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Tobacco Quota Buyout Proposals in the 108th Congress

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Summary

Tobacco farmers are actively seeking legislation to eliminate the current quota program and to compensate active producers and absentee quota owners for the lost value. The concept of a quota buyout is not new, but it gained political momentum after being endorsed in the final report of the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health, *Tobacco at a Crossroads, A Call for Action* (May 14, 2001), and by the leading U.S. cigarette manufacturer, Philip Morris. Several quota bills were introduced in the 107th Congress without subsequent legislative action. Supporters of a buyout and legislative sponsors again have put the proposal on the legislative agenda this 108th Congress by introducing several differing bills.

Eventually, H.R. 3160 (Fletcher, McIntyre, Goode; September 24, 2003) was introduced as a bipartisan consensus bill, closely matching S. 1490 (McConnell; July 30, 2003). These two bills would eliminate tobacco quotas and the price support loan program. As compensation, quota owners (including absentee owners) and active producers would be given lump sum payments. Active producers would be given $8 per pound for the quota they owned in 2002 plus $4 per pound for the quantity of tobacco they were allowed to produce. Most producers are allowed to grow more than their quota because they lease quota from other landlords. The absentee landlords also would be paid $8 per pound for the quota they owned in 2002.

The source of funding for both bills is the same, an assessment on the manufacturers and importers of tobacco products. The fact that the tobacco product industry, and not the federal government, will bear the roughly $15 billion financial burden of this buyout initiative eliminates any adverse federal budget impact. Manufacturers are expected to cover their costs through higher prices and/or reduced profits. Remaining Phase II payments count toward the manufacturers' buyout obligations.

The tobacco quota buyout, according to the bill sponsors and other participants in the policymaking process, will be accompanied by new legal authority for the Food and Drug Administration (FDA) to regulate tobacco products. This FDA authority is on a separate legislative track, but the two differing policy objectives are linked together and are viewed as a combined initiative by the tobacco industry and participating health advocates. Proposed FDA authority is contained in identical bills in the House and Senate (H.R. 4433, Davis-Waxman; and S. 2461, DeWine-Kennedy)

Many of the cosponsors of the so-called consensus proposal subsequently signed on to H.R. 4033 (Jenkins; March 25, 2004). This bill provides lower quota buyout and transition payment rates, is funded out of current tobacco excise tax revenues, and does not contain (or anticipate linkage to) FDA regulatory authority. This bill is incorporated as Title VII in H.R. 4520, a tax bill called the American Jobs Creation Act of 2004.

This report will be updated as warranted by legislative developments.

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Several bills have been introduced in the 108th Congress that propose to eliminate tobacco marketing quotas and compensate the owners for the loss of asset value associated with quotas. Also, the bills would make "transition payments" to active producers.[1] This report presents a side-by-side comparison of some of these so-called tobacco quota buyout bills.[2]

One basis for comparison is the total amount of money paid to farmers and the source of funds. However, the bills involve more than the transfer of money. The design of future tobacco production and marketing policy in each bill has important consequences for farmers, communities, and the nation. Some proposals would eliminate quotas. Others would replace quotas with production licenses or permits for only active producers, thereby eliminating quota rents. Also, there is the question of whether some level of domestic tobacco price support is to be continued or eliminated.

To compare the bills in the context of public policy, it is helpful to examine them against a set of objectives framed around the question: What should a quota buyout program seek to accomplish? General agreement does not exist on this question. Different interest groups seeking legislation have different objectives.

Quota owners argue that they should be compensated for federal policies that discourage consumption of tobacco products and diminish their ability to earn a livelihood. Producers leasing a large amount of quota from absentee owners want to see their costs of production decline by granting them sole production rights and prohibiting absentee quota ownership. Farmers who do not have quota argue that they should not be prohibited, as is now the case, from growing tobacco. Also, there are some public health advocates that see the quota program as a desirable constraint on U.S. tobacco production. The cost of these proposals is important, especially to the manufactures if they are the ones to pay. Finally, most involved parties anticipate or are working toward the goal of linking quota buyout authority with new authority

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[1] Numerous terms in this report are unique to agriculture and the tobacco price support program. For help with terminology see CRS Report 97-905, *Agriculture: A Glossary of Terms, Programs, and Laws*.

[2] The idea of a quota buyout is not new. Two differing buyout proposals were contained in S. 1415 in the 106th Congress. The bill, largely related to regulation of tobacco products, was debated on the Senate floor but never reached a vote. Also, the 2002 farm bill (P.L. 107-171, Sec. 1309) included peanut quota buyout provisions as part of the redesign of support for that commodity.

for the Food and Drug Administration to regulate tobacco products. The linkage is seen as political necessity to broaden support for both efforts.

