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Summary and Comparison of the Major Agricultural Provisions of the Tobacco Settlement Policy Proposals

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Summary

The June 1997 proposed settlement between tobacco manufacturers and states' attorneys general stimulated a range of legislative proposals intended primarily to reduce smoking and other forms of tobacco use by teenagers. Over time, this should substantially lower the consumption of cigarettes and consequently the utilization of domestically grown leaf tobacco. Tobacco growers (of which there are about 124,000 in the nation, largely concentrated in six major producing states) anticipate a sizable decline in income if Congress adopts a tobacco bill. Some of the proposals that have been introduced in Congress include remedial assistance to address these concerns.

Since the 1930s, tobacco farms have grown and sold tobacco under a federal program that limits production and guarantees a price that is substantially higher than it would be otherwise. The production limiting feature of the program is the marketing quota. A farm can market no more tobacco than its quota. The farm assistance provisions in the tobacco bills use the tobacco quotas as the avenue for compensation. The widely differing legislative proposals range from a buyout and termination of the federal tobacco quotas to direct and offsetting payments for any future reduction in quotas. Additionally, some of the bills include money for economic development efforts in tobacco dependent communities.

Characteristics of Tobacco Farming [1]

The United States is second to China as the largest producer of tobacco in the world. North Carolina is the center of flue-cured production and Kentucky is the center of burley production. These two states originate 65% of total U.S. tobacco production. While some amount of tobacco is produced in another 14 states, Tennessee, Virginia, South Carolina, and Georgia produce 26%. Around 124,000 U.S. farms harvested 795,000 acres

[1] Data are from the U. S. Department of Agriculture and the 1992 Census of Agriculture.

in 1997, yielding about 1.646 billion pounds. The farm value of the total 1997 U.S. tobacco crop could be about $3.1 billion.

The high per acre cash receipts from tobacco sales (averaging nearly $3,900 in 1997) makes tobacco critical to the income of the growers and important to the economies of the major producing states. In recent years, tobacco has accounted for about 13% of the value of all farm commodities (crops and livestock) in North Carolina, and 23% in Kentucky.

U.S. farms that produce tobacco are small compared to national averages for all farms. According to the 1992 Census of Agriculture, they average 126 acres in total size, with 35 acres of cropland, of which about 7 acres are tobacco. In that year, tobacco farms averaged $23,000 in tobacco sales and $29,000 in total farm commodity sales.

The Federal Tobacco Program

The federal tobacco price support program, which began in the 1930s, is intended to keep farm prices for tobacco higher and more stable than they would be otherwise. This goal is accomplished through a combination of marketing quotas and nonrecourse tobacco price support loans.

The national marketing quota is the amount of tobacco judged sufficient to meet annual domestic and export demand, but at prices above the legally mandated 1998 support prices of $1.628/lb for flue-cured and $1.778/lb for burley. The effect is that the production of tobacco is held below what it would be otherwise. By restricting production, farm income is supported through artificially high market prices. Hence, buyers of tobacco (and ultimately the consumers) bear the cost of the price support program, rather than taxpayers. The farm value of tobacco in a pack of cigarettes is under 6 cents. In the absence of price support, the per pack cost of tobacco could drop about a penny.

In conjunction with marketing quotas, minimum selling prices are guaranteed to farmers through Commodity Credit Corporation (CCC) nonrecourse loans. At the auction sale barn, each lot of tobacco goes to the highest bidder, unless that bid does not exceed the government's loan price. If the bid is low, the farmer is paid the loan price by a price stabilization cooperative, with money borrowed as a nonrecourse loan from the CCC. The tobacco is consigned to the cooperative, which redrys, packs, and stores the tobacco as collateral for the borrowed money. The cooperative later sells the tobacco, with the proceeds going to repay CCC with interest. So, the loan program provides a financing mechanism to store tobacco for long periods of time in order to balance near-term supply with demand. Since 1982, the No-Net-Cost Tobacco Program Act has required that any losses of principal and interest be recovered through assessments on farmers and tobacco buyers.

