



Tennessee Tobacco Economics & Policy Update

Kelly Tiller
Jennifer Brown

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What You Really Want to Hear

- **Will there be a buyout this year?**
 - YES
- **When will a buyout be passed and when will it go into effect?**
 - ASAP
- **What will the buyout look like?**
 - Payment rates and bases
 - Program provisions
- **Exactly how much will I get?**
 - \$x per year through 200x

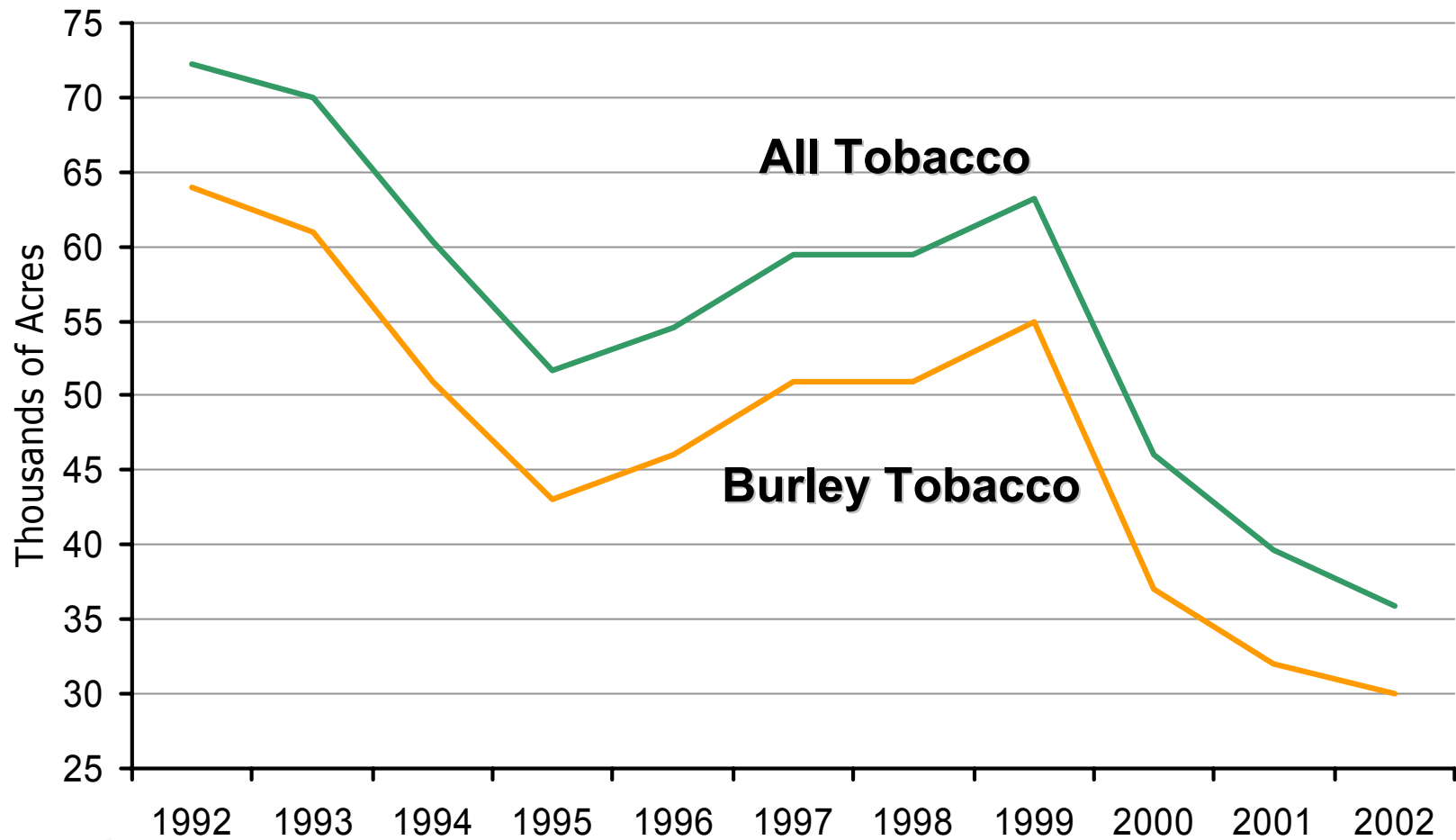


What I'm Going to Tell You

- **NO ONE knows with certainty**
 - **IF there will be a buyout**
 - **WHEN a buyout will pass**
 - **EXACTLY WHAT a buyout would look like**
 - **LONG RUN IMPACTS of a buyout**
- **Update on tobacco production in the state**
- **Economic and other factors influencing the outlook for tobacco production in the state**
- **Everything I do know about a buyout**