Design and Impact of Marketing Quotas

The federal tobacco support program works through a combination of commodity price support loans and marketing quotas. The price support loans guarantee farmers minimum set prices for tobacco (the 2004 loan prices for the two principal types, flue-cured and burley, are $1.69 and $1.873/lb. respectively). These prices are mandated by a formula in the law.[3] Marketing quotas, which specify the maximum quantity of tobacco that can be sold, are assigned by the U.S. Department of Agriculture (USDA) each year to farms that have a history of tobacco production. The purpose of quotas is to limit supplies in order to force buyers to pay the loan prices or more (the 2004 national basic quotas for flue-cured and burley are 471.3 million pounds and 302.1 million pounds respectively). Together, the combination of guaranteed minimum prices and managed supply is designed to create a stable market for farmers and tobacco product manufacturers. Also, the pattern of assigning quotas to farmland with a history of quotas confines production to the traditional growing regions and farms. This system of support has operated since the 1930s and is authorized in permanent law (7 U.S.C. 1311 *et seq.*). (See CRS Report 95-129, *Tobacco Price Support: An Overview of the Program*.)

The economic stability that was desired and expected from the tobacco support program has not been achieved. First, the support prices for U.S. tobacco, as mandated by law, long have been higher than prices for competing tobacco in world markets. As a consequence, U.S. farmers steadily have been losing both export and domestic markets to foreign producers. The declines are pictured in Figures 1 and 2 (based on USDA data). Second, tobacco support prices long have been higher than the costs of production. This has created economic profits that are capitalized into the marketing quotas. So, marketing quotas are an asset that now adds substantial value to farmland, and they are a source of rental income for owners choosing not to grow tobacco themselves. Conversely, rent on quotas has become a sizable expense for active producers renting quota in an attempt to expand or even maintain output in the face of shrinking markets.

[3] The law (7 U.S.C. 1445) specifies that each year's support price be based on the five-year moving average of auction prices and the change in the annual index of tobacco producer costs of production.

Figure 1. U.S. Share of World Tobacco Exports

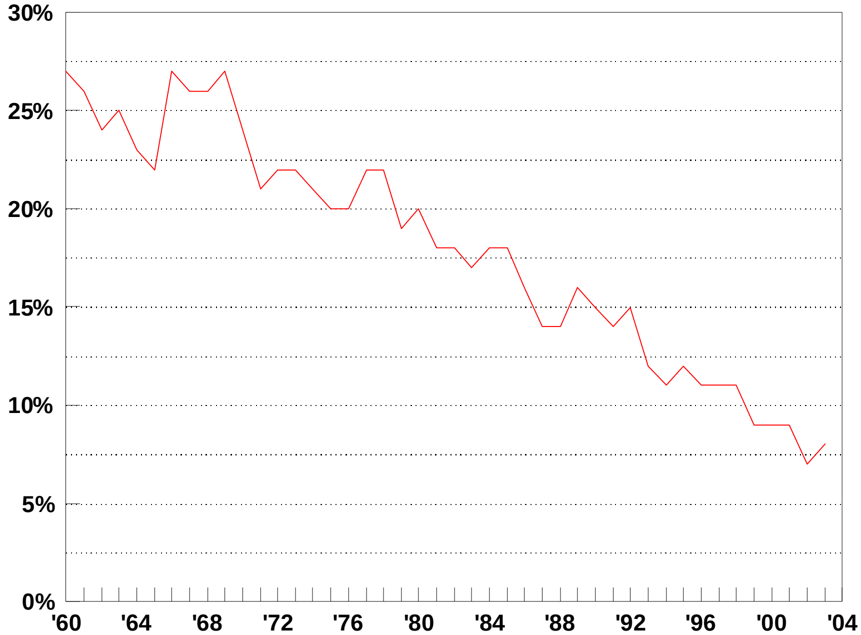
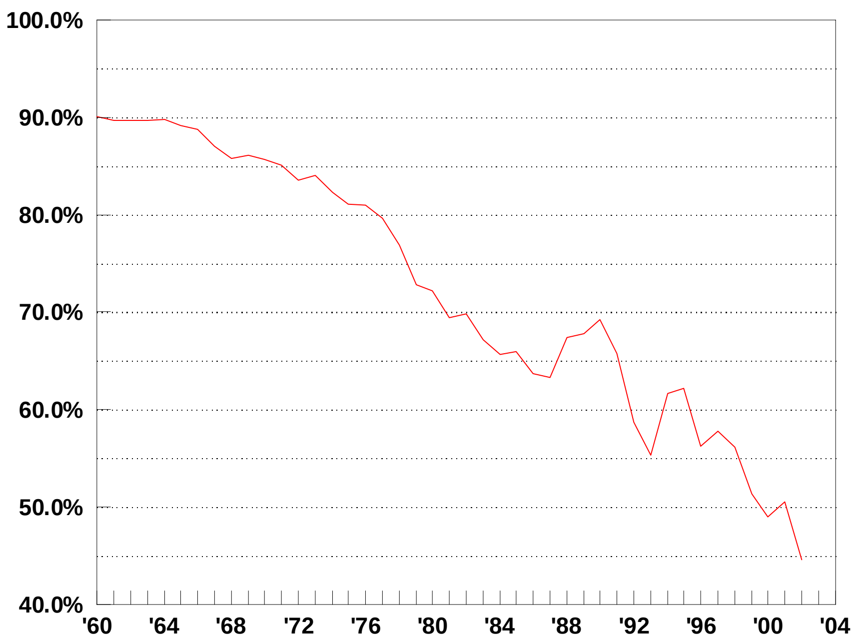


