



Current Tobacco Issues & Updates

Policy Update

September 25, 2000

The Federal Tobacco Program

- Tobacco marketing quotas have been cut by more than half over the last three years. Flue-cured tobacco quota fell to 543 million pounds in 2000 and burley tobacco quotas fell to 247 million pounds. Quota cuts are resulting from a number of factors including losses in the export market (both leaf and manufactured products), increasing use of imported tobacco in domestic cigarettes, reduced domestic consumption, and increasing stocks. Quotas are not expected to recover significantly in the foreseeable future. The graphs below show burley and flue-cured tobacco quotas over the last ten years and projections for the coming year. Tobacco grown in 2000 is expected to be down nearly one quarter over 1999 levels.

Figure 1 Burley Tobacco Basic and Effective Quotas, 1991-2000 and 2001 Estimated.

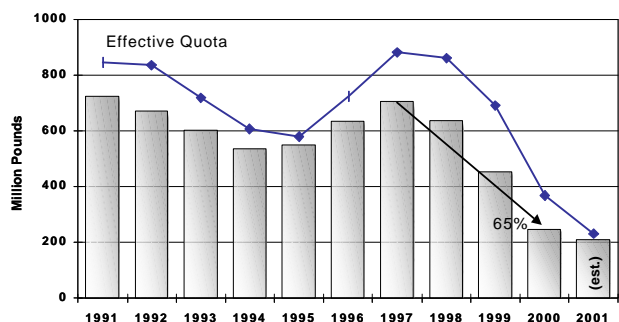
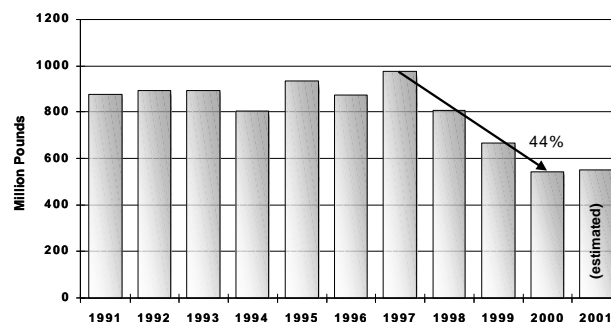


Figure 2 Flue-Cured Tobacco Basic Quotas, 1991-2000 and 2001 Estimated.



- A new *Presidential Commission on Creating Economic Opportunities for Communities Dependent on Tobacco and Protecting Public Health* was created September 22, 2000. The Commission will be co-chaired by Rod Kuegel, President of the Burley Tobacco Growers Cooperative Association and Matt Meyers, President of the Campaign for Tobacco-Free Kids. One of the first tasks undertaken by the Commission will likely be an investigation of a national buy-out of tobacco quotas. Kuegel has indicated that preservation of the tobacco program is a primary goal.
- Continuation of the federal tobacco program is determined by a referendum of growers. A referendum for the flue-cured program will be held in January 2001 and a referendum for the burley program will be held in February 2001.

Contracting

- A major cigarette manufacturing firm initiated a pilot contracting program in 2000. Contracts are generally marketing contracts, with a few production guidelines. Tobacco grown under contract is subject to marketing quota restrictions, but bypasses the traditional auction market. A number of questions are yet unanswered about the future of contractual arrangements in tobacco.

State Settlement Funding (MSA) for Agriculture

- ◆ A number of major tobacco producing states have designated a portion of their state's tobacco Master Settlement Agreement (MSA) funds toward assistance for tobacco growers, rural communities, and agricultural development. Half of the MSA funds in North Carolina will go to a tobacco foundation to provide assistance to tobacco-dependent communities and 25% of the funds are for a trust fund to benefit tobacco growers and allotment holders, as well as tobacco workers. Kentucky has designated 50% of settlement monies (\$180 million through 2002) for agriculture to be divided among state and county agriculture development projects and additional funds for shoring up Phase II payments. Virginia allocated 50% of all MSA payments to a Tobacco Indemnification and Community Revitalization Fund. Tennessee has designated 50% of their settlement funds this year to agriculture, though program specifics have not been determined. South Carolina and Georgia have allocated some MSA funds to rural and community development projects.

State Phase II Payments & Disaster Payments

- ◆ Tobacco-growing states are receiving Phase II settlement payments over the next 12 years as partial compensation for negative economic impacts of the MSA on tobacco growers and quota owners. Payments are expected to total near \$5 billion over twelve years. Individual states have developed various compensation programs based on dominant production/quota patterns. In North Carolina, South Carolina, and Virginia, payments are split 50/50 between flue-cured growers and quota owners. Kentucky has divided payments equally among the quota owner, grower/tenant of the quota, and growing farm. Tennessee has allocated 80% of the payments to tobacco growers and 20% to quota owners. Payments for burley in Virginia are split 75/25 between producers and quota owners while the split is 50/50 in North Carolina.
- ◆ Tobacco farmers have received \$328 million (October 1999) and \$340 million (July 2000) in federal assistance as compensation for reductions of tobacco quota or acreage. Flue-cured payments are divided equally between producers and quota owners and burley and dark-fired payments are divided equally among growers, quota owners, and those in control of quotas.

Biopharmaceutical Use

- ◆ A bright spot in the outlook for U.S. tobacco appears to be potential use of genetically engineered tobacco for pharmaceutical and other industrial uses. Current research focuses on developing commercial production capacity for proteins made in transgenic tobacco. A pilot production facility in Virginia is a positive development, although widespread commercial development is not expected in the very near future.

Harm Reduction Technologies

- ◆ Debate continues over the use of technologies to reduce tobacco-specific nitrosamines (TSNAs) in the curing process. Several major manufacturers will purchase only low-nitrosamine flue-cured tobacco this year. Technologies are being developed to reduce TSNAs in burley tobacco. Manufacturers and cooperatives have implemented cost-share or purchase programs for technology conversion.