TN Harvested Tobacco Acreage

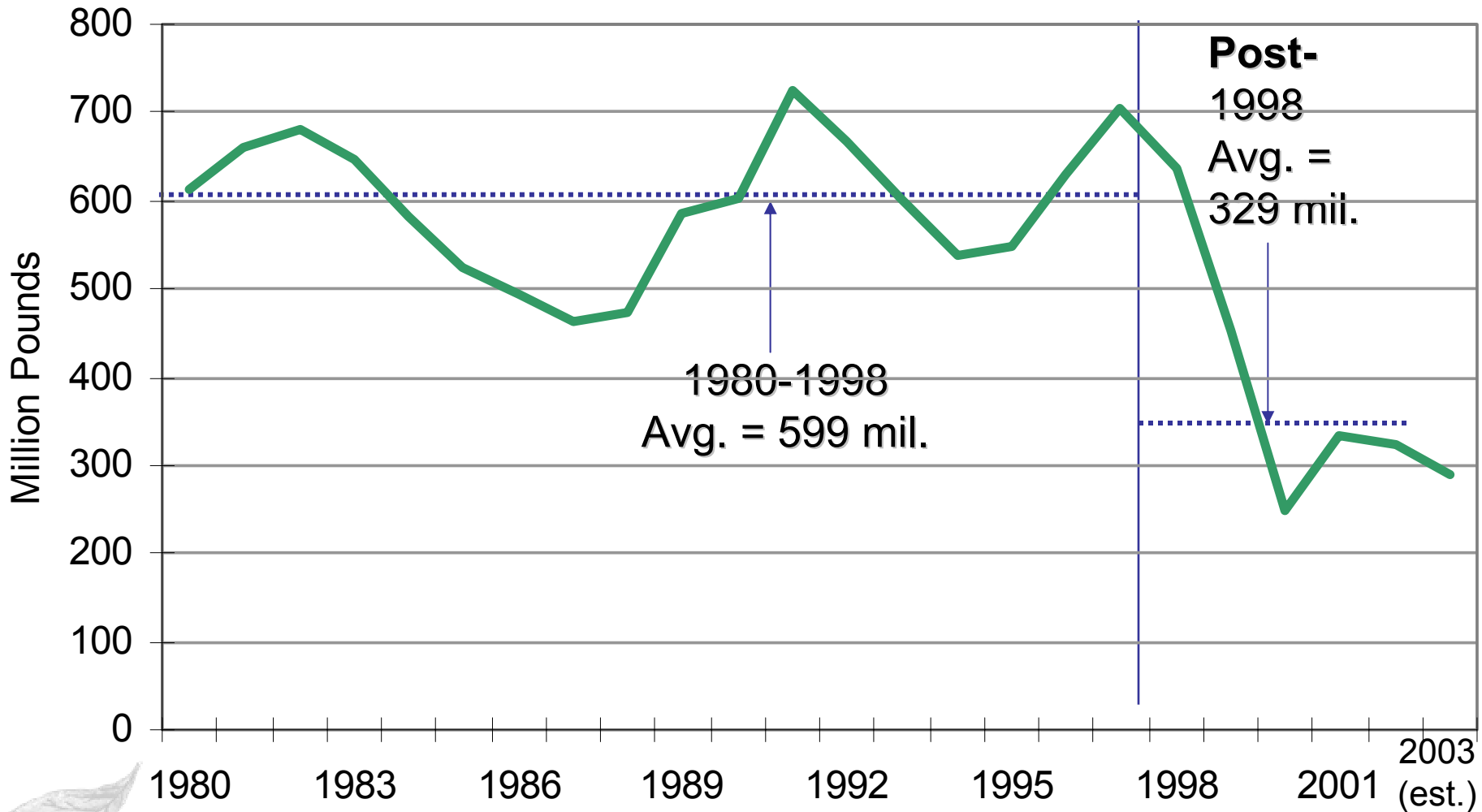


TN Burley Production Summary

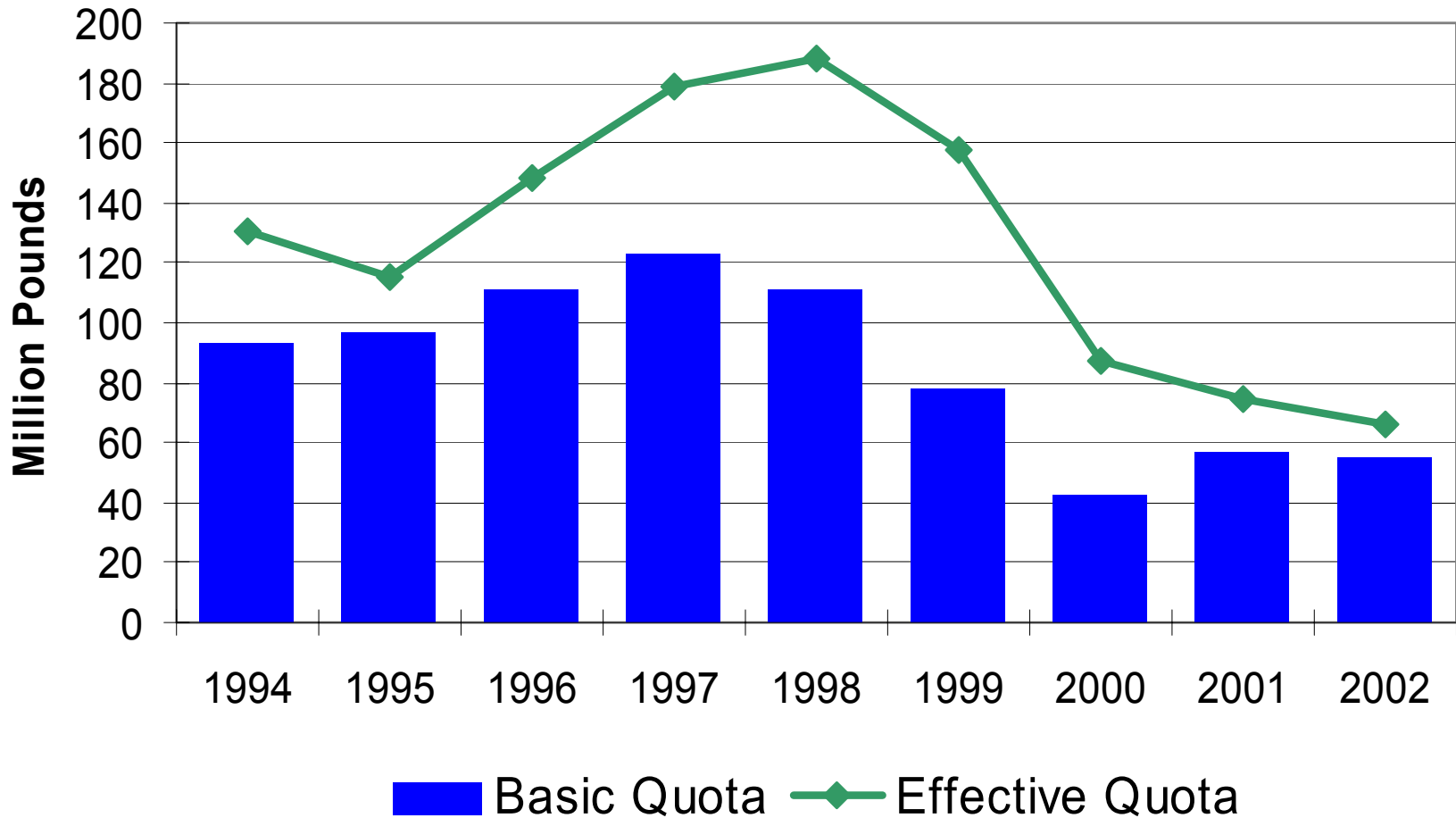
- Tennessee's 2002 burley production 54 million lbs, down 16% from 2001 and lowest level in 61 years
- 30,000 burley acres harvested, down 6% from 2001, down 43% from average during the 1990s
- Average burley yield forecast at 1,800 lbs/acre
- Over 3/4 of Tennessee's 2002 burley crop marketed through direct contracts



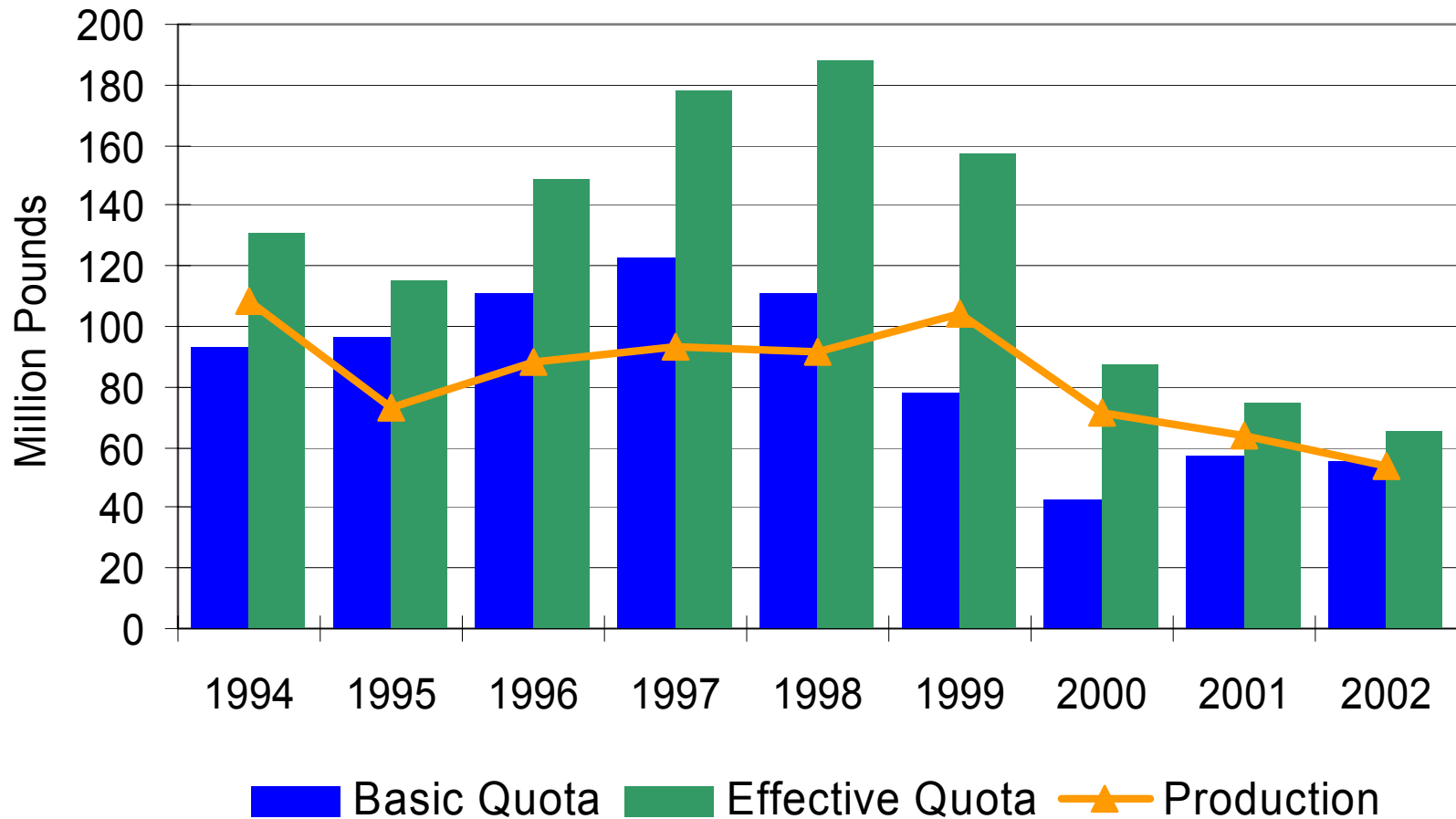
Burley Tobacco Basic Quota



TN Burley Basic & Effective Quota



TN Burley Quota & Production



2003 Burley Quota Outlook

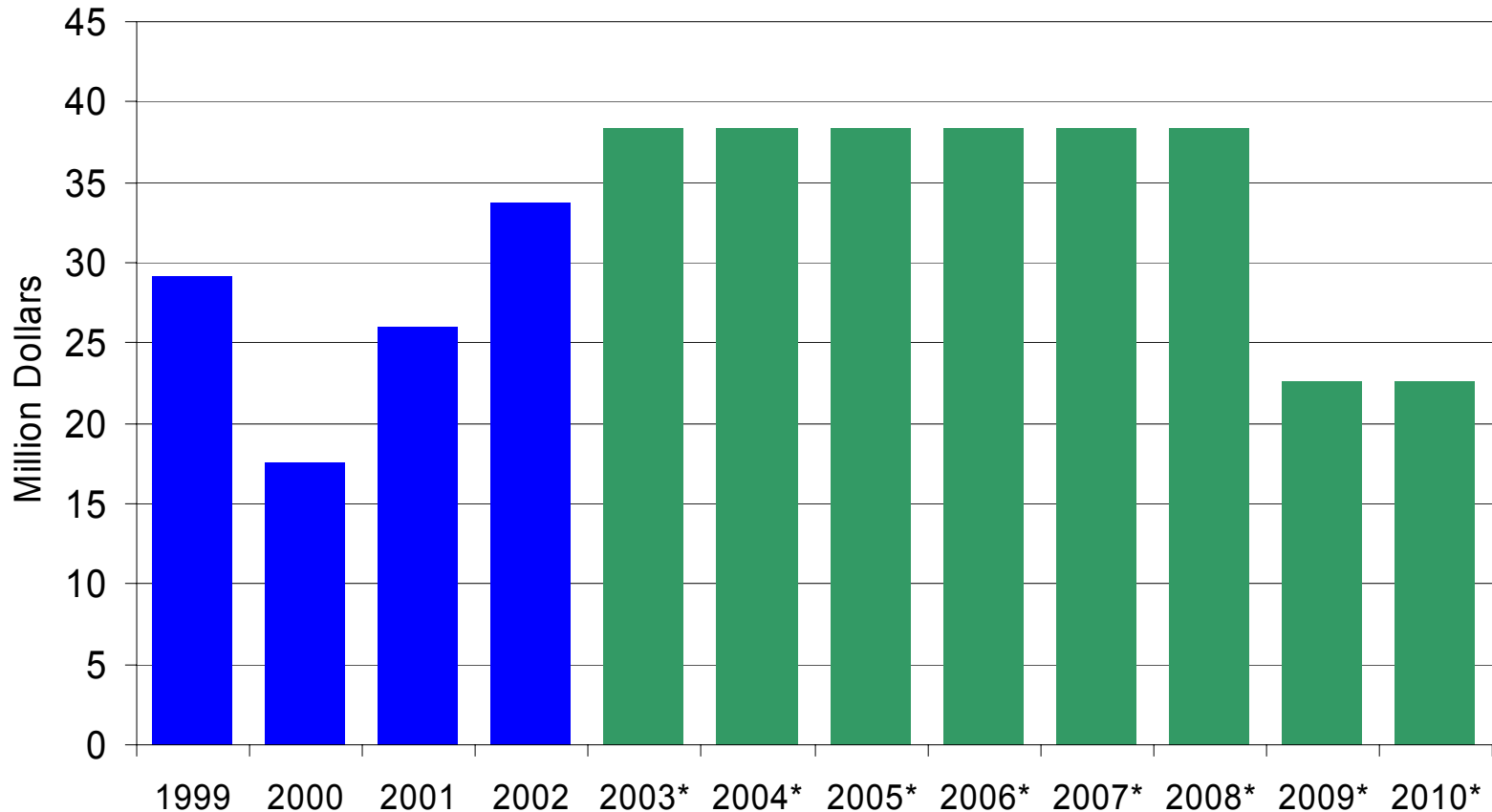
	1999	2000	2001	2002	2003
Mfg Purchase Intentions	291	242	225	227	185
Exports	186	159	144	139	138
Stock Adjustment	-37	-161	-37	-42	-35
Sec. Adjustment	+13	+7	0	0	0 (+/- 9)
Basic Quota	453	247	332	324	288 (-11%)
Undermarketings	+239	+120	+35	+33	+32
Effective Quota	690	367	352	349	? 320 (-10%) ? 345 (-1%)

