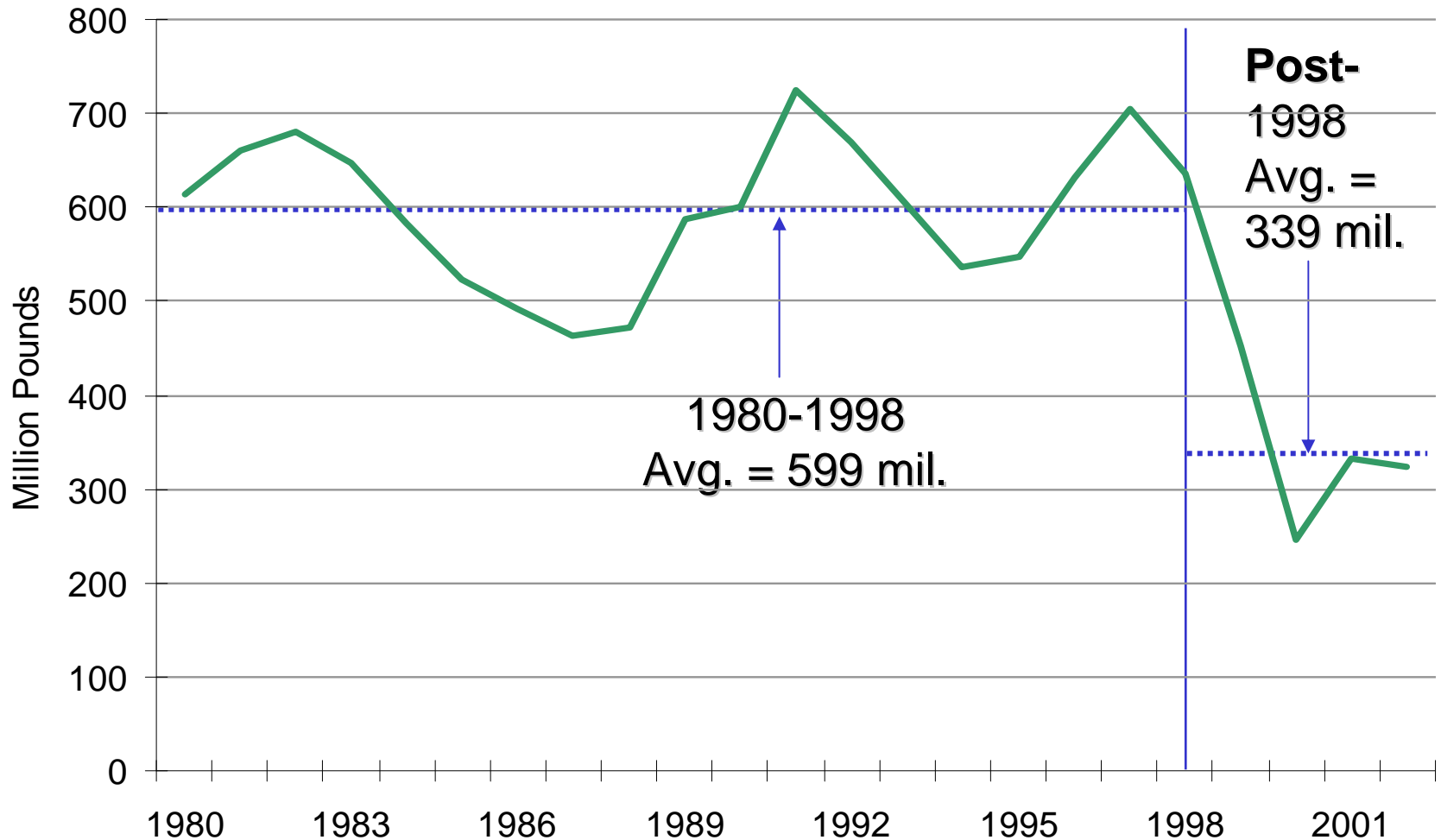
Crop	Yield	Price	Returns/Acre
Corn	120 bu/ac	\$2.00/bu	\$117
Soybeans	40 bu/ac	\$5.40/bu	\$139
Cotton	625 lbs/ac	\$0.62/lb	\$132
Wheat	45 bu/ac	\$2.70/bu	\$29
Burley	2,250 lbs/ac	\$1.90/lb	\$1,722

Number of TN Tobacco Farms*



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

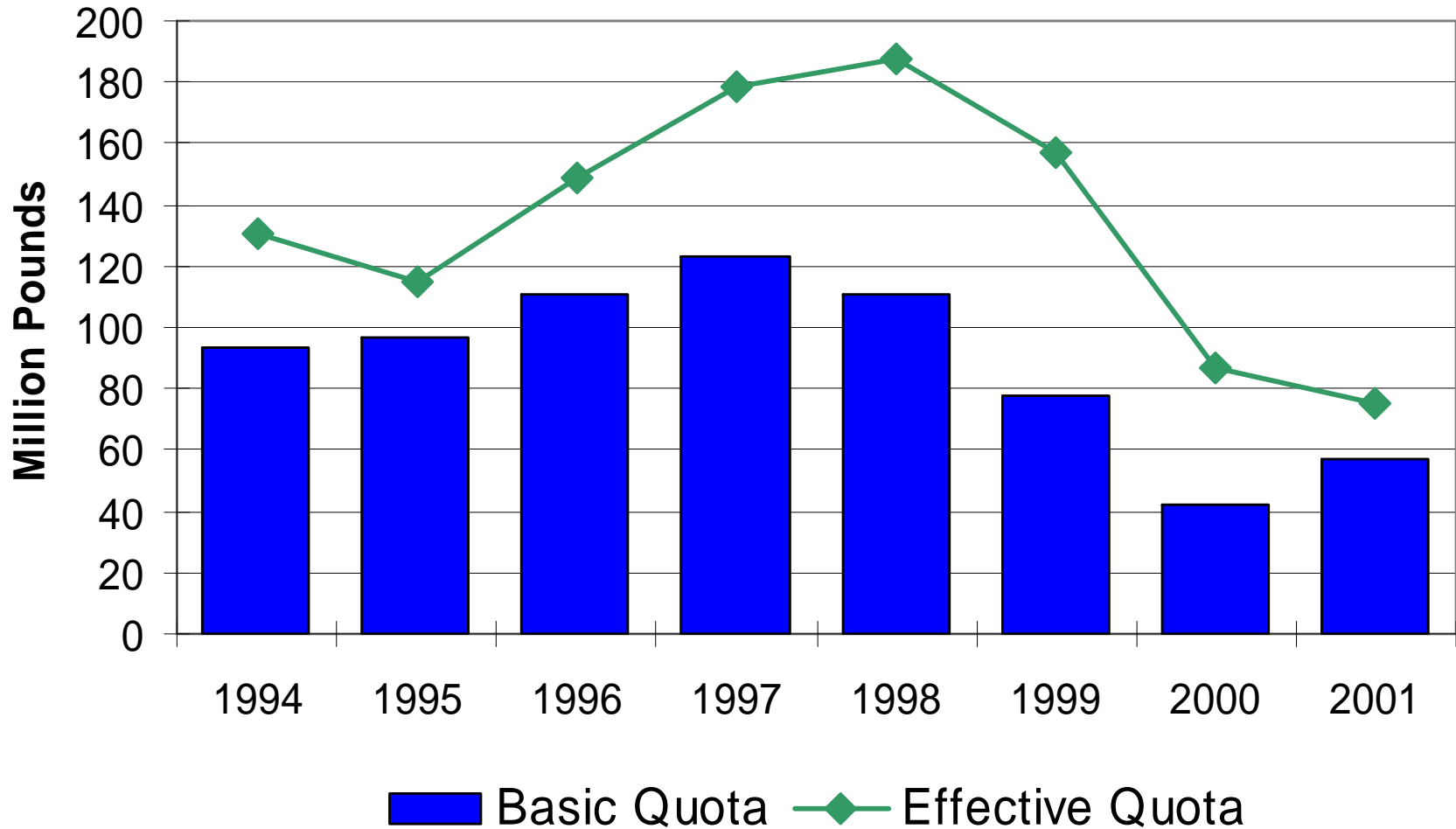
Burley Tobacco Basic Quota



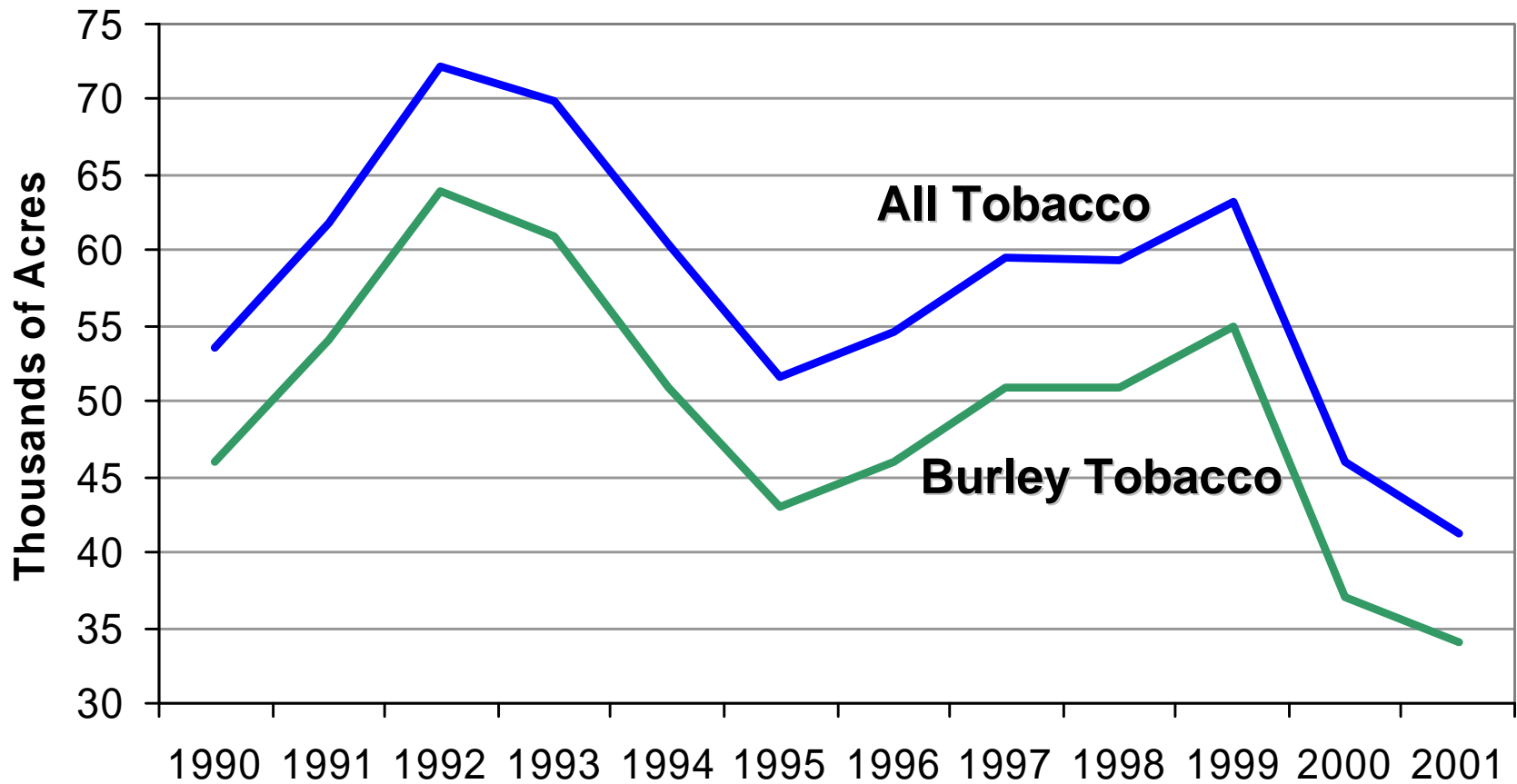
2002 Burley Quota

	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%)

