

Tobacco Quota Buyout: Is It Will or Is It When?

The flies on the walls of every Co-op, drugstore, equipment dealer and other places farmers in the Southeast congregate are getting an earful these days about the prospects for a tobacco quota buyout. The majority of the tobacco policy questions being asked today are some variant of these two: (1) Is there really going to be a tobacco quota buyout? and (2) When?

With the help of APAC economist Dr. Kelly Tiller, I have used this space before to introduce you to some of the mounting challenges and uncertainties facing tobacco growers. Bottom line is that the amount of tobacco growers can market has been reduced by about half over the last few years, and it doesn't look like it will be returning to historical levels anytime soon. Many tobacco observers have concluded that the federal tobacco program is actually to blame for some of today's tobacco farmer hardships, justifying government intervention to "level the playing field." Enter discussion of a buyout. Actually, "buyout" is somewhat of a misnomer. Legislation introduced to date does include a "buyout", or compensation to tobacco quota owners for elimination of the quota asset they currently hold. But it also includes support for "transitioning" tobacco farmers from the current quota system to a new way of growing and marketing their crop.

Again drawing on Dr. Tiller's expertise, I'd like to update you on progress toward a tobacco quota buyout, especially focusing on what some of the important political considerations will be as the buyout issue moves forward in Congress.

Currently, there are five pieces of legislation on the table that all have some potential to shape the bill that may eventually come to be known as "the" tobacco buyout. All five bills share several elements in common. They all propose making payments to quota owners (\$8 per pound) and also to the person actually growing the quota (\$4 per pound), who may or may not also be the quota owner. They all are projected to cost between \$15 and \$19 billion over five years and all propose to pay for the buyout and related programs by imposing a user fee on tobacco manufacturers and importers.

In addition to differences in qualifications and bases for payments, the bills differ in two important ways: the future of the tobacco program and FDA regulation over manufactured tobacco products. Three of the bills propose replacing the federal tobacco program with a modified system of annual production permits with minimum price supports based on the costs of production while the other two bills eliminate the program altogether. The same two bills that eliminate the tobacco program also include provisions for FDA regulation of tobacco, although the public health community has not endorsed the FDA language included in these two bills.

But how realistic is it for tobacco growers to expect a tobacco quota buyout? And when might this windfall come about? Unfortunately, those are impossible questions to answer at this point. But because the answers depend in large part on politics, let's consider some of the political realities influencing the ultimate outcome.

First, time is short and the clock is ticking. There just aren't that many legislative days left in this session. Once

they return from August recess, Congress is scheduled to have about four weeks remaining. Now they don't always finish and recess as early as they are scheduled to, but there will be more pressure to finish on time this year since a lot of seats are up for grabs in the November election and they'll be anxious to get home to campaign. And in that short amount of time, a buyout faces a lot of still competition for attention. While it may even beat out NASCAR for discussion time at the Sunday dinner table in some households in the Southeast, the tobacco quota buyout is still in line behind a long list of things that are real hot button issues in Washington, especially just before big mid-term elections. Just to name a few pressing issues, it will compete with Homeland Security, a Medicare prescription benefit program, foreign policy decisions, and all of the Appropriations Bills that have to be passed by September 30. A lot of these other pressing issues are way ahead of a tobacco buyout in the political process. Currently, no hearings have been scheduled on the tobacco buyout issue.

If a tobacco buyout bill does manage to work its way to the top of the pile for consideration this term, there are still several political obstacles it will have to overcome. For starters, it will require a lot of support. Less than half of the 218 votes needed on the House side are from all of the tobacco states combined and at least 60 votes will be required on the Senate side. Somehow, a quota buyout will have to achieve a lot of buy-in support from representatives and senators from states that will (1) not directly benefit from any of the buyout money, and (2) essentially impose higher prices on their tobacco-consuming constituents. That's a tough sell, but that's where the ties between a tobacco quota buyout and FDA regulation over manufactured tobacco products make a significant difference.

While a tobacco quota buyout will be very expensive, the most likely source of funding is tobacco manufacturers, through a user fee that can be passed along to consumers of their products. While the user fee isn't welcomed by all of the tobacco manufacturers, it may be an easier political sell since taxpayer dollars are not involved. Also working in favor of moving a buyout forward is the recent inclusion of a peanut quota buyout in the 2002 Farm Bill. Election pressures may be strong in some key tobacco state seats, which may provide additional incentive for a quicker resolution of the issue.

But despite all the speculation and analysis, the fact remains that any buyout will have to be played out in a political arena. Once the discussion moves from the local hangouts to the halls of Washington, it could change drastically and it could change very quickly. And those flies on the walls-thinking they've become so highly educated about the buyout debate-may just get an education about politics as well.

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