Phase II in TN

- Tennessee initially projected to receive \$390 million 1999 to 2010, received \$106 million 1999-2002
- 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 and 2002
- Payments have been based on the previous year's crop production records



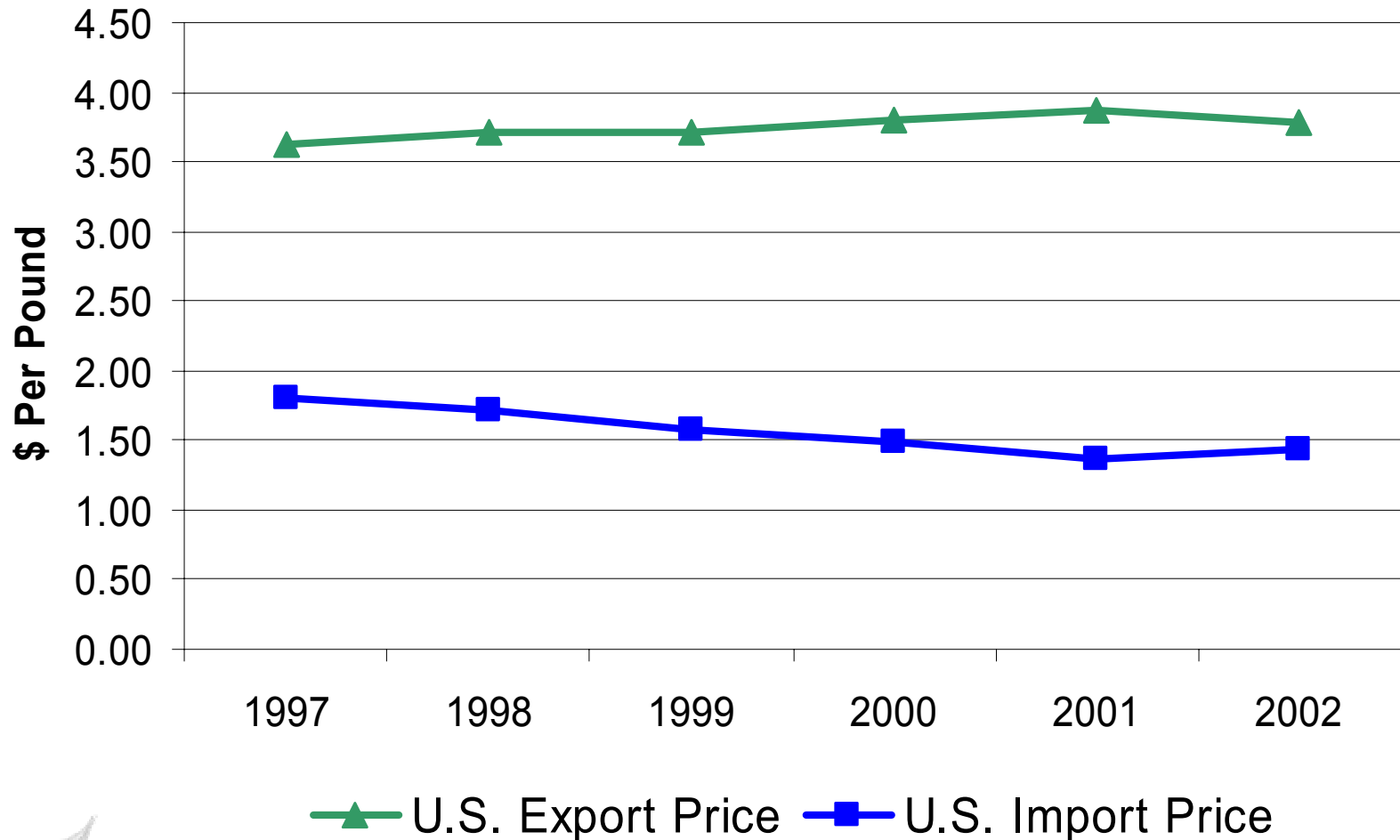
TN Phase II Payments



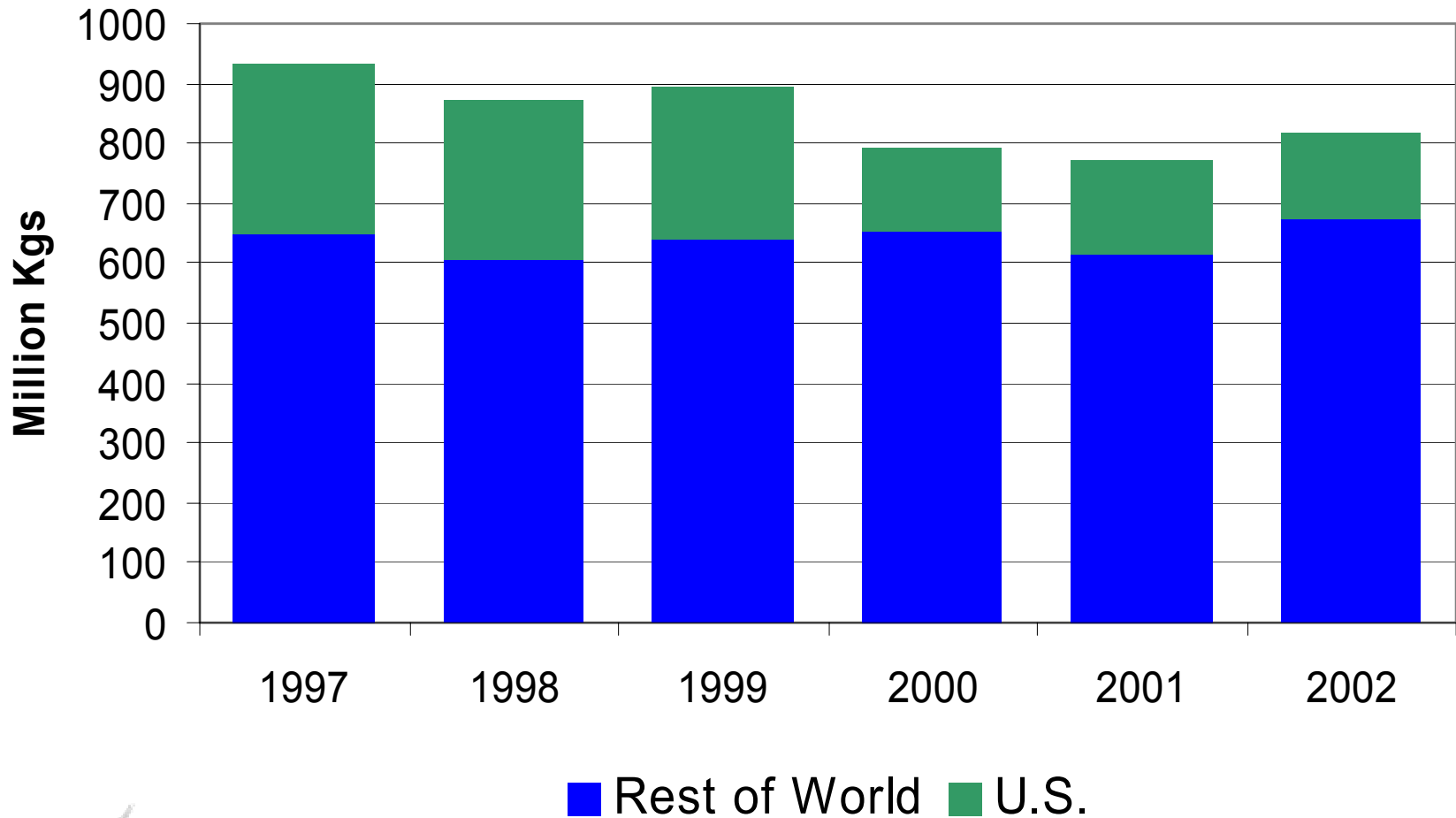
* 2003-2010 payments are projected and may be adjusted downward as cigarette consumption declines