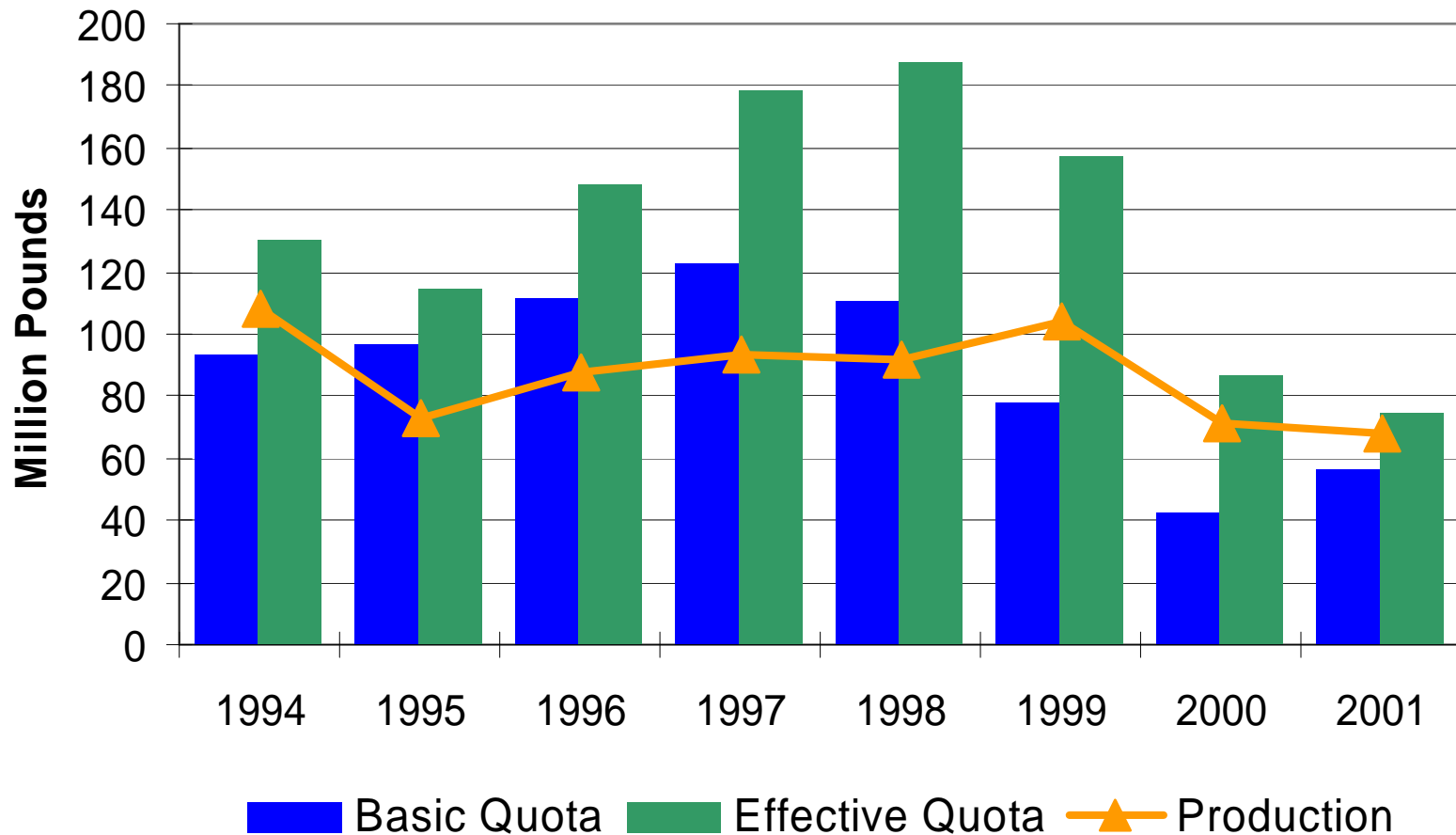
TN Burley Basic & Effective Quota



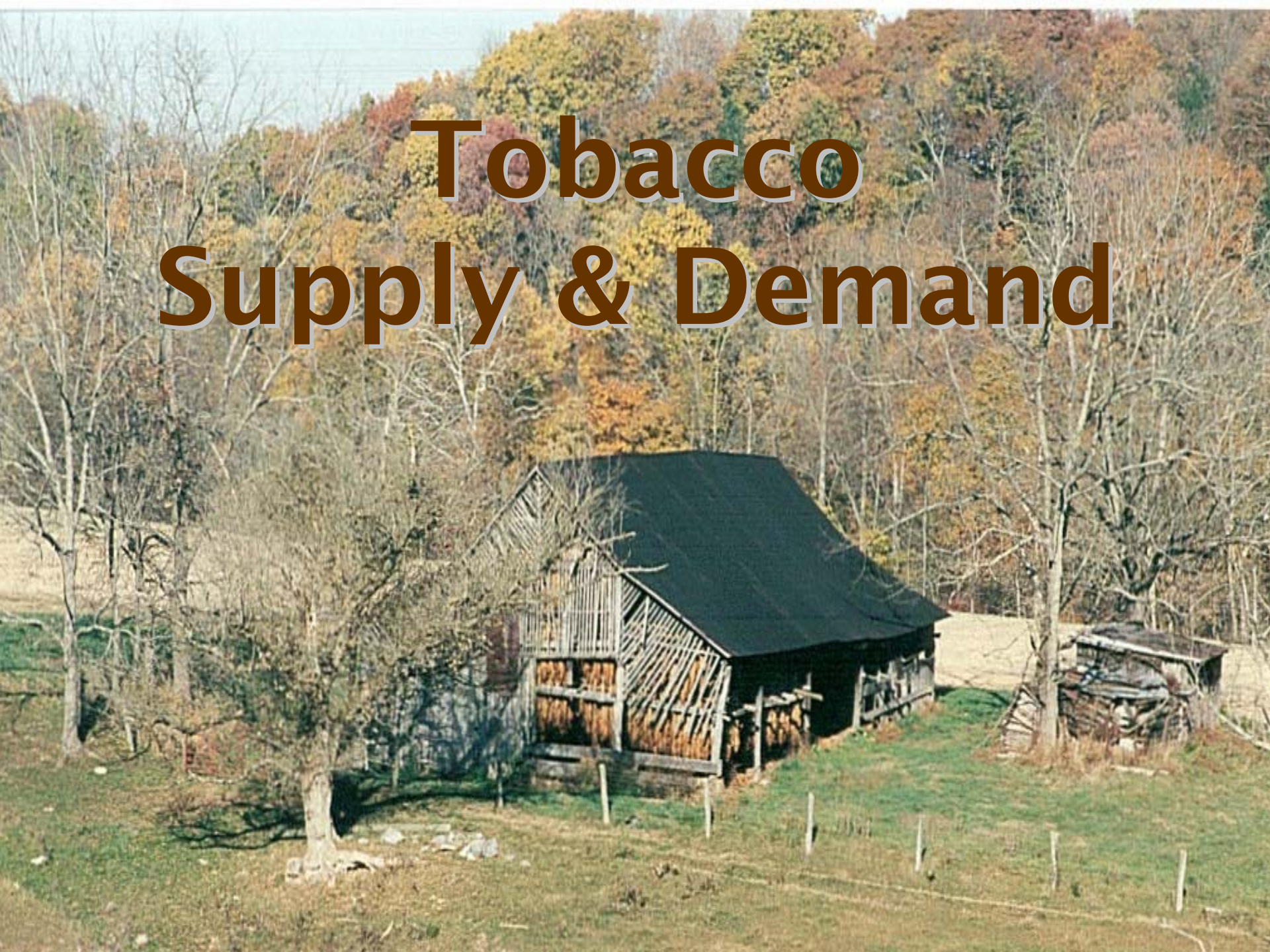
TN Harvested Tobacco Acreage



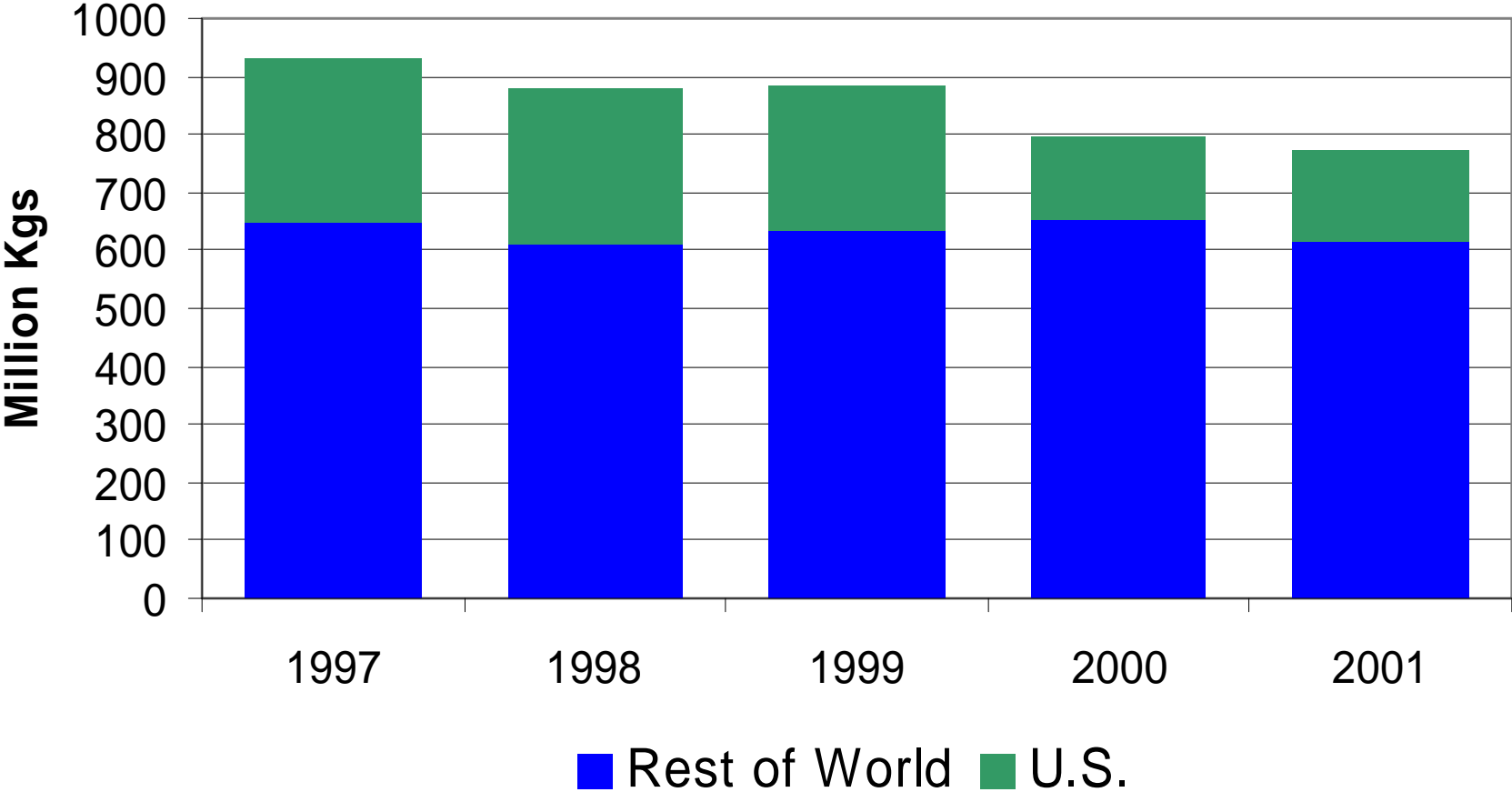
TN Burley Quota & Production



Tobacco Supply & Demand