Figure 2. Share of U.S. Tobacco in U.S. Cigarettes



As with other crops, the number of active tobacco producers has declined over time and production has become concentrated onto fewer but larger farms. In 1982 there were about 180,000 farms producing tobacco. By 2002, just 20 years later, the number of active producers was about 57,000.[4] Most of these active tobacco farmers own some marketing quota themselves and also rent quota from about 360,000 other absentee quota owners.[5] In the mid-1990s, burley producers owned about 44% of their effective quota and leased the remaining 56% at an average cost of $0.33/lb. Lease and transfer of quota has been prohibited for flue-cured tobacco since 1986. Instead, active flue-cured producers rent farmland that has quota attached to it, thereby obtaining the tobacco production rights. In the mid-1990s, flue-cured producers owned about 33% of their effective quota and rented the remaining 67% at an average cost of $0.37/lb.[6] Since these data were developed, there likely has been more renting of quota and newer USDA cost of production data put the average rental cost of quota in 2001 at $0.59/lb. for flue-cured and $0.52/lb. for burley.[7]

One reason for increased consolidation and higher quota rental fees is the sharp decline in quota levels in recent years, as shown in Figure 3 and Table 1. The decline is the response to the reversal of previously rapidly growing export markets for U.S.-manufactured cigarettes. The basic quotas for flue-cured and burley tobacco declined 52% and 57% respectively since 1997. Farmers need to market enough tobacco to maintain their revenue and to economically utilize their barns, equipment, and labor. This may require renting more quota. Along with these economic pressures to consolidate, several sources of financial aid have made it possible for farmers to offer higher rental rates for quota.

First, in conjunction with Phase II of the 1998 Master Settlement Agreement, cigarette manufacturers agreed to distribute $5.15 billion to tobacco producers and quota owners over a 12-year period.[8] Second, to help offset decreases in marketing quotas, Congress acted to provide assistance. Four separate emergency assistance laws (P.L. 106-78, P.L. 106-224, P.L. 107-25, P.L. 108-7) included what the industry calls direct "tobacco loss payments" totaling $860 million. Third, Congress directed the Commodity Credit Corporation (CCC) to take ownership of all 1999 tobacco

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[4] U.S. Census of Agriculture, 2002.

[5] President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health, Tobacco at a Crossroads, A Call for Action, May 14, 2001.

[6] Data are from Linda F. Foreman, Tobacco Farmers' Ownership and Rental of Tobacco Quota, in *Tobacco Situation and Outlook Report*, Economic Research Service, U.S. Department of Agriculture, September 2001.