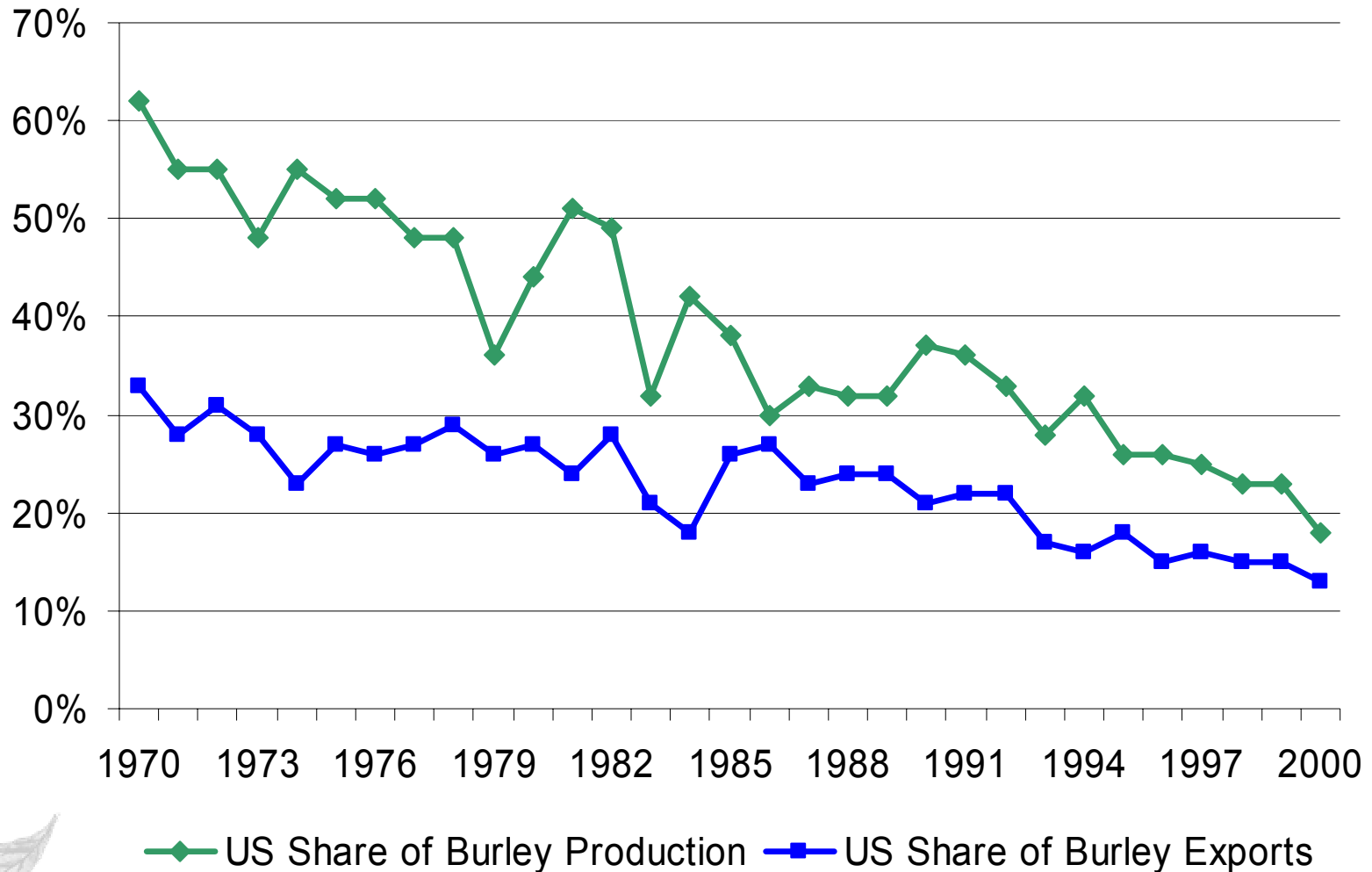
U.S. Burley Import & Export Prices



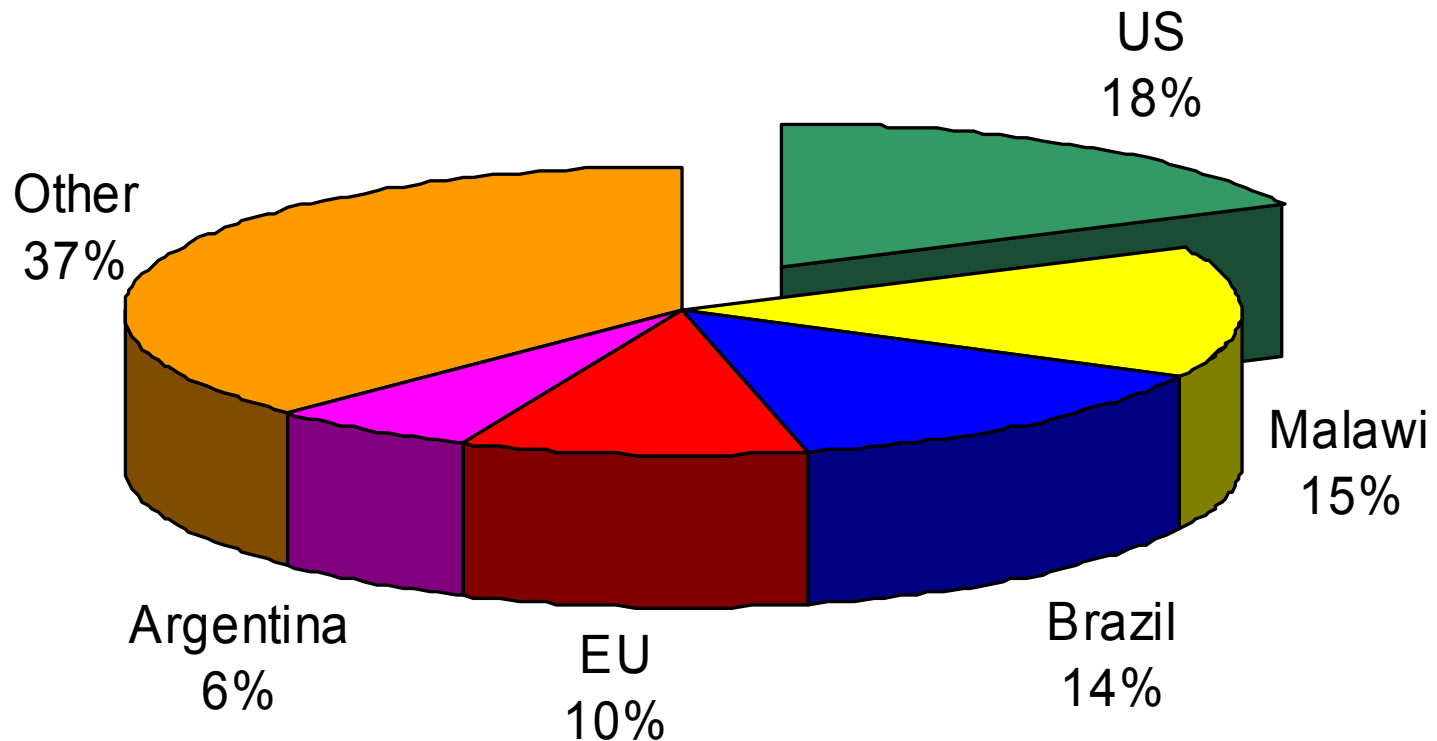
U.S. & World Burley Production



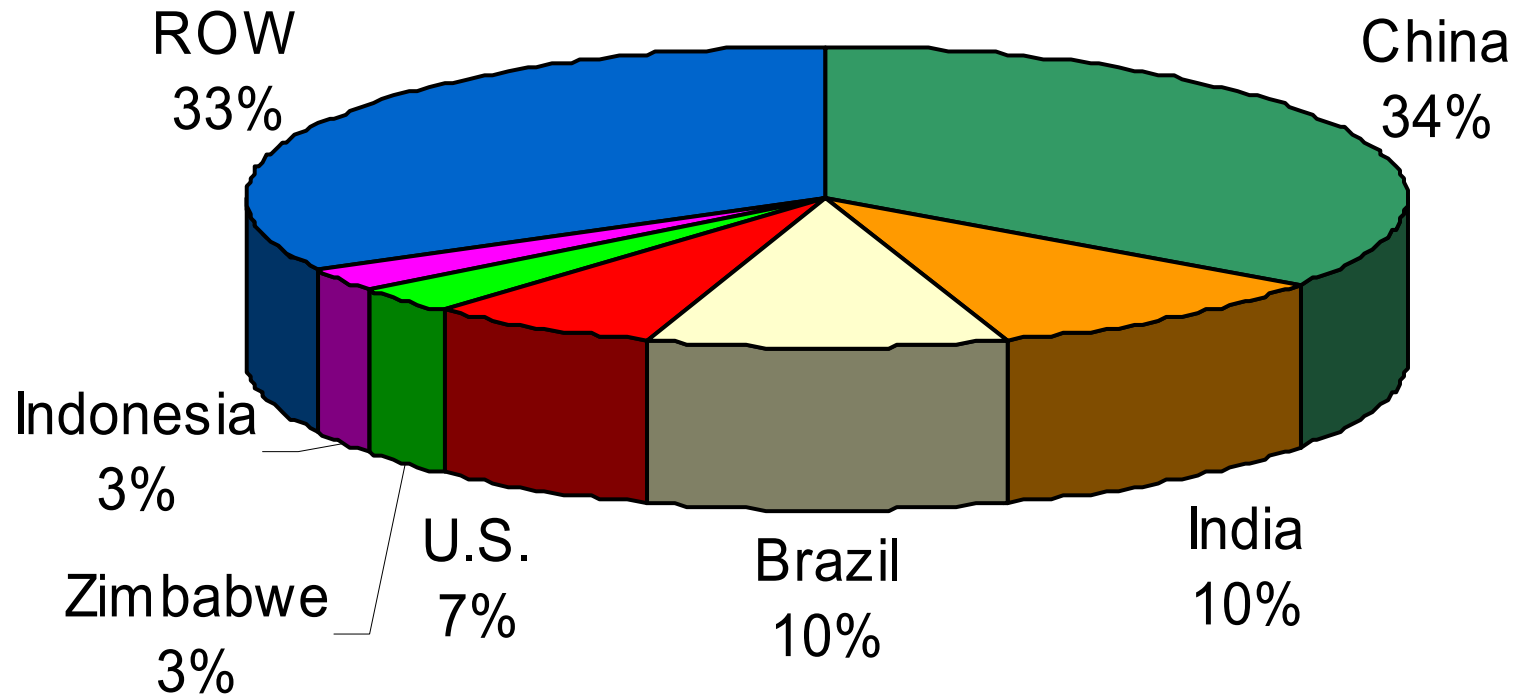
U.S. Share of World Burley Production and Exports