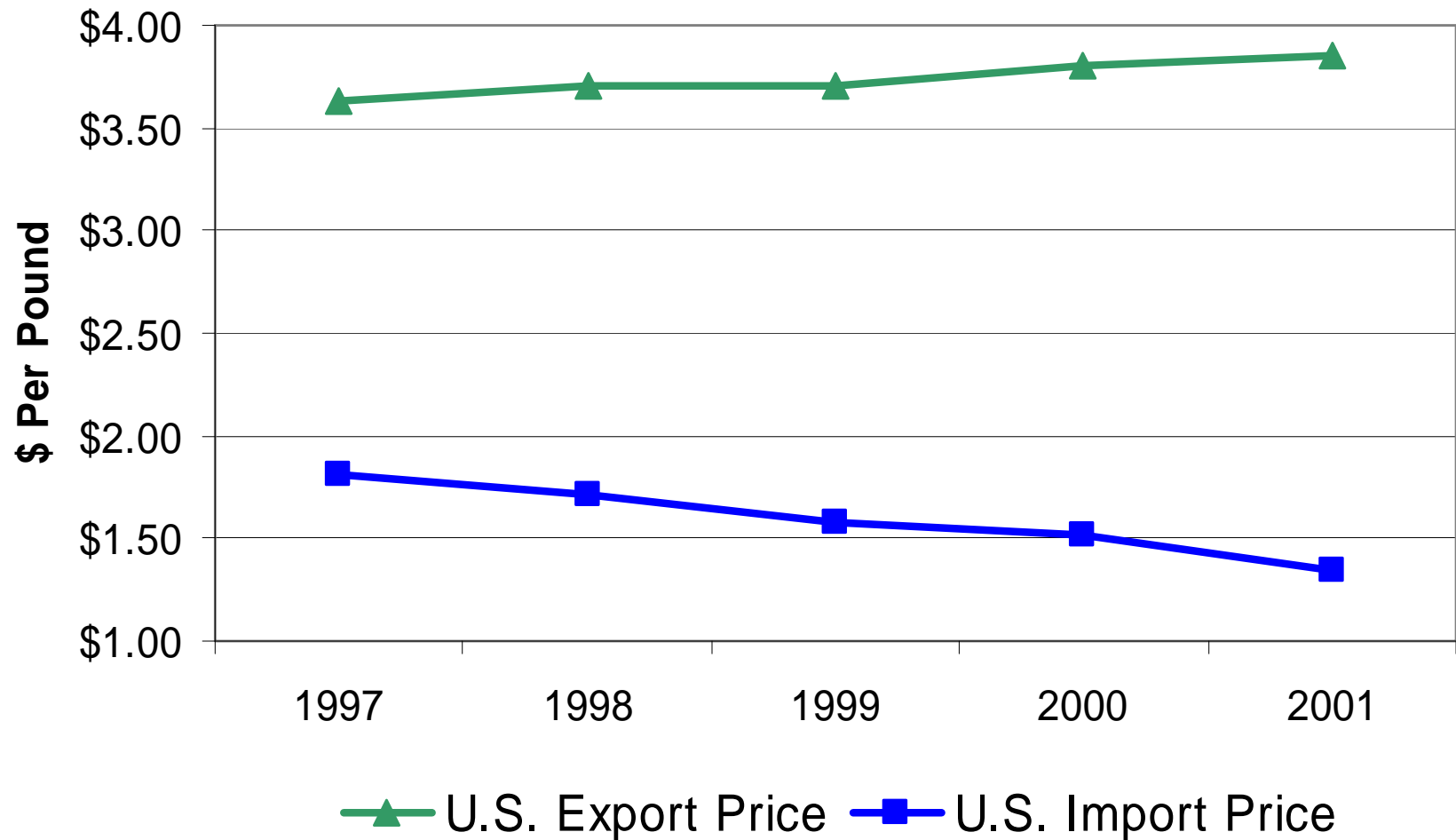
U.S. & World Burley Production



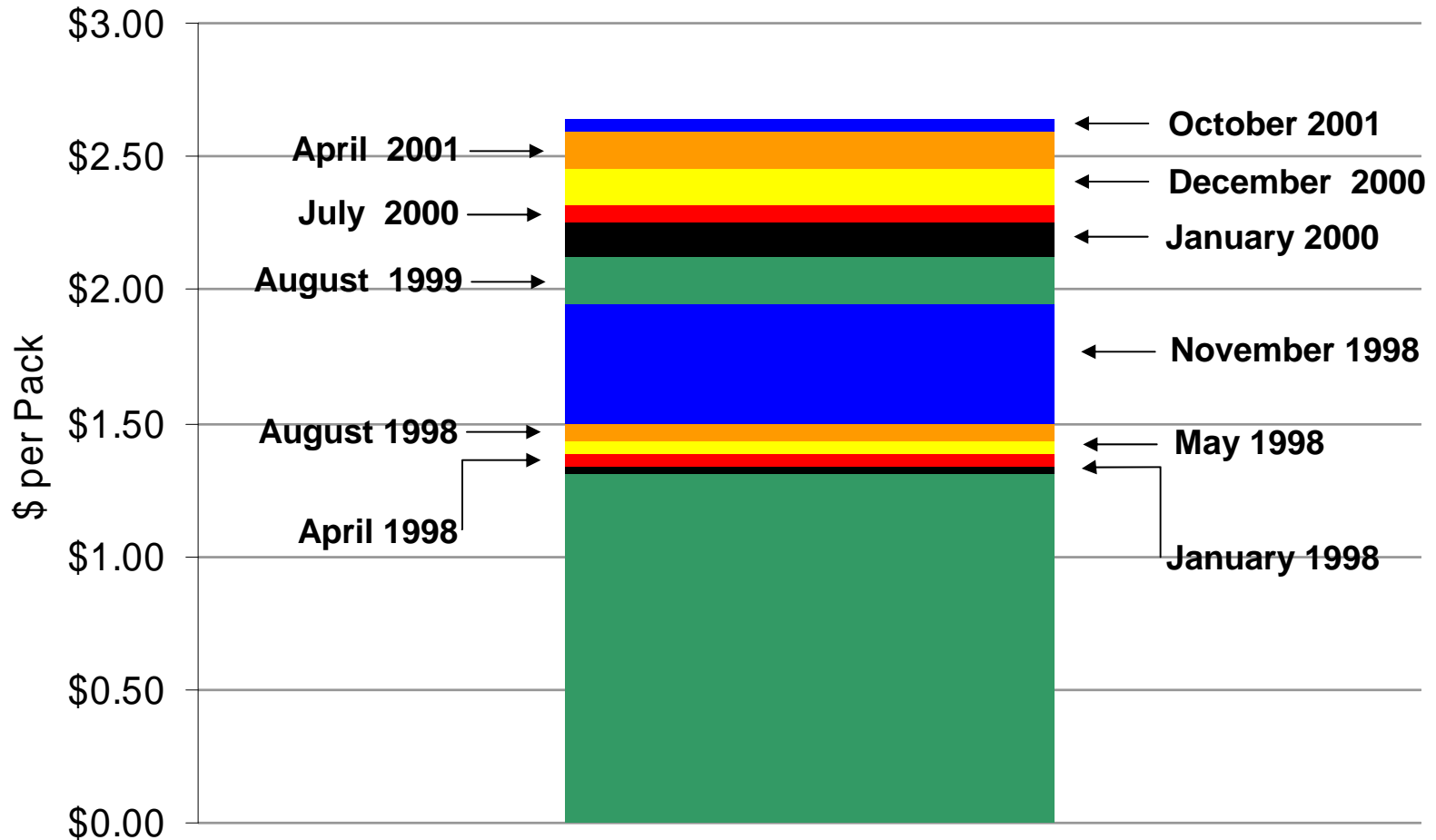
Contributing To Leaf Demand Drop

- **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

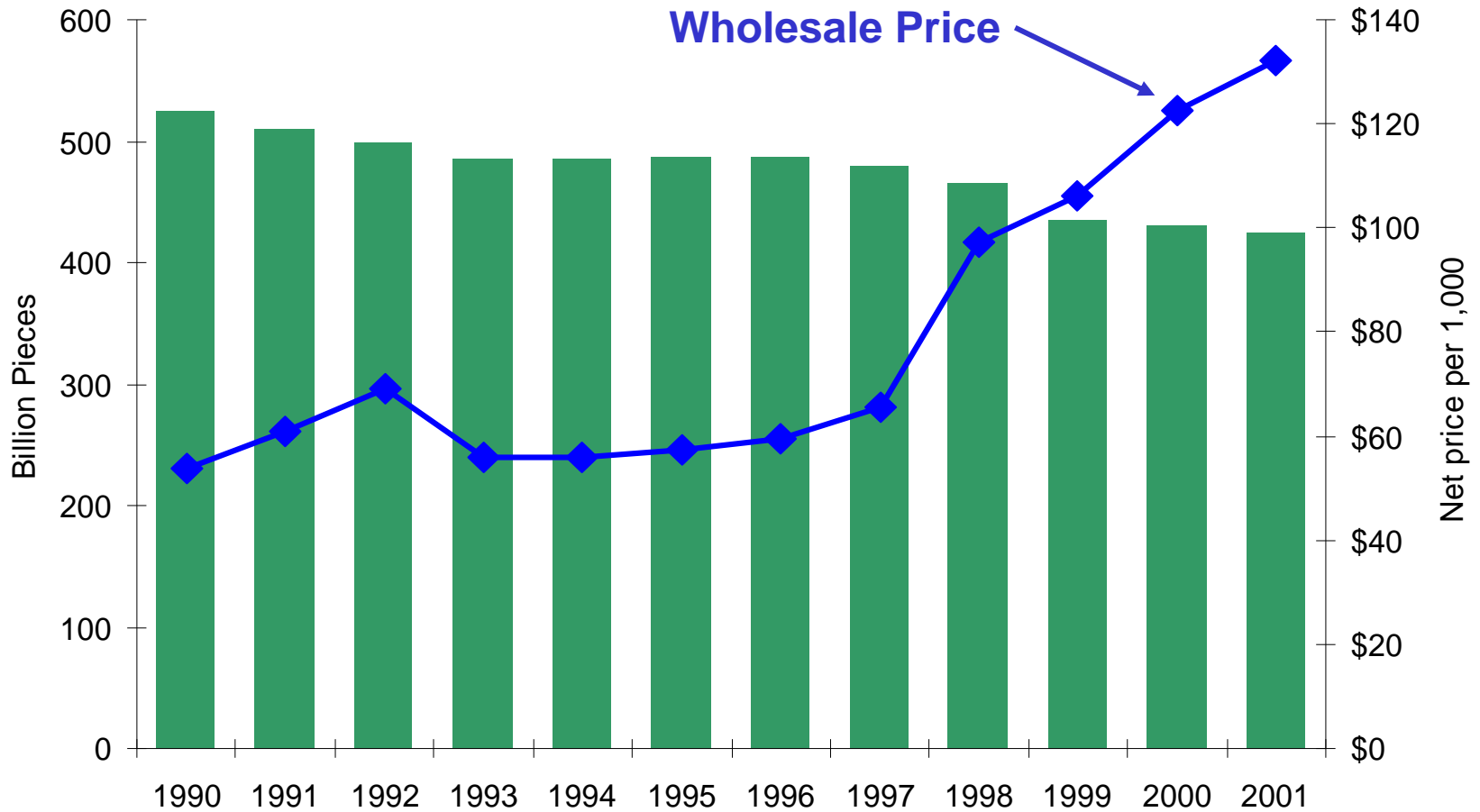