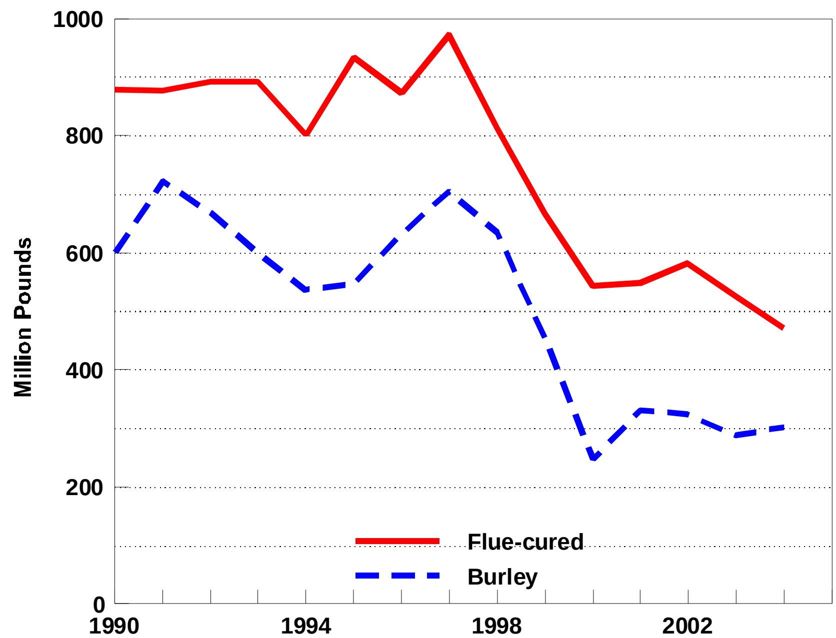
[7] Linda F. Foreman, Tobacco 2001 Production Costs and Returns and Recent Changes That Influence Costs, TBS-2002-01, Economic Research Service, U.S. Department of Agriculture, February 2003.

[8] In 1998, cigarette manufacturers agreed to pay states $206 billion over 25 years to settle a lawsuit brought by a number of states' attorney generals. This Master Settlement Agreement included no monies specifically dedicated to farmers. Subsequently and separately, manufacturers agreed on payments to tobacco-producing states specifically for farmers, called Phase II payments.

pledged as price support loan collateral and to assume all financial losses (P.L. 106-387, as amended). CCC finally completed disposal of this inventory in December 2003 by burying it in landfills. According to CCC data, the total cost of acquisition, interest on principal, storage, and disposal was about $625 million.

These three sources of financial assistance, rather than income from the sale of tobacco, are the primary reason active producers are able to pay higher rental rates to absentee quota owners as they bid against each other for their share of a declining national tobacco quota. (See CRS Report RS20802, *Tobacco Farmer Assistance*.)

Figure 3. Flue-Cured and Burley Basic Quota



Why a Quota Buyout

Make Tobacco Production Profitable for Active Producers

Active tobacco producers are being hurt financially both by declining marketing quotas, which reduce their sales revenue, and higher quota rental rates, which raise their production costs. Farmers feel there is little they can do to increase the demand for tobacco, especially since it is federal policy to discourage consumption of tobacco products. However, the elimination of quota rents, through a buyout of marketing quotas, could reduce the costs of production substantially for farmers now leasing in substantial amounts of quota. At the same time, producers could continue to receive the price benefit of a continuing support program.

Advocates of this policy approach (H.R. 245, Fletcher; H.R. 986, Goode) would require active producers to have marketing licenses (or permits) that specify quantity limits, just as with marketing quotas now. However, the licenses would be issued only to active producers and all forms of rent would be prohibited. This restriction is intended to prevent the licenses from acquiring any exchangeable value. The initial recipients of the licenses would be current tobacco producers wanting to continue as active growers.

Active producers, not just absentee landlords, also would receive quota buyout payments under all of the legislative proposals that have been offered so far. This would provide the farmers who want to quit growing tobacco with sizable benefits. The farmers who remain active producers under the license scheme receive a windfall from their buyout payment since they would have suffered no losses (they would continue to get the extra income created by licenses and price support).

This framework for a quota buyout, of licensed future production and continued price support, is the proposal that was developed by the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health.[9] This Commission included advocates for tobacco farmers, antismoking and health organizations, and rural community development proponents. H.R. 245 and H.R. 986 largely are modeled on the Commission's recommendations.

Make U.S. Tobacco Price Competitive

There is little disagreement that U.S. tobacco would become substantially more competitive in the domestic as well as export markets if prices declined by the amount now paid in quota rents. Such a price reduction would happen if tobacco support program loan rates were reduced substantially or eliminated. The quota rent now paid to absentee landlords would vanish. The decline in revenue from lower tobacco prices largely would be offset by the elimination of quota rent payments, leaving the producer in about the same net revenue situation. In fact, a North Carolina agricultural economist estimates that in the absence of the price support program, U.S. tobacco production could increase by possibly 50%.[10]

At the same time, the economic analysis notes there would be substantial adjustment costs associated with dropping support prices to free market levels or eliminating the program. Most immediately, the value now in quotas would be wiped out. This would eliminate the rental income of absentee quota owners. Furthermore, all of the farmland with quota, whether owned by absentee landlords or active producers, would drop in value. However, the economic adjustments associated with a reduction in tobacco prices could be minimized, if not eliminated, by compensating quota owners for lost asset values.