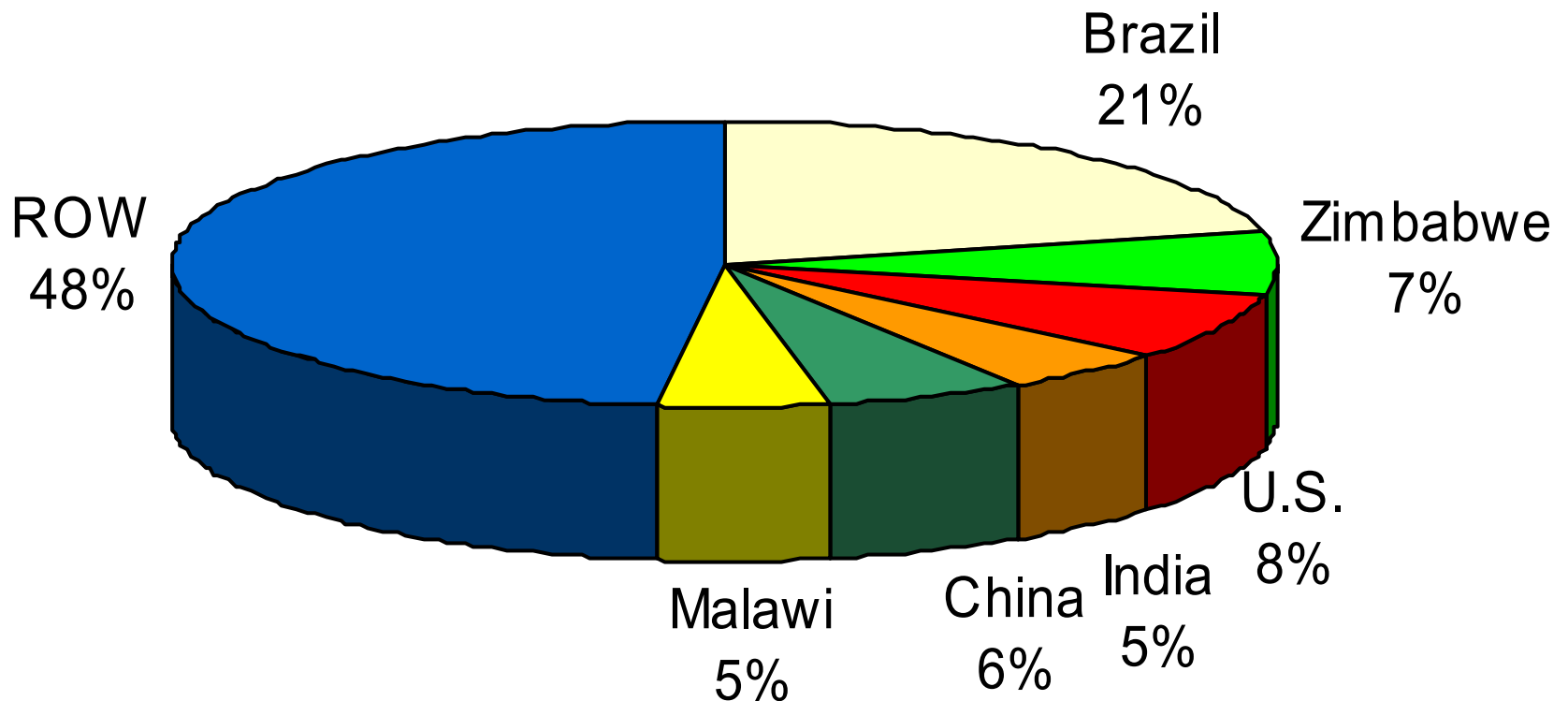
2002 World Burley Production Market Shares