U.S. Burley Import & Export Prices



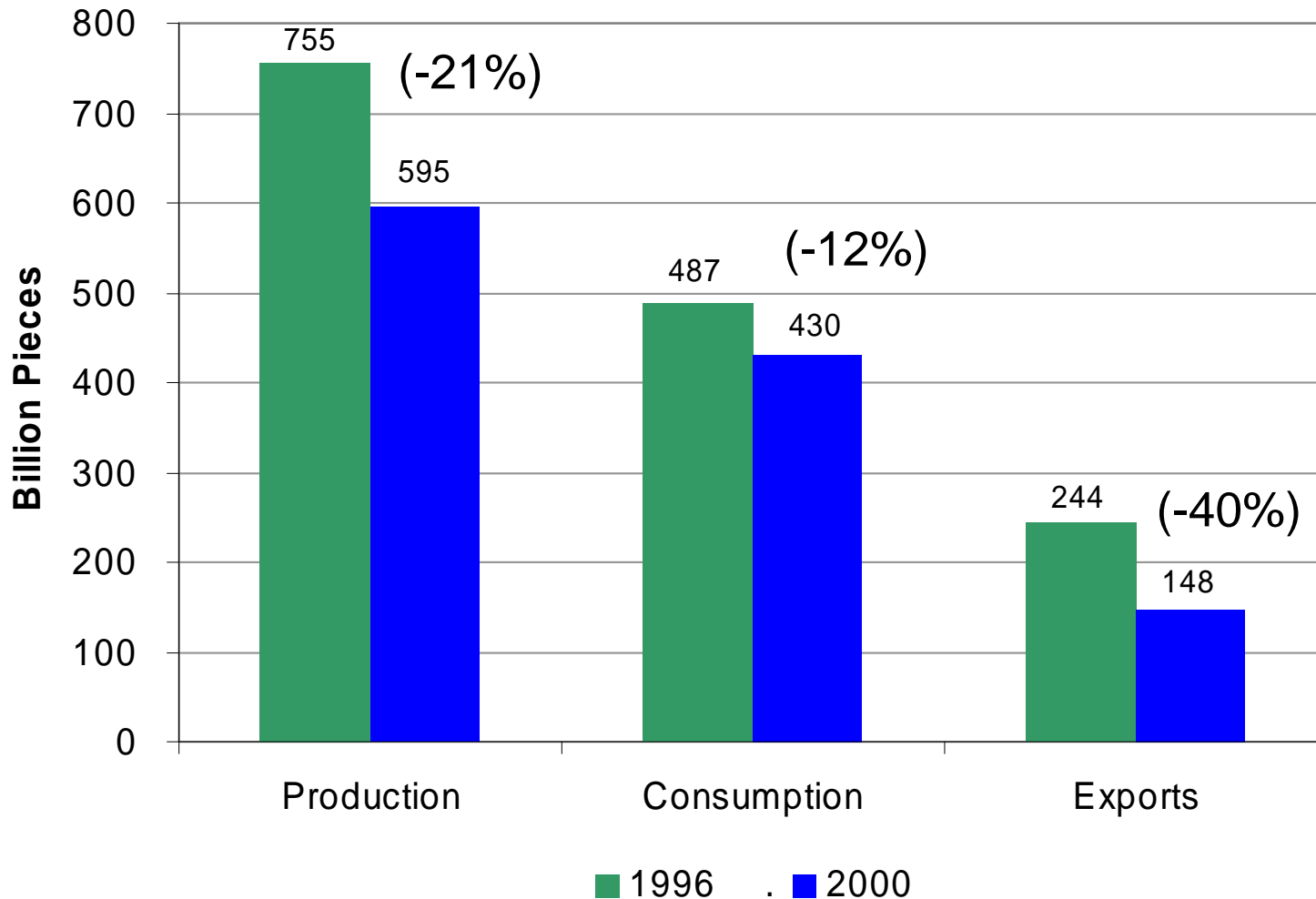
Change in Wholesale Cigarette Price Since January 1998



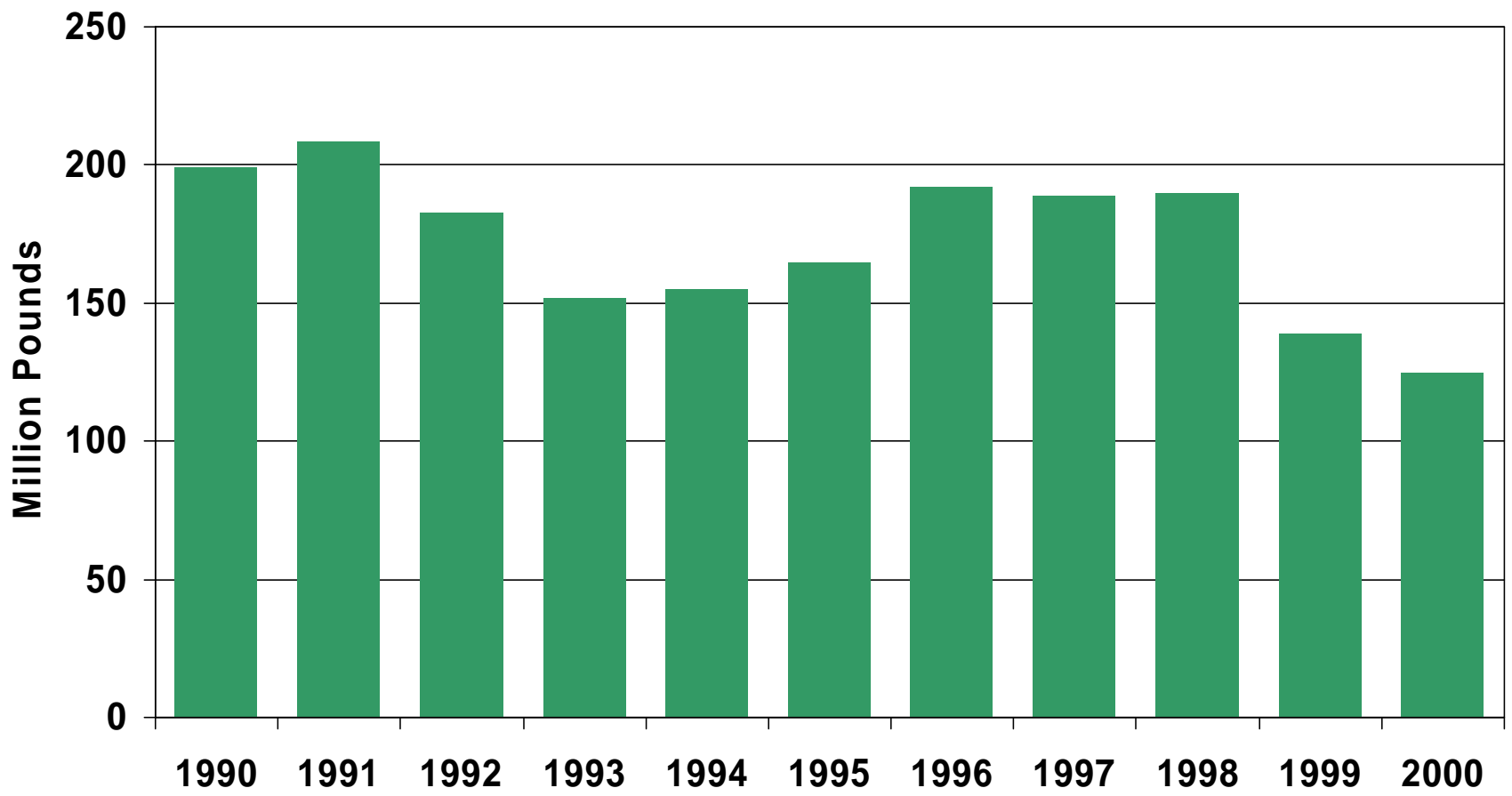
U.S. Cigarette Consumption & Wholesale Price