The financial advantages of stable and high prices for tobacco have made tobacco quotas a valuable asset for the owners of land to which the quotas are assigned. Survey data from Kentucky put the past 5-year average lease rate at $0.42/lb. When farms were sold, tobacco quotas brought the owners on average an additional $1.87/lb above the price of land without any tobacco quota. (Compensating Farmers for the Tobacco Settlement, CRS Report 98-133.)

Summary of Major Agriculture Provisions

The following bills contain provisions to compensate or assist tobacco farmers and rural communities. The agricultural provisions are summarized, and selected bills are presented for side-by-side comparison.

S. 1310 (Ford) would provide assistance for 25 years to tobacco farmers, displaced industry workers, and tobacco-dependent communities in response to any adverse impacts caused by the settlement. For future reductions in tobacco quota from the 1994-96 average (the baseline), quota owners would be paid $4/lb per year, subject to a lifetime limit of $8/lb on the total quota base. Quota lessees would be paid $2/lb, subject to a lifetime limit of $4/lb on the quota base. Economic development block grants would be made to tobacco states, displaced tobacco industry workers would be eligible for special assistance, and higher education assistance would be targeted toward tobacco farm families.

S. 1313 (Lugar) would terminate the federal tobacco quota program in 1999 and phase out, over 3 years, the price-support loan program. In the absence of quotas, there would be no constraints on who could grow tobacco, where it could be grown, or how much could be marketed. As compensation for the loss of quota value, quota owners would be offered $8/lb, and quota lessees would be offered $1.20/lb. Tobacco-growing states would be given $300 million in block grant funds over 3 years for agricultural diversification and rural economic development programs.

S. 1343 (Lautenberg/H.R. 2764 (Hansen) This bill would allocate 25% of the proceeds of a cigarette excise tax increase of $1.50 per pack to protect the financial well-being of tobacco farmers and communities.

S. 1415 (McCain) (as brought to the Senate floor on May 18, 1998). Going into debate, the bill contained two competing farmer alternatives with a majority vote, which did not happen, intended to determine the outcome. One alternative would be similar to a combined S.1310 & S 1582. It would provide assistance for 25 years to tobacco farmers, displaced industry workers, and tobacco-dependent communities. For relinquishing all quota or for future reductions in quota from the 1995-97 average (the base quota), quota owners would be paid $4/lb per year, subject to a lifetime limit of $8/lb on the total base quota. Quota lessees also would be paid up to $4/lb. The burley program would continue largely unchanged. Flue-cured marketing permits (nontransferable) would replace quotas. Economic development block grants would be made to tobacco states, displaced tobacco industry workers would be eligible for special assistance, and higher education assistance would be targeted toward tobacco farm families. Total cost is estimated by the sponsor to be $28.5 billion. The other alternative (incorporating a modified version on S. 1313) would eliminate the quota program and phase out price support loans, but compensate quota holders at $8 per pound and lessees at $4.00. Another $1 billion would be distributed as community economic development block grants. Total cost is estimated by the sponsor to be $18 billion.

S. 1492 (Kennedy)/H.R. 3028 (DeLauro). Title IV includes unique provisions to assist farmers who would choose to stop growing tobacco, offering both owners and lessees $4/lb in return for giving up their quota.. The current quota and price support loan programs would continue unaltered for farmers who want to continue growing tobacco.

The bill includes community economic development block grant provisions that are very similar to S. 1310 (Ford). However, there is no special provision for assistance to displaced tobacco industry workers or higher education assistance to tobacco farm families.

S. 1530 (Hatch) Title VIII includes assistance to tobacco farmers, industry workers, and tobacco dependent communities. The farmer provisions are nearly identical to S. 1313 (Lugar). Tobacco quota owners would be offered $8/lb and tobacco lessees $1.20/lb as compensation for termination of the federal tobacco quota program and a three-year phase out of the federal price support loan program. The bill also includes assistance similar to S. 1310 (Ford), but at reduced levels of funding, to displaced tobacco industry workers, economic development grants for tobacco dependent communities, and higher education assistance for tobacco farm families.

