

Tobacco Quota Buyout Legislation: *Economic Impacts in the Southeast*

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Grower Support for a Buyout

- Even with grower settlement purchase commitments, outlook for U.S. leaf is not very optimistic
- Quotas supplies are tight
 - Burley and flue-cured quotas have fallen about 50% over five years
- Lower probability of TLAP, TOPP payments
- Lease prices unsustainable at current levels
- Contracting has further pressured the program



Grower Support for a Buyout

- Possibility of a buyout is the only thing that has kept some growers in production
- Growers are growing tired of buyout issue “hanging over” them
- Aging farm population
- Grower settlement increases buyout probability
 - Money set aside for quota buyout fund (lobbying)
 - One less distraction among key stakeholders



Current Buyout Status

- Pending bills are held over from last session
- Senate consensus bill and House consensus bill
- Buyout alternative was proposed in November omnibus spending bill attachment

Current Buyout Status - Senate

- S.1490 – Tobacco Market Transition Act of 2003
 - Introduced July 30, 2003 by Sen. McConnell
 - 12 co-sponsors from major tobacco states
 - Ready for the Senate floor
- FDA legislation pending in the HELP Committee
 - Expect quota buyout bill to be attached to FDA bill



Current Buyout Status - House

- H.R.3160 – Tobacco Reduction, Accountability, and Community Enhancement (TRACE) Act
 - Introduced by Reps. Fletcher and McIntyre Sept. 24
 - About 40 co-sponsors, mostly from tobacco states
- Markup in full House Ag Committee not yet scheduled
- No ties to FDA in the House



Key Elements of Buyout Legislation

- Eliminates the current federal tobacco price support and supply control (quota/allotment) program
- Compensates tobacco quota owners (as of July 1, 2002) for the elimination of the quota asset
- Makes payments to active tobacco growers
 - Eligible if you grew in 2000, 2001 or 2002
- Limits future production to traditional growing areas



Key Elements, cont'd

- Establishes Advisory/Quality/Production Boards
 - Membership is primarily tobacco growers and manufacturers
 - Addresses quality, marketing, production issues
- Creates a privately-funded price insurance pool
 - Safety-net level price
 - Encourages development of private products allowing producers to “buy-up” additional revenue insurance
- Buyout funded by assessments on tobacco manufacturers



S.1490 vs. H.R.3160: Key Differences

- Cost
 - Total cost of S.1490 about \$13 billion compared to about \$16 billion for H.R.3160
- Base levels for determining quota owner payments
 - Senate is $\$8/\text{lb} * 2002$ basic quota
 - House is $\$8/\text{lb} * 1997\text{-}2002$ average basic quota
 - Distribution is the same: owner's share of 2002 basic quota for that kind



S.1490 vs. H.R.3160: Key Differences

- Base levels for determining quota grower payments
 - Senate is \$4/lb * 2002 effective quota
 - House is \$4/lb * 1997-2002 average effective quota
 - Distribution is roughly the same: grower's share of 2000-2002 effective quota for that kind
- Governing boards
- Economic development and research funds



What Happened in 2003

- “Senate-first” strategy to get the buyout moving
- Senate buyout bill expected to be an amendment to an FDA bill
- FDA never moved in the HELP Committee
- House bill (without FDA) never gained momentum or support, especially outside tobacco states

Eligible Tobacco Types

- Flue-cured tobacco (types 11-14)
- Burley tobacco (type 31)
- Dark-fired tobacco (types 21-23)
- Dark air-cured tobacco (types 35-37)
- Cigar filler tobacco (types 42-44)
- Cigar binder tobacco (types 54-55)



Total Payments by Kind (H.R.3160)

H.R. 3160 (2004-2010)				
Type(s) / Kind	Quota Owner Payment <i>\$8/lb * 1997-2002 Basic Quota</i>	Grower Payment <i>\$4/lb * 1997-2002 Effective Quota</i>	Total Payments <i>Quota Owner + Grower Payments</i>	
11-14 Flue-Cured	\$5,506,266,667	\$2,768,133,333	\$8,274,400,000	
31 Burley	\$3,594,266,667	\$2,341,400,000	\$5,935,666,667	
22-23 Dark Fire-Cured	\$340,040,212	\$170,020,106	\$510,060,318	
35-36 Dark Air-Cured	\$102,727,144	\$51,363,572	\$154,090,716	
21 Virginia Fire-Cured	\$18,887,320	\$9,443,660	\$28,330,980	
37 Virginia Sun-Cured	\$1,131,255	\$565,628	\$1,696,883	
41-55 Cigar Filler & Binder	\$53,557,319	\$26,778,659	\$80,335,978	
ALL TOBACCOS	\$9,616,876,583	\$5,367,704,958	\$14,984,581,541	



Total Payments by Kind (S.1490)