U.S. Cigarette Production, Consumption & Exports

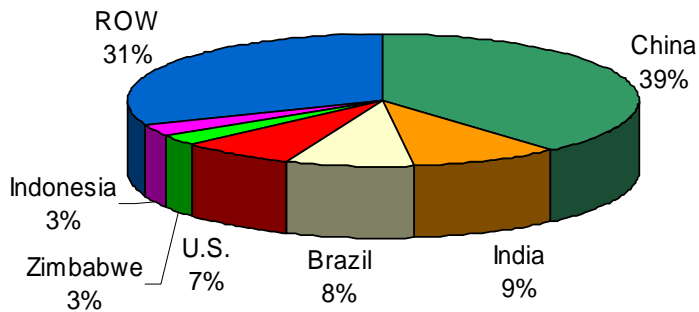


U.S. Exports of Burley Tobacco

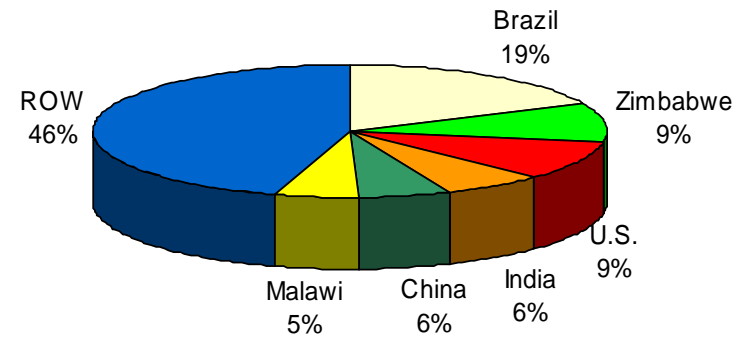


World Tobacco Production, Exports & Imports, 2000

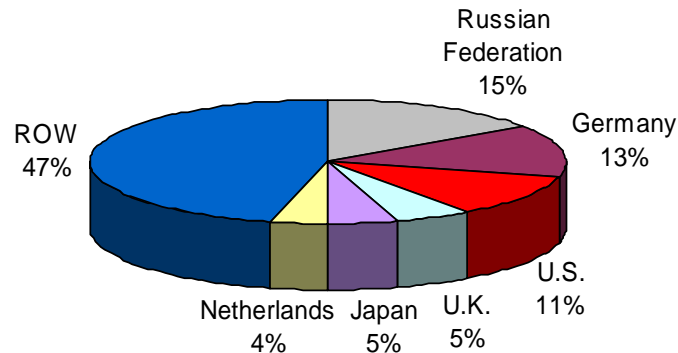
World Tobacco Production



World Tobacco Exports



World Tobacco Imports



A New Reality

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

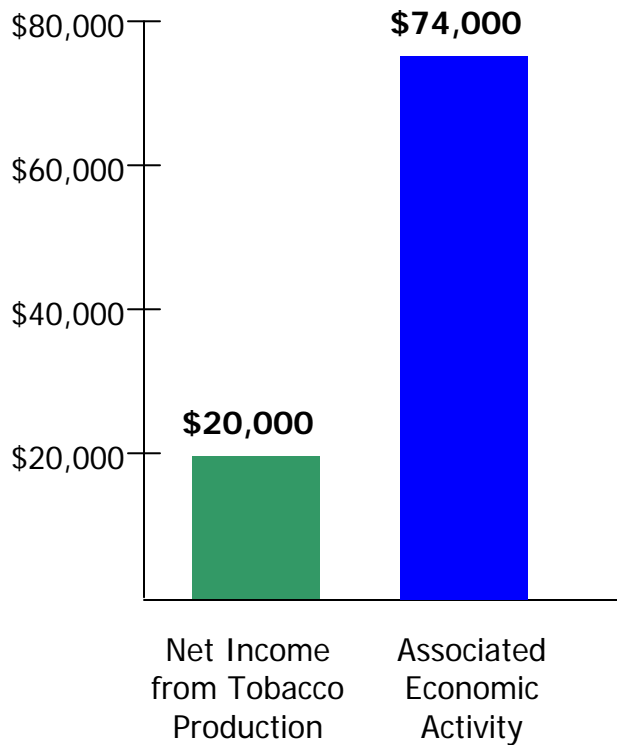
VERY LITTLE

U.S. is just another player

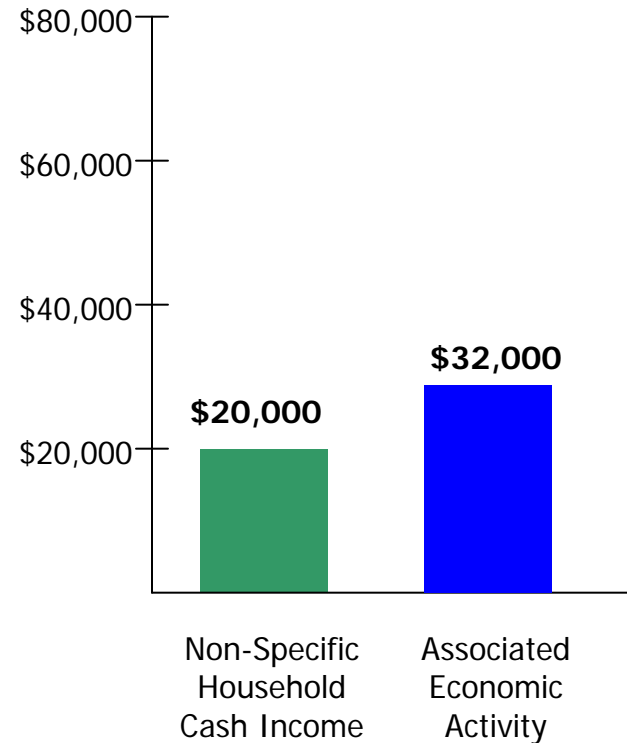


TN Tobacco Multiplier Effects

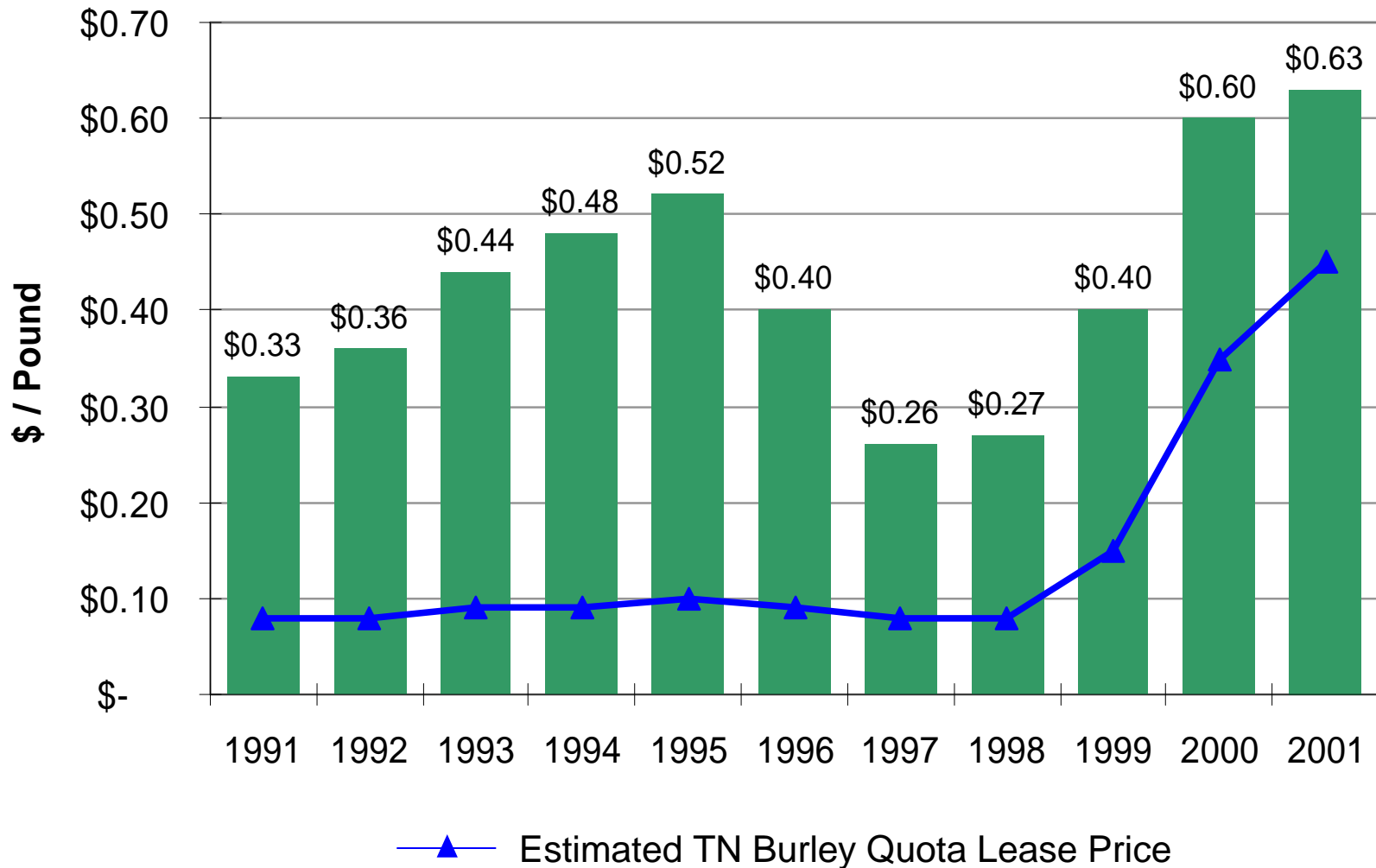
If a tobacco grower in Tennessee produces 10 acres of tobacco and nets \$20,000 in income, the total value of the economic activity associated with producing that crop is \$74,000.



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**

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**

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?

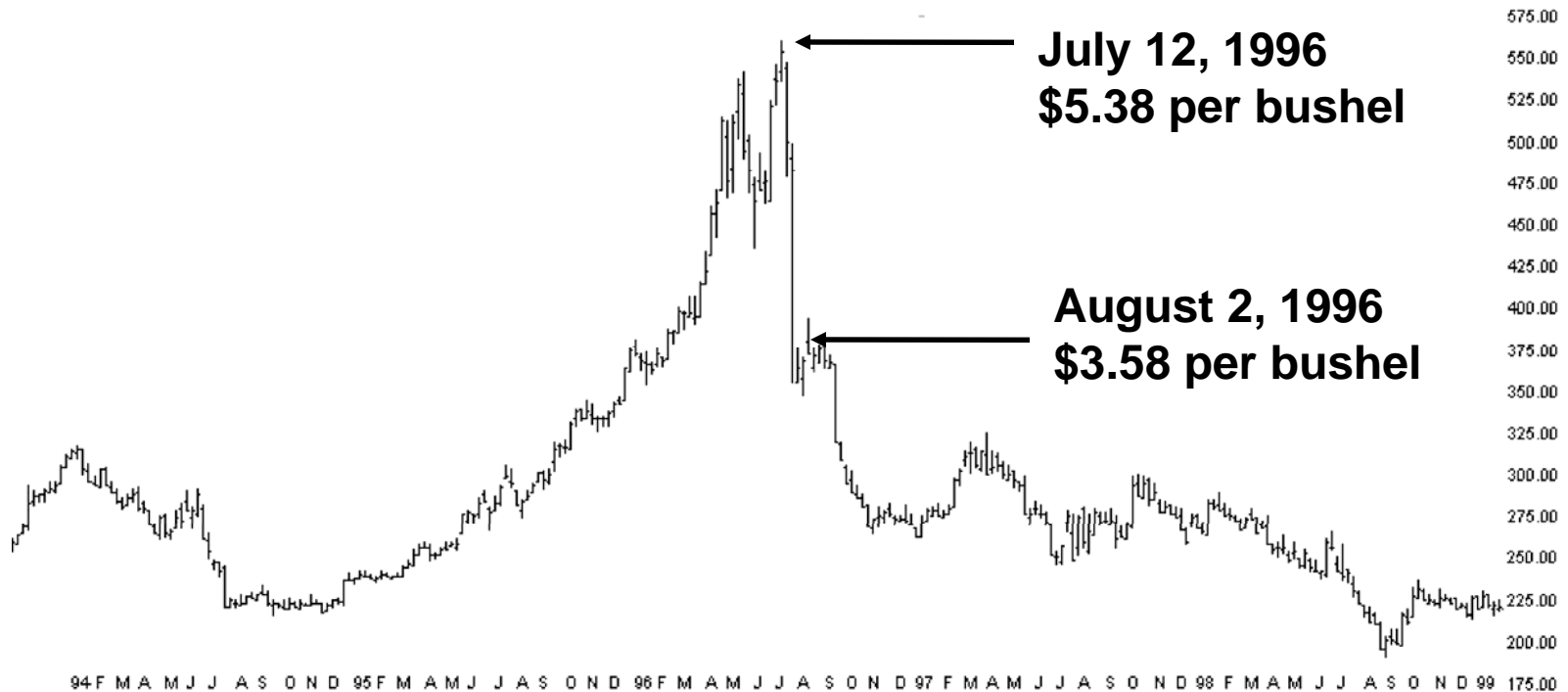
National Situation And Context



1996 Farm Bill Expectations

- “High” Prices And Incomes Like 1995/96
- Because:
 - Export Expansion
 - Due To Income Growth In China/Asia
 - Due To Competitors Response To U.S. Prices
 - Production Here And Abroad Will Decline When Needed
 - Due To Planting Flexibility And Decoupled Payments
 - Competitors Will Respond To U.S. Price Declines
 - With Marketing Loans, Competitors Not Under U.S. Price Support Umbrella