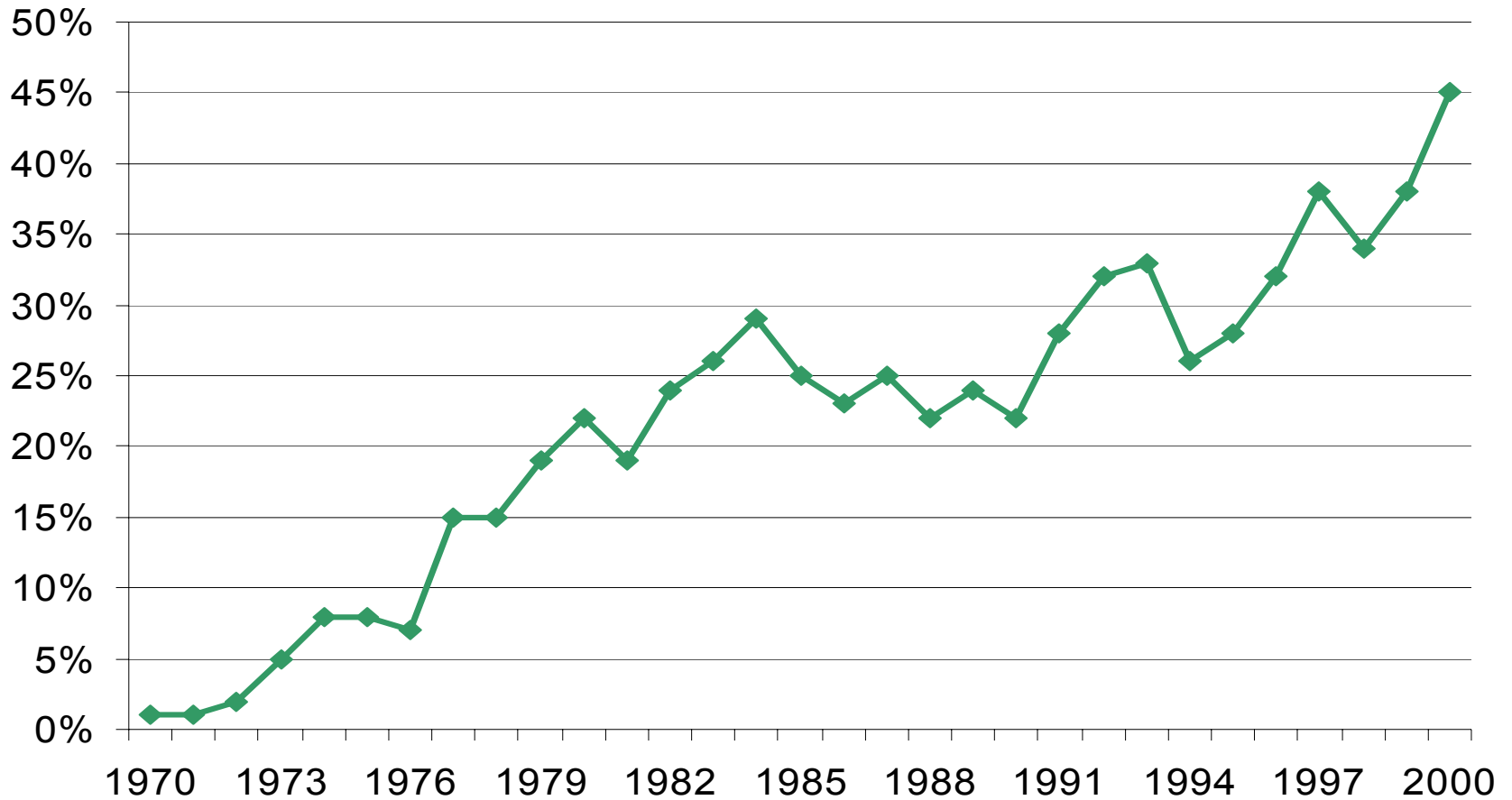
World Tobacco Production, 2002



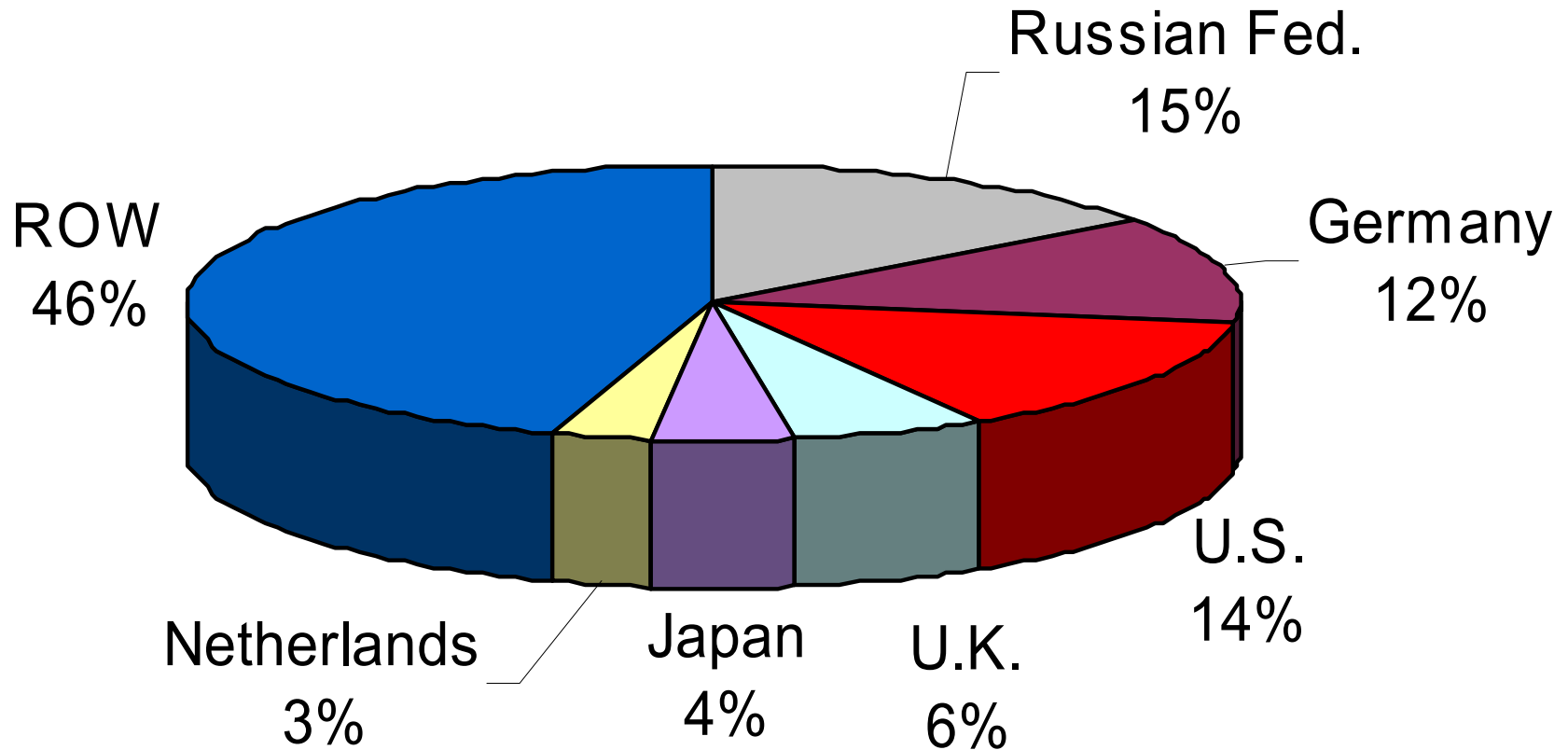
World Tobacco Exports, 2002



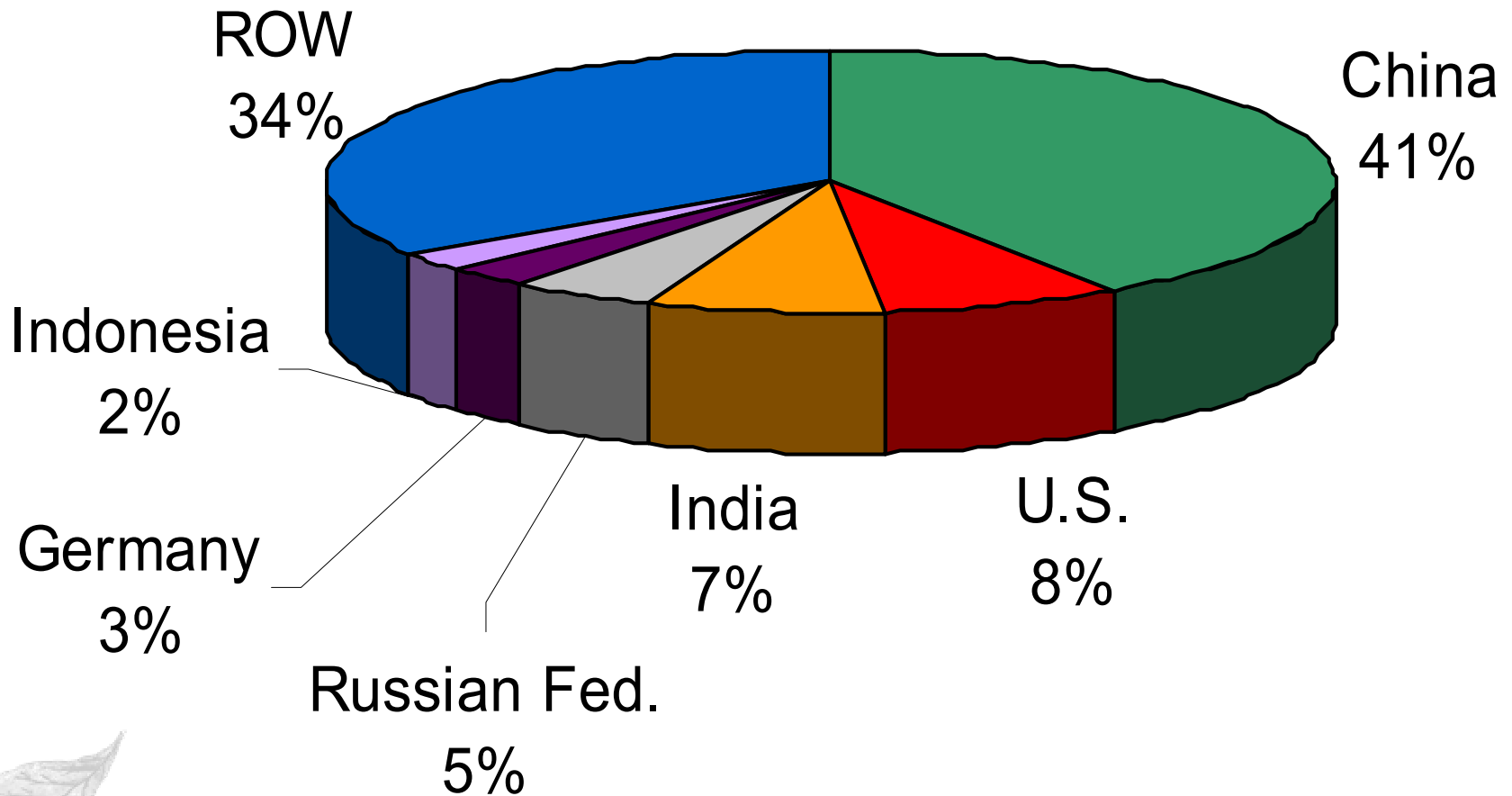
U.S. Share of World Burley Imports



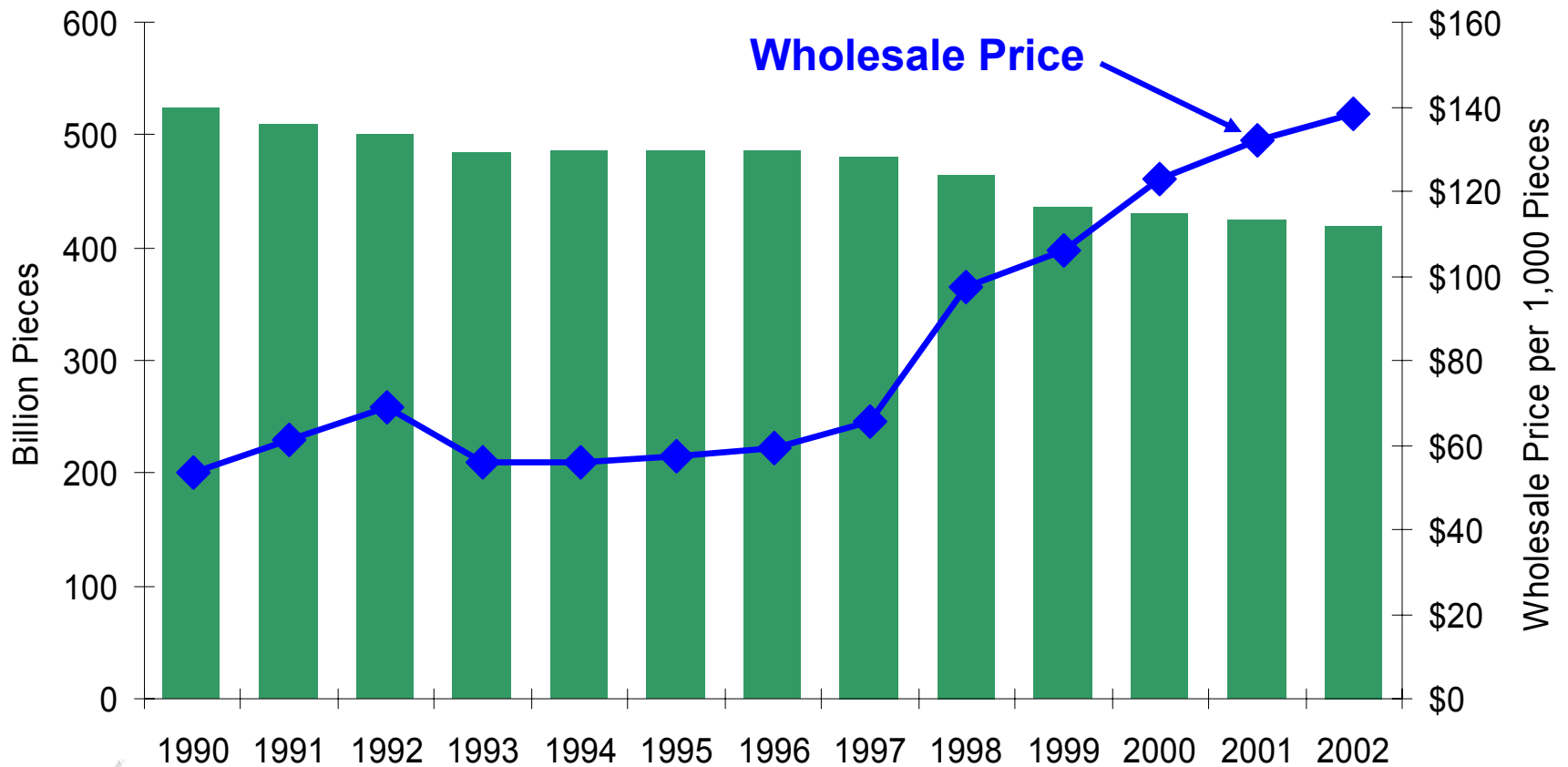
World Tobacco Imports, 2002



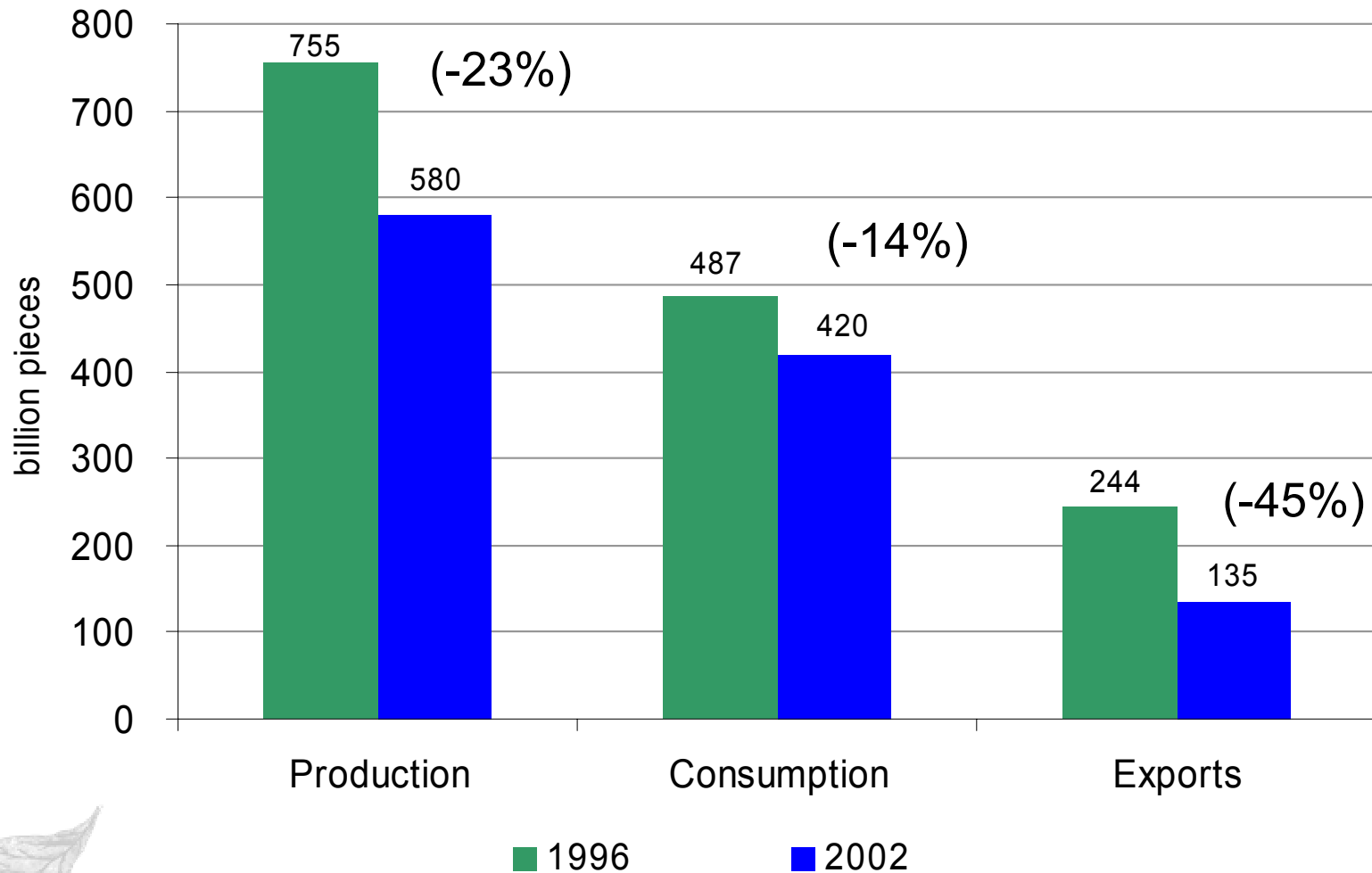
World Tobacco Consumption, 2002



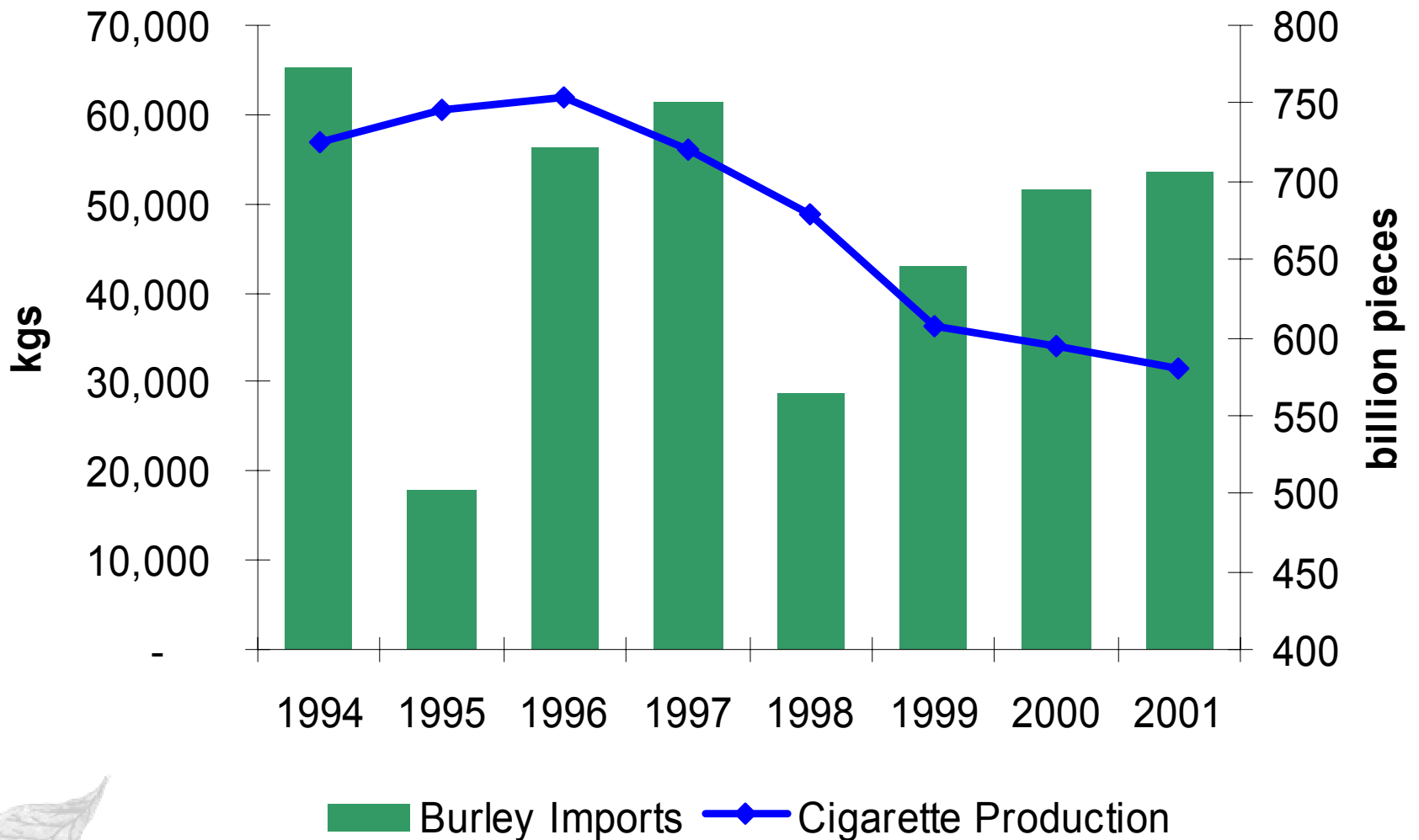
U.S. Cigarette Consumption & Wholesale Price



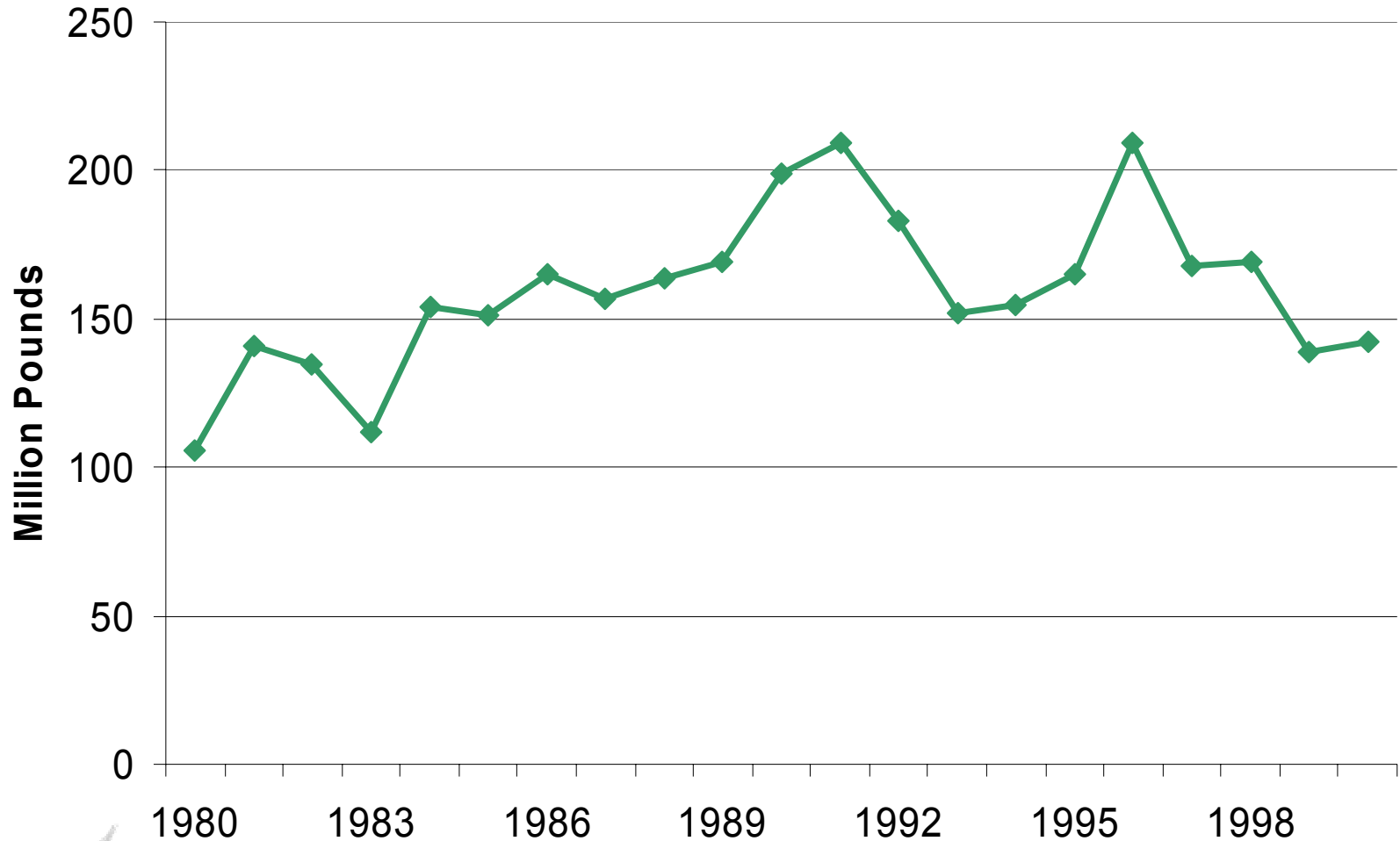
U.S. Cigarette Production, Consumption & Exports



U.S. Cigarette Production & Burley Imports



U.S. Exports of Burley Tobacco



Grower Support for a Buyout

- Outlook for U.S. burley leaf tobacco is not very optimistic
- More disaster (TLAP) payments unlikely
- Quotas have fallen more than 50% in the last few years, not likely to recover significantly
- Lease prices unsustainable at current levels
- Contracting has further pressured the program
- Possibility of a buyout is the only thing that has kept some growers in production



Current Buyout Status

- **At the end of the 107th Congress, 9 pieces of quota buyout and transition legislation on the table**
 - 2 have been reintroduced in the 108th Congress
- **Any buyout will face political challenges**
 - Many other pressing political issues
 - Would require 60 votes in the Senate, 218 in the House
 - Justifying payment rates, payments to “growers”
- **House Ag Committee held a hearing on the buyout issue last September**
- **Nothing currently scheduled or certain**



Buyout Bills: Common Elements

- All pay quota owners \$8/lb for quota owned
- All pay active growers \$4/lb for quota grown
- Generally projected to cost \$15-\$20 billion
- Most propose a user fee to fund the buyout and programs
- Buyout payments spread over 5 years, generally treated as capital gains



Buyout Bills: Differences

- **Payment base years and structure**
- **Future existence/provisions of a tobacco program**
- **Additional payments for growers who give up future production rights, payment reduction if the grower remains in tobacco production**
- **FDA regulation of tobacco products**
- **Community development funds, payments to groups other than quota owners and growers**



What Would Happen After a Buyout?