Type(s) / Kind	S. 1490 (2004-2009)		
	Quota Owner Payment <i>\$8/lb * 2002 Basic Quota</i>	Grower Payment <i>\$4/lb * 2002 Effective Quota</i>	Total Payments <i>Quota Owner + Grower Payments</i>
11-14 Flue-Cured	\$4,656,000,000	\$2,181,200,000	\$6,837,200,000
31 Burley	\$2,593,600,000	\$1,376,000,000	\$3,969,600,000
22-23 Dark Fire-Cured	\$267,496,000	\$133,748,000	\$401,244,000
35-36 Dark Air-Cured	\$84,560,000	\$42,280,000	\$126,840,000
21 Virginia Fire-Cured	\$11,200,000	\$5,600,000	\$16,800,000
37 Virginia Sun-Cured	\$800,000	\$400,000	\$1,200,000
41-55 Cigar Filler & Binder	\$27,200,000	\$13,600,000	\$40,800,000
ALL TOBACCOS	\$7,640,856,000	\$3,752,828,000	\$11,393,684,000

Payments by State (H.R.3160)

State	Total Payments Over 7 Years		
	Quota Owner Payment	Quota Grower Payment	Total Buyout Payments
Georgia	\$579,955,578	\$316,565,300	\$896,520,878
Kentucky	\$2,724,420,766	\$1,583,551,871	\$4,307,972,637
North Carolina	\$3,734,538,746	\$1,974,896,434	\$5,709,435,180
South Carolina	\$686,864,192	\$356,199,208	\$1,043,063,400
Tennessee	\$801,522,284	\$580,755,898	\$1,382,278,182
Virginia	\$645,188,846	\$365,480,167	\$1,010,669,013

Payments by State (S.1490)

State	Total Payments Over 6 Years		
	Quota Owner Payment	Quota Grower Payment	Total Buyout Payments
Georgia	\$490,400,000	\$249,443,271	\$739,843,271
Kentucky	\$1,985,968,000	\$958,615,310	\$2,944,583,310
North Carolina	\$3,144,800,000	\$1,532,722,725	\$4,677,522,725
South Carolina	\$580,800,000	\$280,673,515	\$861,473,515
Tennessee	\$590,888,000	\$359,235,338	\$950,123,338
Virginia	\$524,000,000	\$264,761,986	\$788,761,986

Methodology

- Input-Output analysis using the IMPLAN model
- Infusion of buyout payments less unrealized Phase II payments
- Estimate statewide impacts
- Estimate change in total economic activity and total employment

Assumptions

- Used Census of Ag to estimate each state's distribution between small- and large-scale tobacco producers
- Total level of tobacco production remains constant after they buyout
- Farm-level decline in leaf price is offset by declining costs of production as lease costs are eliminated
- Assume no additional changes in the tobacco manufacturing sector



Description of Results

- Direct Impacts
 - Impacts that result from changes in the tobacco sector's economic activity
- Indirect Impacts
 - Impacts that result from changes in inter-industry purchases
- Induced Impacts
 - Impacts that result from changes in household income and spending

Description of Results

- Total Industry Output Impacts
 - The annual dollar value of the goods and services that the tobacco production sector produces
- Employment Impacts
 - The number of total wage and salary employees (full-time, part-time, self-employed)

State-Level Impacts (H.R.3160)

	Year 1			
	Total Buyout Payments	Unrealized Phase II Payments	Total Economic Activity Impact	Total Employment Impact
North Carolina	\$815,633,597	\$174,570,000	\$994,930,703	9,616
Kentucky	\$615,424,662	\$136,436,000	\$707,945,243	7,185
Tennessee	\$197,468,312	\$34,822,000	\$263,974,964	2,602
South Carolina	\$149,009,057	\$31,924,000	\$170,475,843	1,756
Virginia	\$144,381,288	\$30,268,000	\$180,584,278	1,712
Georgia	\$128,074,411	\$26,910,000	\$164,088,675	1,517

State-Level Impacts (S.1490)

	Year 1			
	Total Buyout Payments	Unrealized Phase II Payments	Total Economic Activity Impact	Total Employment Impact
North Carolina	\$916,345,511	\$174,570,000	\$1,151,235,593	11,127
Kentucky	\$576,933,971	\$136,436,000	\$651,056,001	6,607
Tennessee	\$185,534,226	\$34,822,000	\$244,605,943	2,411
South Carolina	\$168,786,284	\$31,924,000	\$199,271,486	2,053
Virginia	\$154,442,872	\$30,268,000	\$196,506,735	1,863
Georgia	\$144,850,613	\$26,910,000	\$191,299,675	1,769

Summary

- Outcome of tobacco quota buyout legislation is uncertain
- Alternative buyout funding sources and payout levels and bases are under discussion
- Passage of tobacco buyout legislation will require significant buy-in from non-tobacco states

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