Corn Closing Weekly Futures Price, Nearest Contract Month

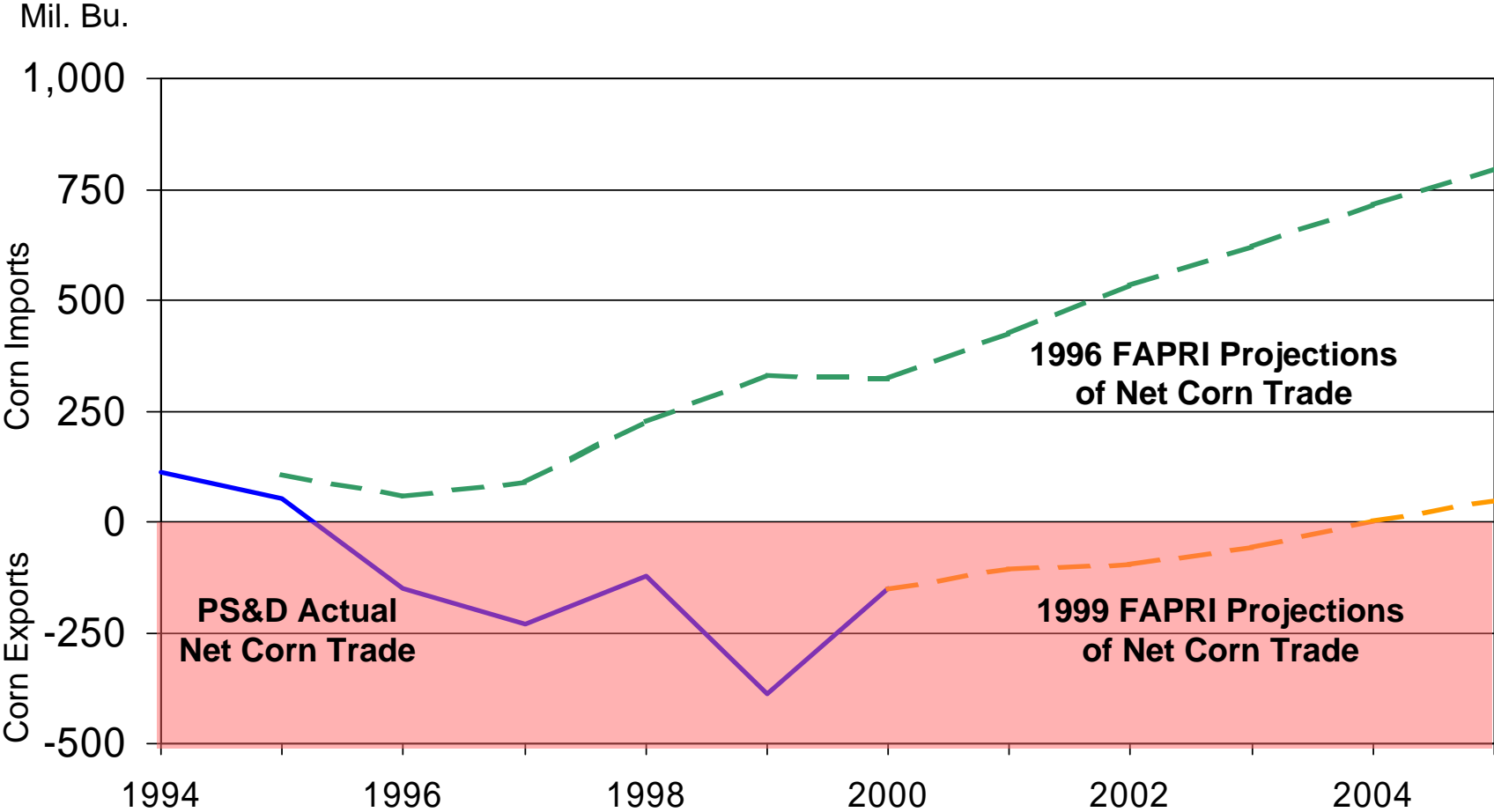


Prices actually peaked before the first crop year of the 1996 Farm Bill

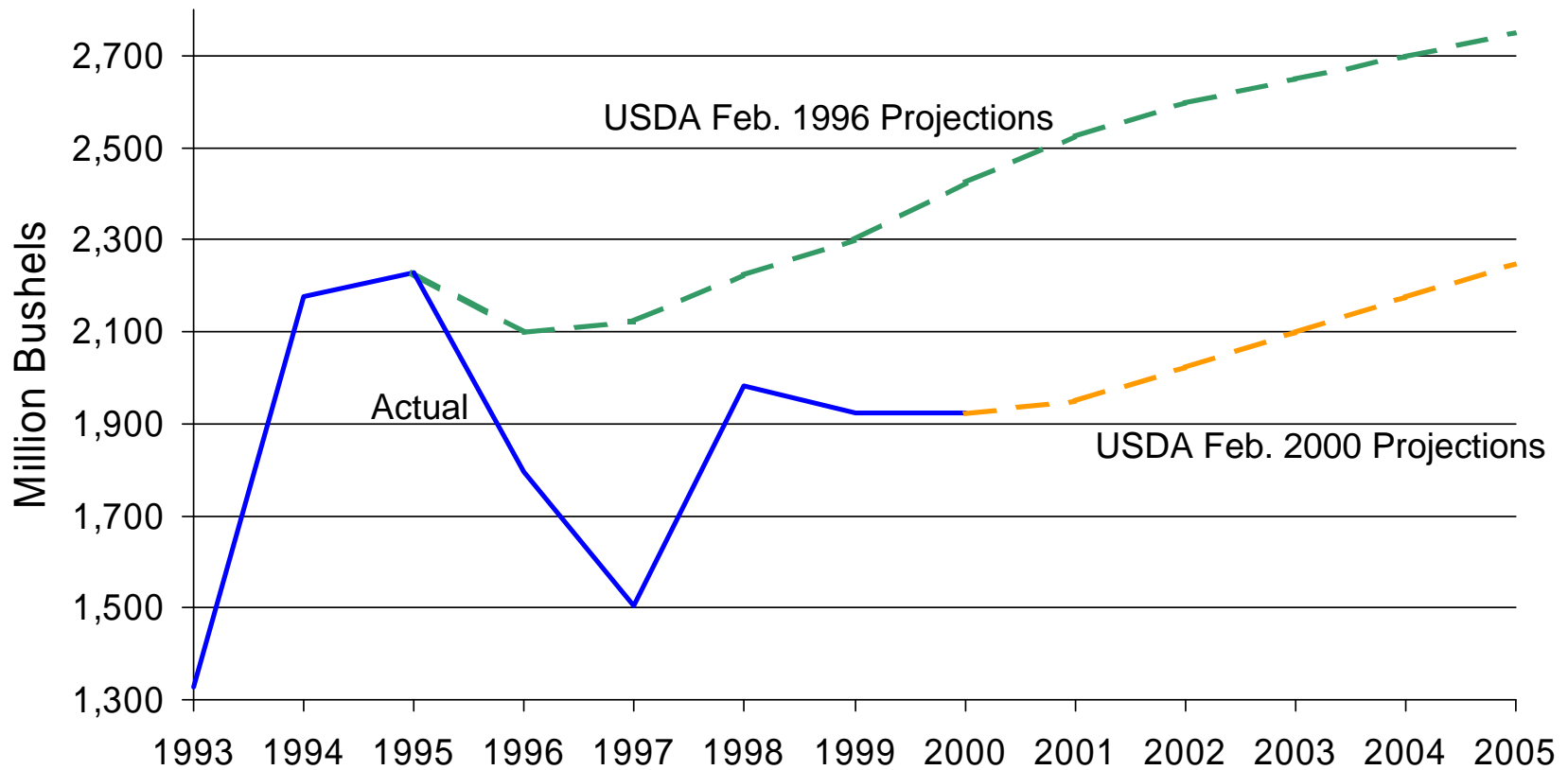
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U.S. Net Corn Trade With China: Actual & Projected, 1994-2005



