



Tobacco Quota Buyout Update

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Annual Board Meeting

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Current Buyout Status - Senate

- S.1490 – Tobacco Market Transition Act of 2003
 - Introduced July 30, 2003 by Sen. McConnell
 - Co-sponsors include Dole (R-NC), Bunning (R-KY), Hollings (D-SC), Edwards (D-NC), Miller (D-GA), Frist (R-TN), Warner (R-VA), Allen (R-VA), Chambliss (R-GA), Graham (R-SC), Alexander (R-TN), Bayh (D-IN)
 - Ready for the Senate floor
 - Placed on Senate Legislative Calendar under General Orders (calendar no. 264)
- FDA legislation “ready”, not yet filed



Current Buyout Status - House

- H._____ – Tobacco Market Transition Act of 2003
 - To be introduced by Rep. Fletcher (and others?) on (Sept. 11, 2003?)
 - House consensus bill similar to Senate version
 - Appears that most representatives from tobacco states are on board, plus additional key supporters
- Want to bring it before the full House by end of September?



S.1490: Key Elements

- Quota owner payments
 - Owners as of July 1, 2002 eligible
 - Payments are \$8/lb * 2002 basic quota
- Quota grower payments
 - Eligible if you grew in 2000, 2001 or 2002
 - Payments are \$4/lb * 2002 effective quota paid according to the proportion of the 2002 effective quota you grew in 2000, 2001 and 2002
- Payments are frontloaded and paid over 6 years (FY2004-2009)



S.1490: Key Elements

- Tobacco Quality Board
 - 13 members (5 grower reps; 5 manufacturer reps; 3 at-large, 1 from USDA)
 - Addresses quality, marketing issues
 - Recommends the range of base years for the annual crop acreage base (1998-2002)
- Production Boards
 - One board per kind
 - 10 producers plus 1 USDA representative
 - Recommends base year for crop acreage base



S.1490: Key Elements

- Acreage limitation program
 - Acreage limited to traditional growing counties
 - For 2004 crop, acreage base is average 1999-2003 planted acreage
 - After 2004, previous year's acreage adjusted for max acreage limitations
 - 10% of unused base set aside for new producers, remaining unused base is aggregated to county/state pools for reallocation
 - Acreage base cannot be sold, leased or transferred



S.1490: Key Elements

- Market stability program
 - Market stability payments made when the average market price for a kind falls below the world price (or \$1) for 4 weeks
 - Payments are the amount the world price exceeds the domestic price multiplied by the permitted acreage
 - Stability payments funded by assessments (up to 5¢/lb) on producers and purchasers
 - Provisions for developing private revenue insurance products allowing producers to buy-up coverage



S.1490: Funding

- \$100 million annually FY 2005-2009 for economic development
- \$100 million annually FY 2005-2009 for financing the market stability program
- \$12 million annual FY 2005-2009 for competitive tobacco research grants
- \$1.5 million to each coop each FY 2005-2009 to develop alternative marketing methods
- Total cost estimated around \$13 billion
 - About \$11.4 billion for payments



H. _____: Key Elements

- Quota owner payments
 - Owners on July 1, 2002 are eligible
 - Total available is \$8/lb * 1997-2001 average basic quota (\$3.8 billion for burley)
 - Payments based on individual's share of 2002 basic quota
- Quota grower payments
 - Eligible if you grew in 2000, 2001 or 2002
 - Total available is \$4/lb * 1997-2001 average effective quota (\$2.5 billion for burley)
 - Payments based on individual's share of 2000, 2001 and 2002 effective quota



H. _____: Key Elements

- Quota owner and grower payments made in 7 equal annual payments
- Establishes a Tobacco Advisory Board for each kind of tobacco
 - 11 members (5 reps of growers, 5 reps of purchasers, 1 rep from USDA)
 - Addresses quality issues
 - Recommends max crop poundage to Secretary
 - Oversees marketing issues
 - Establishes a registration system



H. _____: Key Elements

- Poundage limitation program
 - Production limited to historical growing counties
 - For 2004 crop, limit is 1999-2003 average poundage harvested and marketed
 - After 2004, max is previous year's poundage
- Market stabilization program
 - Assessments (50/50 grower/purchaser) used to fund a private “market stability payment program”
 - Payments triggered when average market price (for that kind) falls below “insured price level” (at least \$1)
 - Provisions for developing private revenue insurance products allowing producers to buy-up coverage



H.____: Funding

- Competitive grants for tobacco research, \$12 million each FY 2005-2009
- \$100 million each FY 2005-2009 for market stability program
- \$1.5 million to each coop each FY 2004-2008 for “transition to alternative methods of marketing tobacco”
- \$20 million each FY for administrative expenses
- Total cost is about \$16.4 billion
 - \$15.667 billion for payments, about \$700 million other



Buyout Bills: Major Differences

- Payments: 2002 vs. 1997-2001 average for calculations, but payouts are same
- Payout Schedule: 6 years frontloaded vs. 7 years equal payments
- Boards: 2 (TQB & TPBs) vs. 1(TABs)
- Production limits: acreage vs. poundage
- Market stability: world price vs. insured price
- Total cost: \$13 billion vs. \$16.4 billion



The Political Process

- Senate: floor vote, doesn't require committee hearing, needs 60 votes
- House: Ag Committee markup, floor vote, could be attached to another bill, needs 218 votes
- H-S Conference Committee: hammer out differences, bill reported out of Conference goes back to House and Senate for floor vote, additional Conference Committee Report
- Administration: signs into law
- USDA: writes regulation, public hearings/comment, implementation



Political Realities

- It really is a “political” matter
- A narrow window of opportunity
 - House expected to adjourn early October
 - Senate expected to adjourn early November
 - Conference Committee can meet after adjournment
- FDA still an unknown
- Expect opposing manufacturers to launch strong campaign
- NOTHING is certain, NOTHING is impossible



Buyout?

Politics



Today's Probability* of Passage



60:40

** Probability prediction is good for one hour only.*

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