S. 1582 (Robb) is an agricultural proposal that would replace the existing federally administered price support quota and loan provisions with a privatized alternative. Tobacco growers would receive annual nontransferable tobacco marketing licenses. Making licenses nontransferable would eliminate any rental or asset value, thereby lowering production costs (and the support price) an expected $0.40/lb. Current quota owners would be compensated at a rate of $8/lb for lost equity. Over 5 years, annual transition payments totaling $2.00/lb would be made to tobacco producers. The proposal includes annual economic development block grants of $250 million.

S. 1638 (Conrad). Title IV would authorize the expenditure of $10 billion for transition assistance to tobacco producers and tobacco-growing communities, including economic development assistance, assistance through retraining of tobacco producers and tobacco factory workers, or scholarships for tobacco producers. Details on how this money would be distributed are not specified.

H.R. 3474 (Fazio) is a comprehensive tobacco proposal. Title IV would establish a Tobacco Transition Trust Fund with $21 billion available over the first 10 years, and then be phased out by the end of 25 years. Expenditures would provide farmer transition payments, community economic development assistance, and training and educational assistance. Cigarette manufacturers would be required in future years to purchase as much domestic tobacco as their annual average purchases over the 1995-97 three-year period.

S. 1889 (Harkin) is a comprehensive tobacco proposal. Over the initial 15 years, Title V, according to the sponsor, would draw $13.5 billion from a Tobacco Farm Family and Community Assistance Trust Fund to assist tobacco-dependent farm families, workers, and communities. Specifically, the money would be used to: (A) compensate and provide transition assistance to farm families; (B) provide economic and transition assistance to workers and businesses (not including manufacturers); and (C) provide economic development assistance to tobacco dependent communities.

TOPIC	**S. 1415 (McCain) (As brought to the Senate floor May 18, 1998)**	
Short Title	Title X, Long-Term Economic Assistance for Farmers (LEAF) Act -- (Ford/Robb)	Title XV, Tobacco Transition Act -- (Lugar/McConnell)
Funding	Tobacco Community Revitalization Trust Fund of $28.5 billion. Monies come from settlement funds collected from tobacco manufacturers and importers. [Sec 1011-1012]	Tobacco Transition Account, within the National Tobacco Settlement Trust Fund, funding estimate is $18 billion. [Sec 1511, 1551]
Farmer compensation	Payments to quota owners (up to $8/lb) and tenants (up to $4/lb) for production losses from base levels (totaling no more than about $16.5 billion). Burley quotas continued. Flue-cured quotas replaced with nontransferable permits. [Sec 1024]	Quota owner buyout ($8/lb) and tenant compensation ($4/lb) (totaling about $17 billion with 100% participation). Mandatory end to quota program and 3-year phase out of price support loan program. [Sec 1512-5, 1531-2, 1541]
Other USDA tobacco activities	All costs for extension services, crop insurance, loan program administration, leaf grading and inspection, and other activities associated with tobacco production will be paid from Trust Fund (totaling about $2.5 billion). [Sec 1022]	All costs for extension services, crop insurance, loan program administration, leaf grading and inspection, and other activities associated with tobacco production will be paid from marketing assessments on purchasers.
Community & Worker Economic Assistance	•Annual economic development grants of $375-450 million for 25 years (totaling $11.1 billion). [Sec 1023] •Assistance for displaced industry workers (not more than $625 million). [Sec 1031] •Higher education grants for tobacco farm families ($1.44 billion). [Sec 1032]	Annual community economic development grants for 3 years (totaling $1 billion). [Sec 1521]
Liability Immunity	Farmers and warehouses immune to lack of manufacturer compliance. [Sec 1041]	Farms and warehouses immune to lack of manufacturer compliance. [Sec 1561]