U.S. Corn Exports: Actual & Projected, 1993-2005

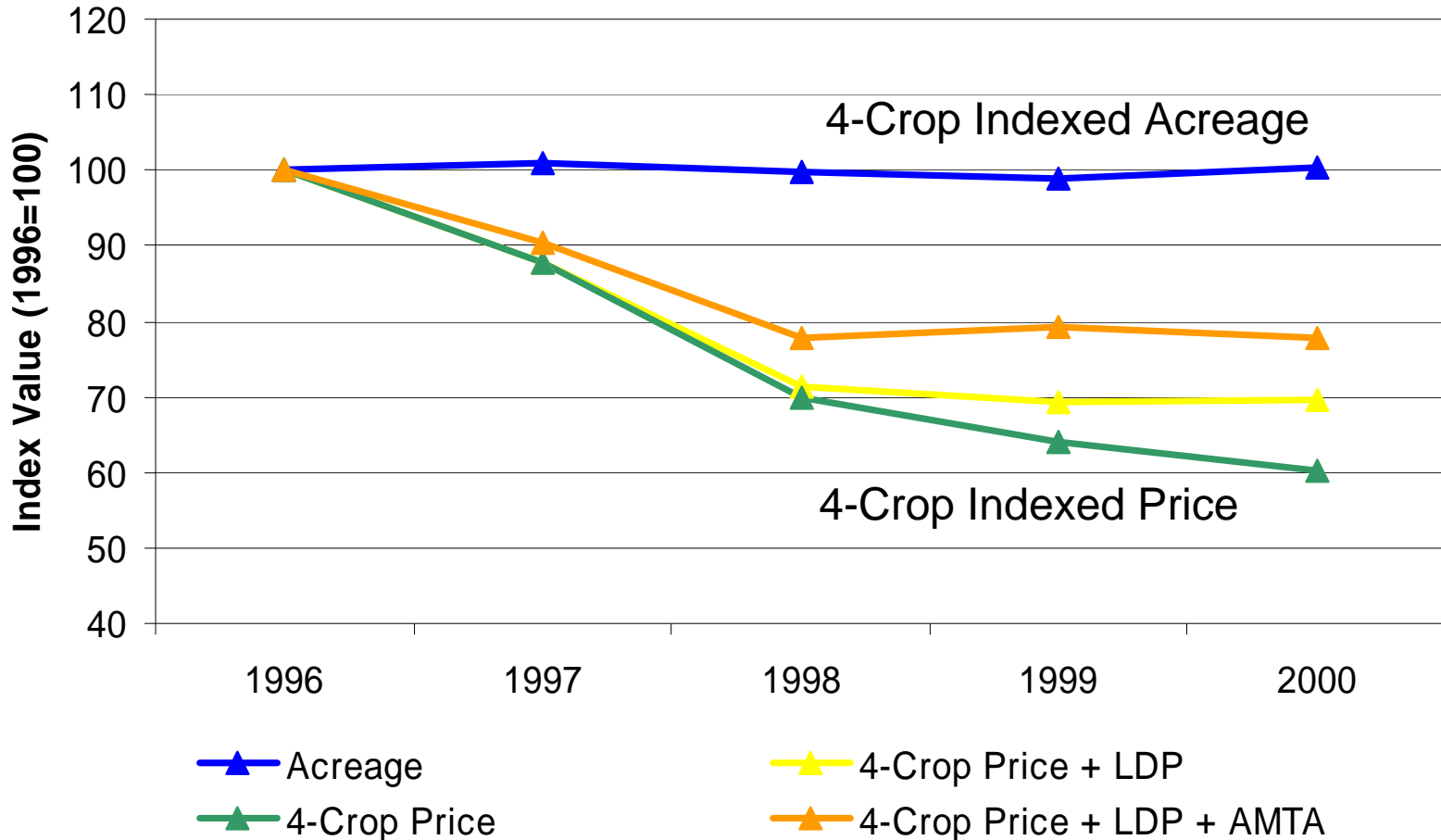


1996 Farm Bill Expectations

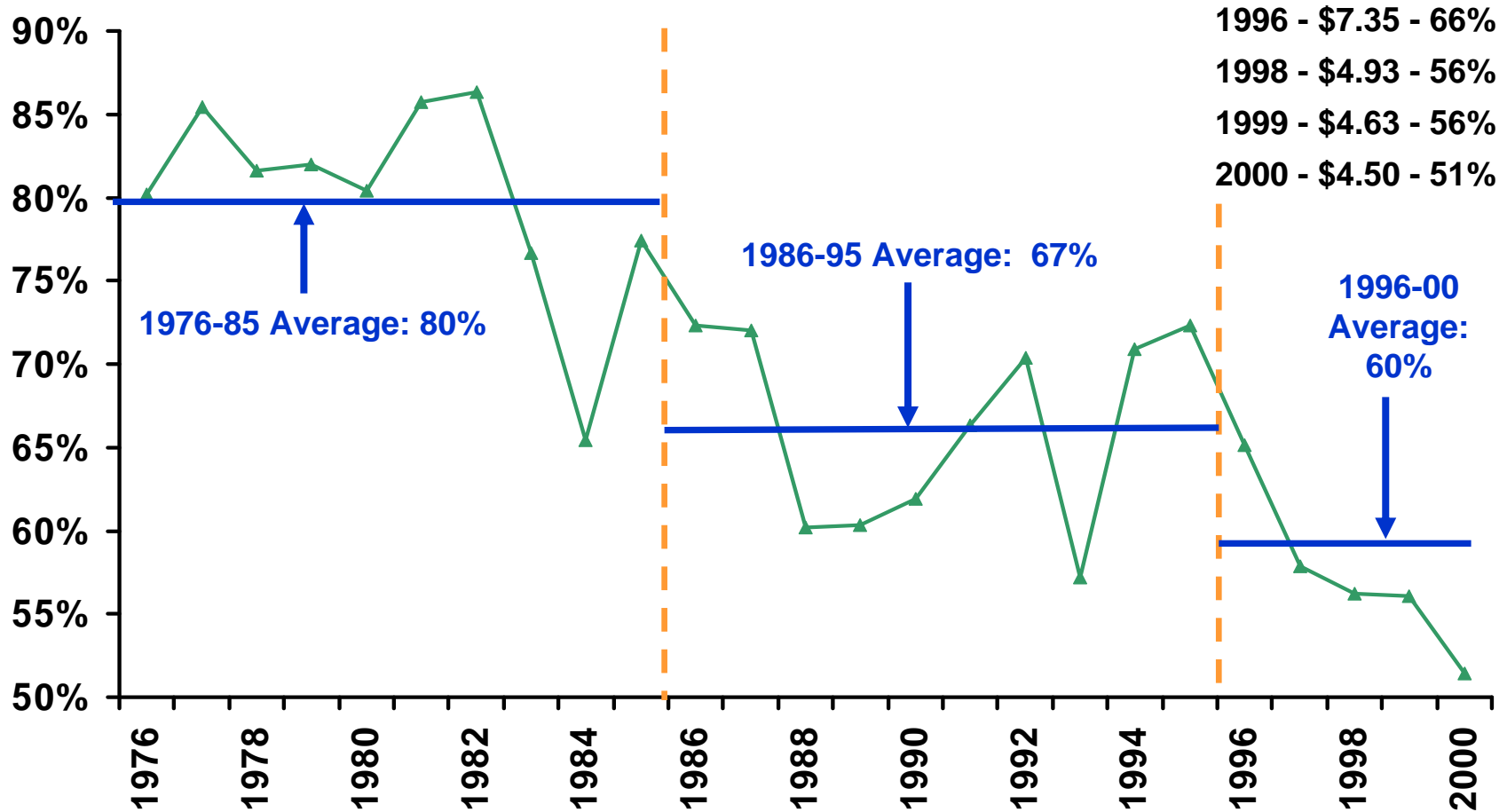
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Indexed 4-Crop Acreage & Price

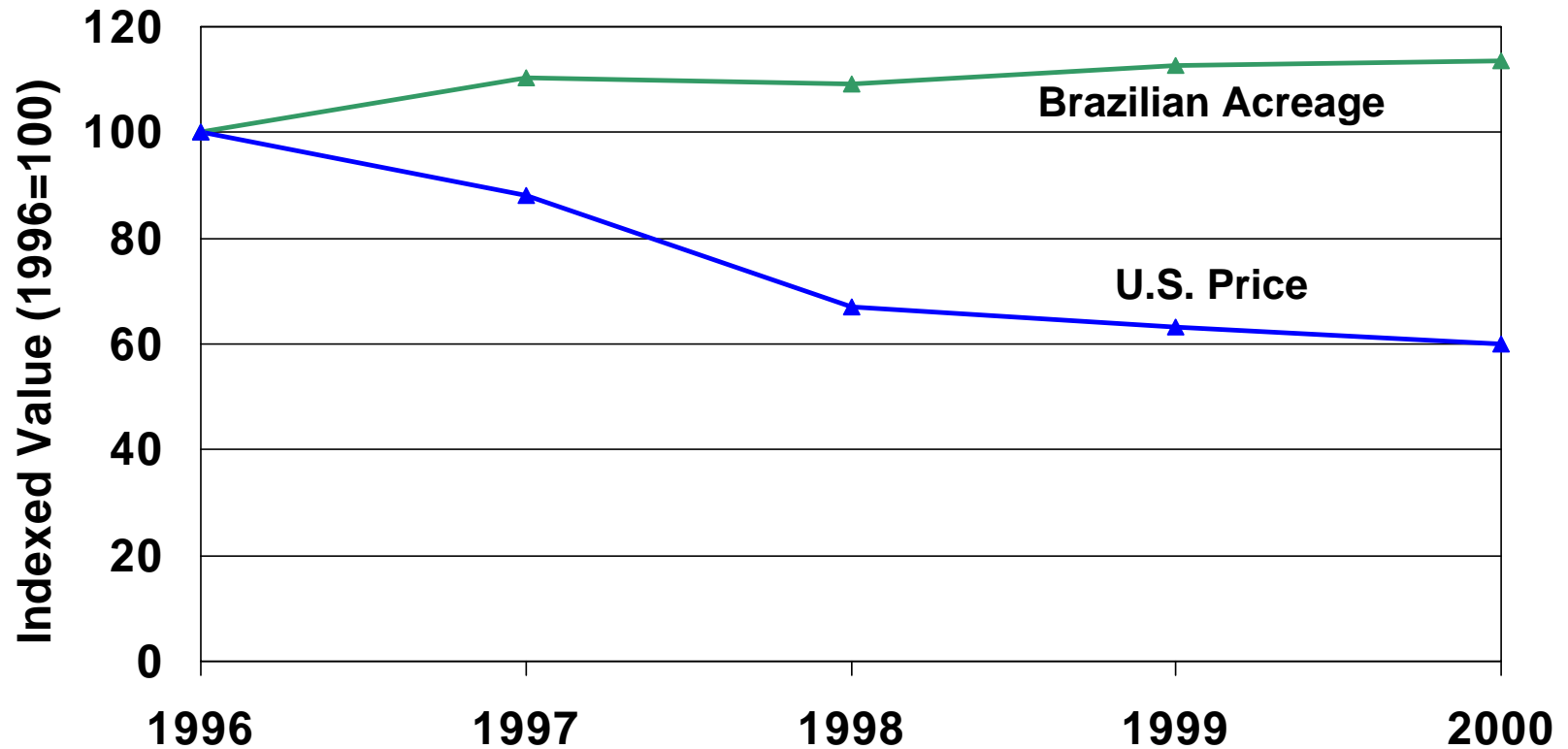
(Soybeans, Cotton, Corn, Wheat)