- **Would depend heavily on existence of and modifications to the tobacco program**
- **Phase II payments would disappear**
- **Adjustments in prices, demand??**
- **Adjustments in concentration??**
- **Adjustments in production location??**



Rep. Farm Simulations: Baseline

- **Begins simulation with 20% debt level, no cash reserves**
- **All farms carry 65/100 basic MPCl coverage**
- **No off-farm income included**
- **Phase II payments continue as projected**
- **Burley quota and quota lease rates stabilize around 2002 levels**
- **All tobacco is contracted**
- **Prices increase according to trend**

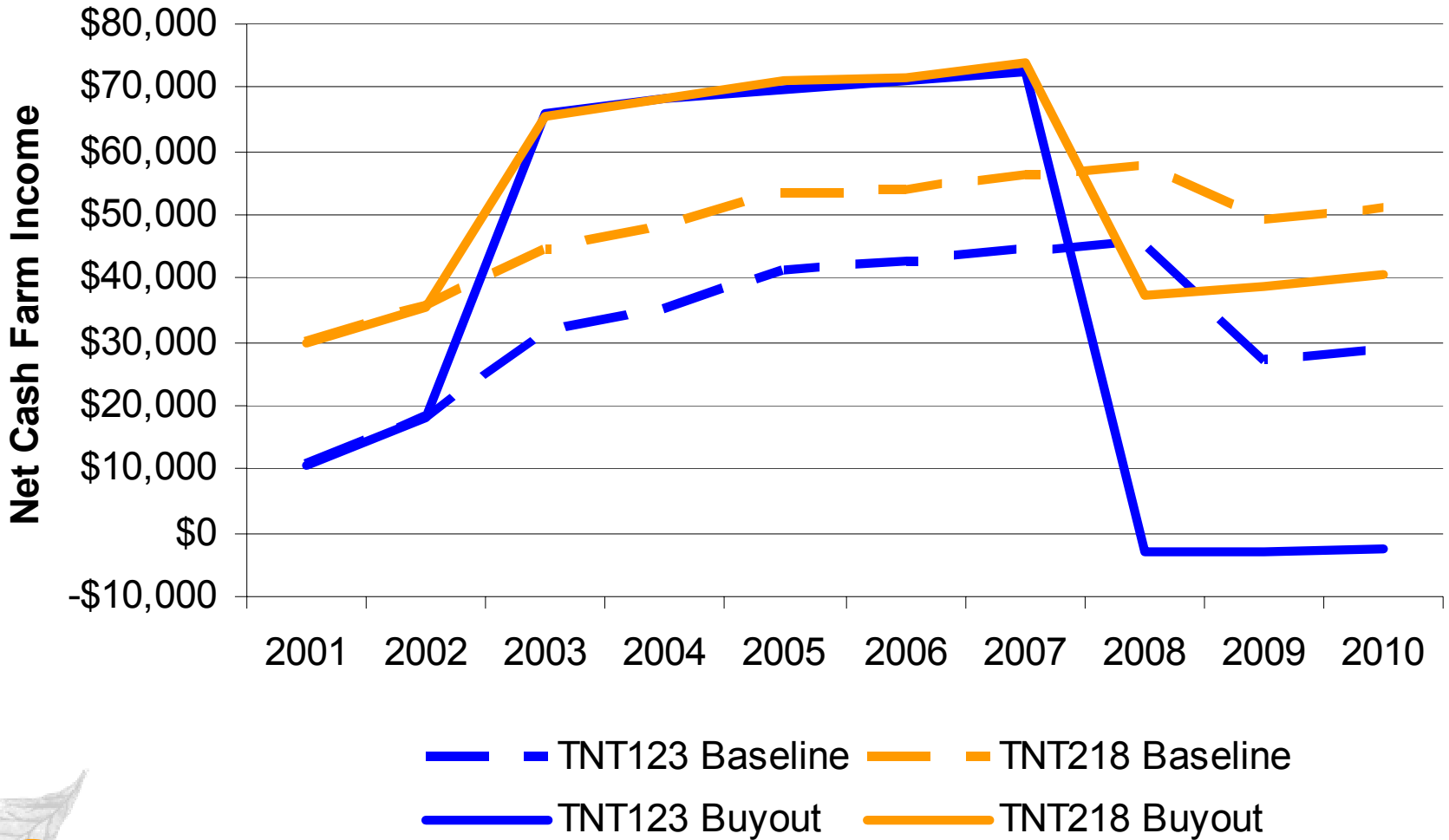


Rep. Farm Simulations: Buyout

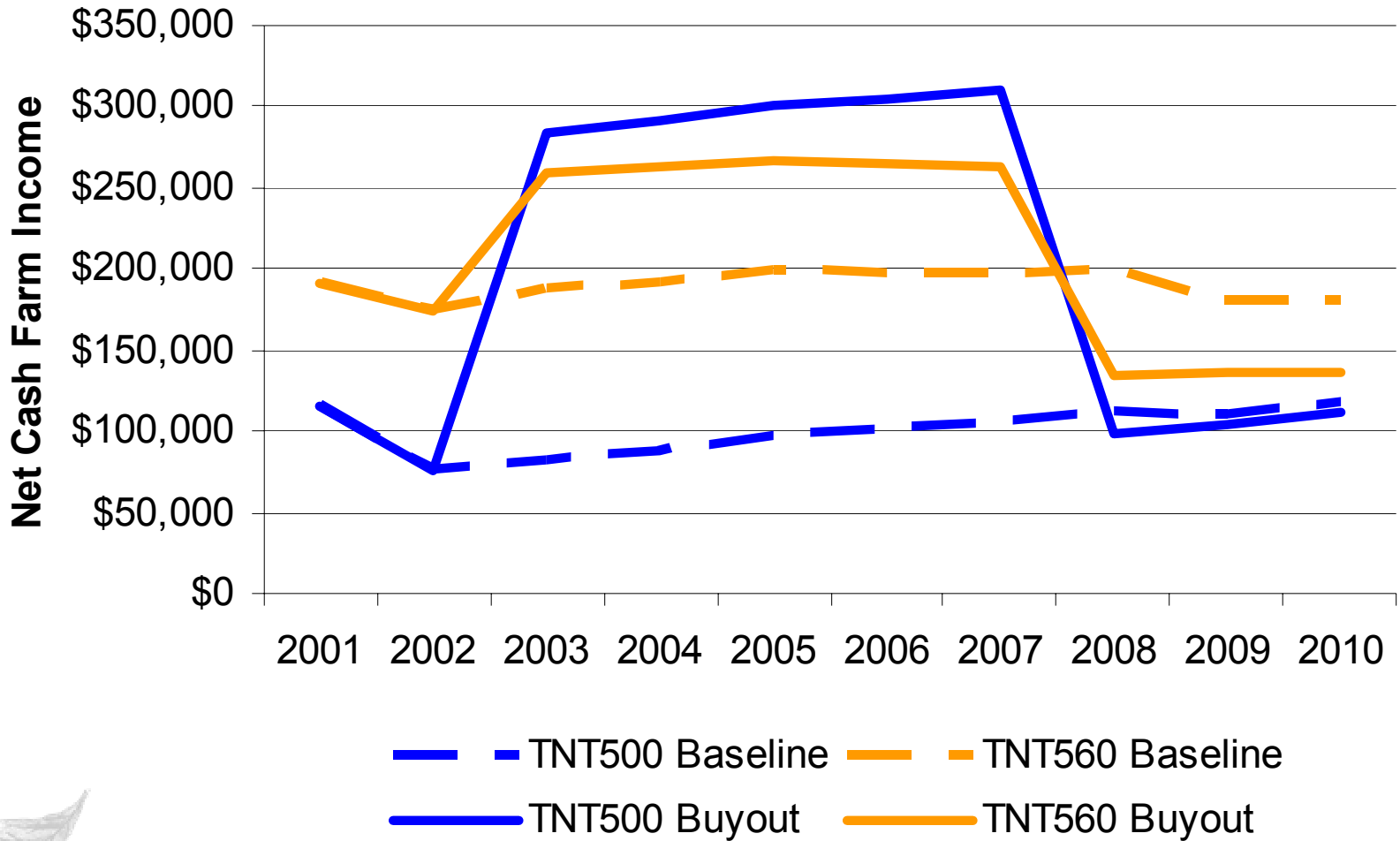
- Paid \$8/lb for average quota owned 1998-2000
- Paid \$4/lb for average quota grown in the 2001 marketing year
- Buyout begins in 2003, Phase II payments eliminated in 2003
- Modified program (licenses/permits) in place with minimum price support near cost of production
- Level of production remains unchanged
- Price declines \$0.50/lb



Representative Farm Simulations



Representative Farm Simulations



Buyout Considerations

- **Influence of peanut quota buyout and 2002 Farm Bill??**
- **Significant political challenges to passage remain**
- **Will benefit from a united front from many stakeholders**
- **Passage may require coupling with FDA authority??**
- **Projected to be very expensive**
- **Simulations show after the buyout period, two smaller farms not financially viable producing tobacco**



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