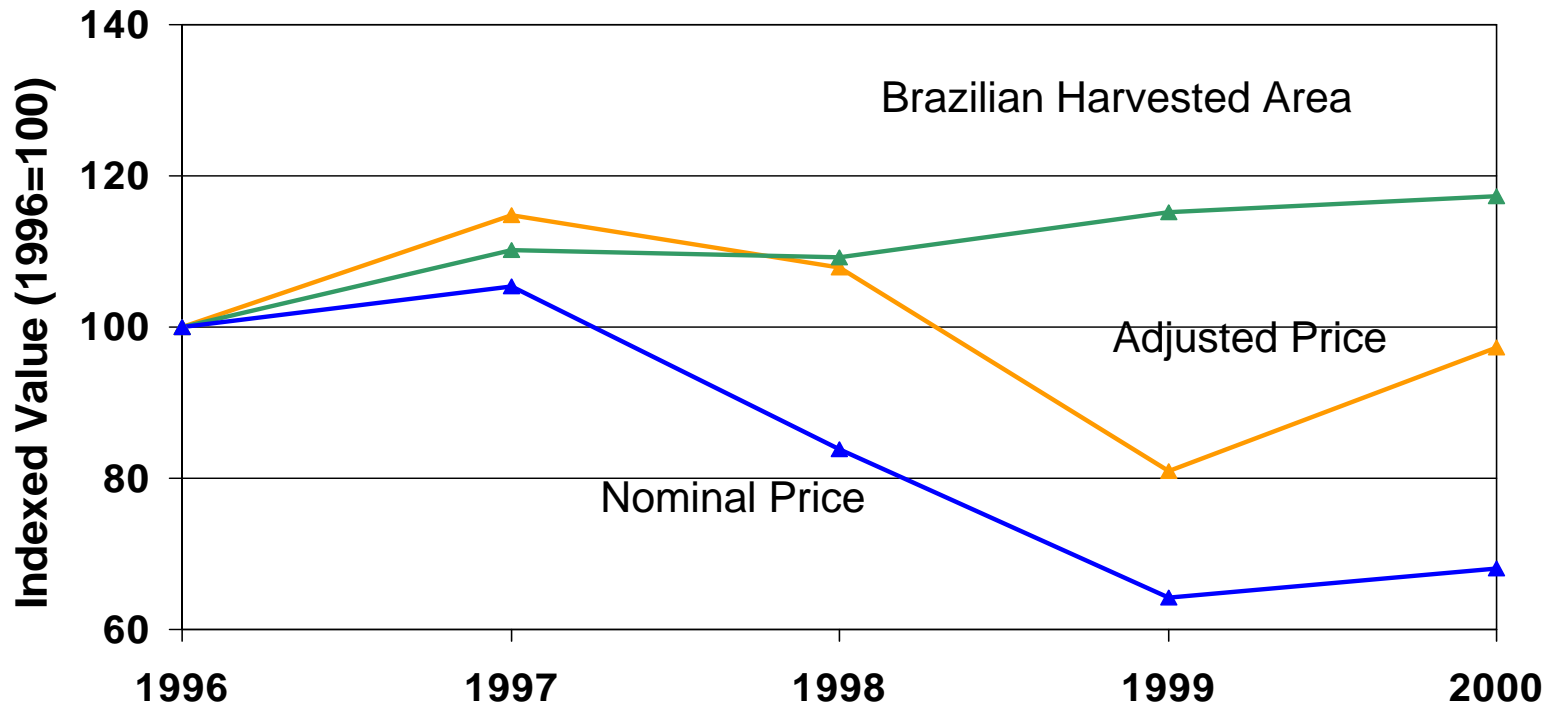
U.S. Share Of World Soybean Exports



Brazilian Soybean Acreage And U.S. Soybean Price

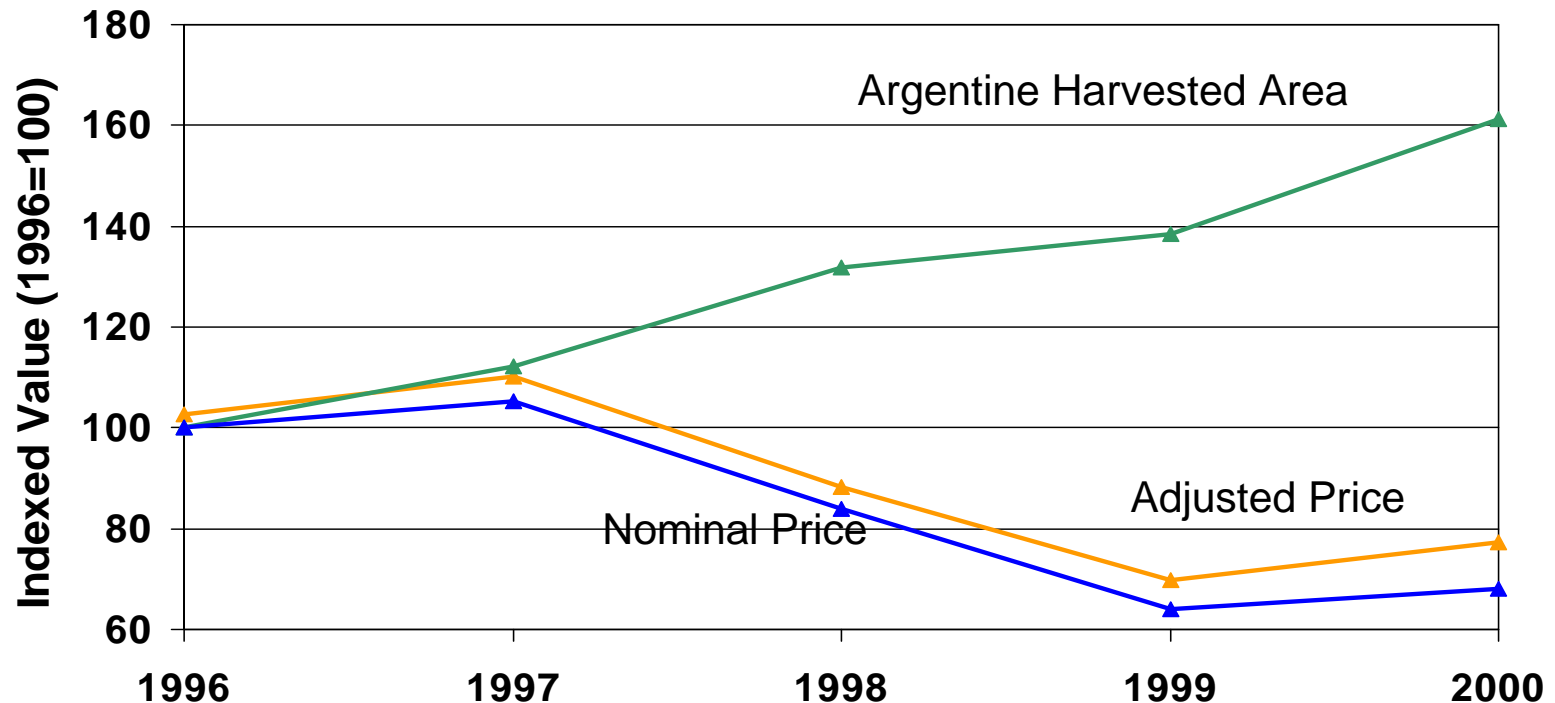


Brazilian Soybean Price & Harvested Area



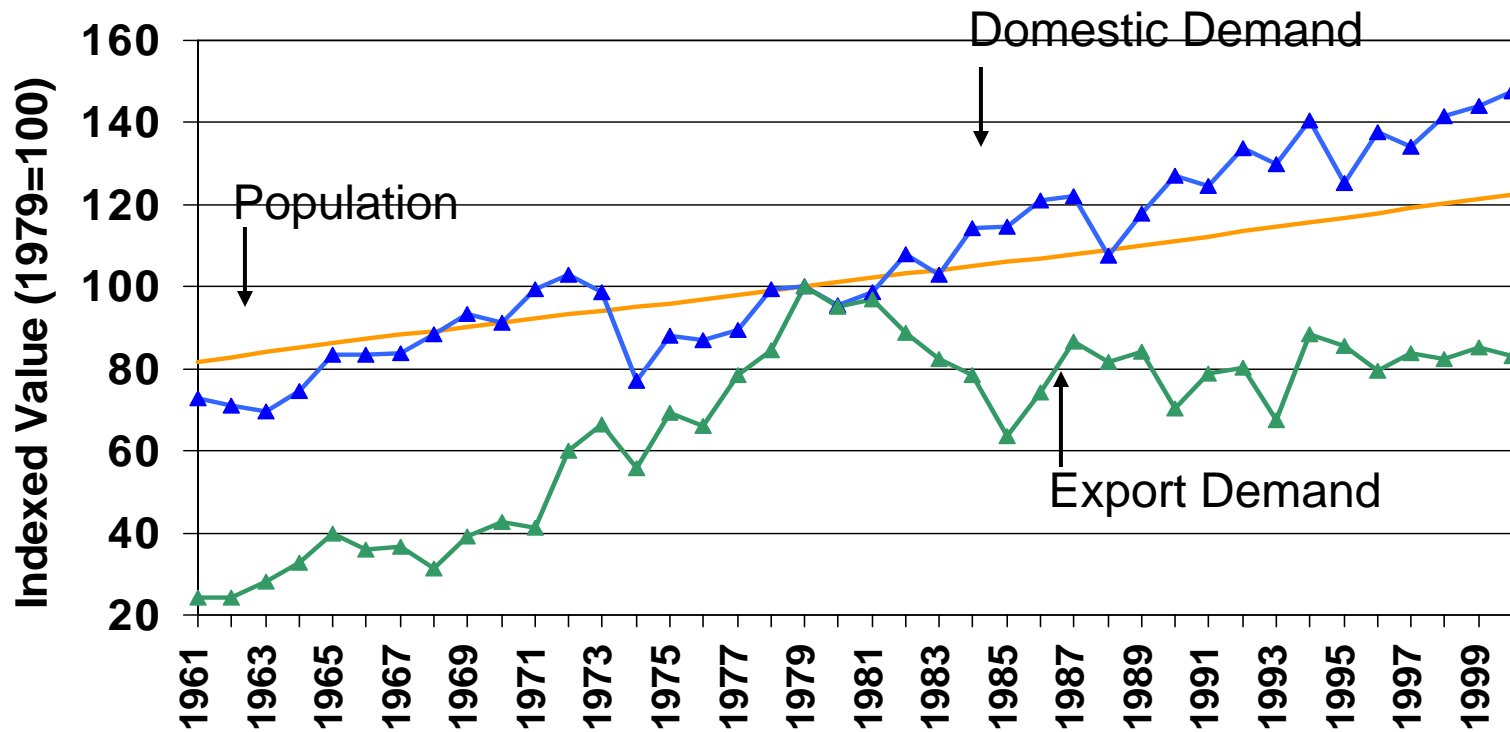
Price is the export price posted by Abiove, the Brazilian Vegetable Oil Industry Association. Adjusted price is adjusted for changes in exchange rate and inflation.

Argentine Soybean Price & Harvested Area



Price is the export price posted by Abiove, the Brazilian Vegetable Oil Industry Association. Adjusted price is adjusted for changes in exchange rate and inflation.

Growth In U.S. Population, Domestic & Export Demand For Grains & Seeds





Farm Bill Outlook

H.R. 2646: **Farm Security Act of 2001**

- **Passed the House October 5, 2001**
- **Continues fixed, decoupled payments, adds soybeans and oilseeds**
- **Continues LDPs and marketing loans**
- **New counter-cyclical payments (variable AMTA) based on target prices and base acres, updates base acreage**
- **Covers commodities not in 1996 Farm Bill**
- **Expands conservation programs**
- **Projected cost is \$168 billion over 10 years**

s. 1731: Agriculture, Conservation, and Rural Enhancement Act of 2001

- Passed the Senate February 13, 2002 by 58-40 vote
- Retains fixed annual payments but changes base acreage, yields, and rates
- New counter-cyclical subsidy program
 - \$270/acre corn, \$215/acre soybeans, \$360/acre cotton
- Makes “green” payments to farmers for conservation practices (3-tier payments), more conservation spending
- Includes renewable energy subtitle
- Outlaws packer ownership of cattle and hogs
- Payment limit of \$275,000 per farm couple
- Cost is \$170 billion over 10 years

Policy Provisions

		Loan Rate			Fixed Decoupled Payment Rate			Target Price	
Crop	Units	2001 Baseline	H.R. 2646	S. 1731	2001 Baseline	H.R. 2646	S. 1731	H.R. 2646	S. 1731
Wheat	\$/Bu.	2.58	2.58	3.00	0.46	0.53	0.25	4.04	3.45
Corn	\$/Bu.	1.89	1.89	2.08	0.26	0.30	0.15	2.78	2.35
Sorghum	\$/Bu.	1.69	1.89	2.08	0.31	0.36	0.17	2.64	2.35
Up. Cotton	\$/Lb.	0.519	0.519	0.550	0.056	0.065	0.046	0.736	0.680
Soybeans	\$/Bu.	5.26	4.92	5.20	n.a.	0.42	0.25	5.86	5.75

Administration Weighing In

- Released a farm policy paper September 19th, press release February 14th
- Few specific policy proposals
- Written commitment to proposed spending levels (\$73.5 billion above 10-year budget resolution)
- Strong emphasis on exports, trade expansion
- Want to target assistance to smaller farms
- Encourages inclusion of conservation programs
- Opposition to front-loading in Senate version

What Now?

- **H.R. 2646 and S. 1731 go to a conference committee to work out the details**
- **A single compromise bill will emerge from conference, goal is before Easter recess**
- **It's possible for a pig and a chicken to come out of conference as a zebra**
- **Both chambers will approve the compromise farm bill and send it to the President**
- **Once signed it becomes law, hope it will apply to the 2002 crop year**

APAC's Weekly Policy Column

To receive an electronic version of the weekly ag policy column by APAC Director Daryll Ray, send an email to:

jgbrown@utk.edu

requesting to be added to APAC's Policy Pennings listserv

needy children and spouses of victims of the Sept. 11 terrorist attacks. LMA President Patrick Goggins said, "All across America, in 43 states, our member businesses do

Senate ag committee resists pressure to adopt House Farm Bill

The House of Representatives adopted the Farm Security Act of 2001 on Friday, Oct. 5, by a vote of 291-120. The approval came after representatives rejected a flurry of amendments including the Boehlert-Kind amendment to shift \$19 billion dollars from commodity programs to conservation programs, and one to limit payments to \$150,000-per-person on all crop based subsidies.

With the adoption of this farm bill legislation by the House, attention shifts to the Senate Ag Committee. This committee is being pressured to use the House bill as its base document, making adjustments, if necessary. The pressure comes from those who believe that the agricultural community needs to grab the additional \$73.5 billion above the baseline that was made available in the 2001 budget resolution.

However, the authorizing budget resolution says these additional monies would be available only if the budget projections did not require dipping into the Medicare or Social Security Trust Funds. By early September, the slowdown of the economy and the tax cut had significantly reduced the surplus to what some were projecting to be a razor thin margin. In the aftermath of the events of Sept. 11, the Medicare and Social Security "lock box" was not given a moment's consideration as \$40 billion was granted to New York for damage caused by the terrorism and for fighting the war on terrorism. Congress then voted \$15 billion to bail out the airline industry. Billions more undoubtedly will be needed to execute the war against terrorism. And, the administration is talking about an additional economic stimulus package that could be as large as \$100 billion. Undoubtedly the lid of the lock box will be wide open when all is said and done.

All of this spending leaves agriculture's additional thinking in the House is that agriculture better make its claim as quickly as possible before the lock box is closed again or a cap is put on the deficit. Judging



policy pennings

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University of Tennessee
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- Intertwined in all of the discussion and action are a number of major questions that will have to be answered before a final version of the farm bill is approved.
- Will the budget for agriculture be the \$96.5 billion baseline or will it be \$170 billion, including the additional \$73.5 billion conditionally authorized in the budget resolution?
- Will Congress impose a \$150,000 proposal that was rejected by the House?
- How widely will the payments under the farm bill be distributed? Will they be concentrated in the heartland or will the coasts see a larger portion of the money than in the past?
- Closely tied to the previous two questions is the role conservation will play in the farm bill. Will or will it be a green payment related program that encourage conservation in all regions of the country and on all sizes of farms?
- Yes, a House bill has been passed. But in mid-October, the leadership of the Senate has no interest in the wholesale adoption of the House's version of the farm bill. The Senate intends to have its say, thank you very much!

For More Information ... www.agppolicy.org

The screenshot shows a Microsoft Internet Explorer browser window displaying the APAC (Agricultural Policy Analysis Center) website. The browser's 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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University of Tennessee Knoxville

Weekly Agricultural Policy Articles by Daryll E. Ray
NEW Article no. 79- Are we courting disaster? - January 18, 2002

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Kelly H. Tiller
Presented at the 2002 Tobacco Workers Conference
January 16, 2002
Pinehurst, NC
[Link to Presentation](#) [Link to Associated Paper](#)

NEW Impacts of Tobacco Program & Production Changes on Tennessee's Economy
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