This "free market" policy approach (H.R. 140, McIntyre; H.R. 4033, Jenkins) could be most appealing to active producers who want to see an expansion of their tobacco enterprises. These producers likely have a sizable investment in barns and

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[9] The Commission's final report is *Tobacco at a Crossroads: A Call for Action*, May 2001.

[10] A. Blake Brown, *Implications of Elimination of the US Flue-Cured Tobacco Program*, Department of Agricultural and Resource Economics, North Carolina State University, September 18, 1997.

machinery, and probably rent a large proportion of their annual marketing quota. This option may be equally appealing to farmers intending to exit from tobacco production. The farmers most disadvantaged would be small to medium sized operations and those that are inefficient because of high costs or low yields who want to continue growing tobacco.

As compared to a system of licensed producers, this "free market" option would result in fewer but larger farms because of economies of size. Also, production likely would move within each of the tobacco states to the geographic locations with the most suitable soils and climate for economical production. The very fact that production could increase substantially makes the "free market" option unappealing to antismoking and health advocates.

Somewhere between the Commission concept of production licenses with continued price support and the free market proposal, S. 1490 (McConnell) would eliminate quotas and price support but allocate a national crop acreage base among active producers. Should supplies become excessive an acreage limitation program would require reductions in planting. This acreage reduction concept was used in conjunction with the support programs for grains and cotton before being eliminated by the 1996 farm bill.

H.R. 3160 was introduced as a bipartisan consensus proposal by Fletcher, McIntyre, and Goode. This bill is similar to the McConnell bill in most respects. One major variation is a different basis for calculating the amount of money paid to quota owners and active producers. Under S. 1490 these payments would total about $11 billion, compared to about $15 billion under H.R. 3160. However, S. 1490 includes some community development assistance that is not present in H.R. 3160.

Paying for a Quota Buyout

The value of tobacco marketing quota depends on several factors, including expectations about the future. Quota owners do know how much rent they currently earn from active producers. What they do not know is how long the tobacco program will continue to operate, or the size of the national marketing quotas in future years.

Survey data from Kentucky reveal that the average sale price of marketing quotas was $2.58/lb. in 2001 (when lease rates averaged $0.62/lb.), and $2.08/lb. in 2000 (when lease rates averaged $0.58/lb.), and $1.75 in 1999 (when lease rates averaged $0.40/lb.).[11] One would expect to get much higher sale prices with annual rents of these magnitudes. These sale prices compared to lease rates imply a time horizon of about five years, based upon a 5% interest rate. In other words, buyers are discounting the purchase price of quota relative to annual rent in anticipation of future quota reductions or elimination of the program.

[11] Will Snell, *Burley Quota Lease and Sales Survey Results*, University of Kentucky, August 2001.

Most quota buyout proposals would pay owners $8/lb. This payment is equal to the present value of annual rental income of $0.40/lb. in perpetuity at an interest rate of 5%. The buyout price of $8/lb. is a much higher price than sellers of quota are getting in the marketplace. Also, the current proposals offer to pay active producers an additional $4/lb. for all production on the farm. The payment to producers typically is described as a "transition payment."

A buyout program that pays $8/lb. to quota owners plus $4/lb. to active producers ends up paying $12/lb. for each pound of quota that qualifies for the program. Depending on the crop years used to calculate payments and some assumptions about participation levels, a rough and unofficial estimate of the buyout and transition payments range from about $11 to $19 billion. It is proposed that this money be paid to quota owners and active producers over a five-year period. How much would a typical tobacco farmer receive?

- The average North Carolina tobacco farmer harvested about 27 acres in 1997, producing about 54,000 pounds. Buying out this average North Carolina producer who owns 33% of the quota and rents 67% would cost $358,560 ($142,560 in quota payments and $216,000 in transition payments).
- In South Carolina the average tobacco farmer harvested 43 acres in 1997, bringing in about 86,000 pounds. Buying out this average South Carolina producer who owns 33% of the quota and rents 67% would cost $571,040 ($227,040 in quota payments and $344,000 in transition payments).
- Kentucky tobacco farms averaged 6 acres, producing about 12,000 pounds. Buying out this average Kentucky producer who owns 44% of the quota and rents 56% would cost $138,240 ($42,240 in quota payments and $96,000 in transition payments).

The President's Commission recommended that federal excise taxes on cigarettes and other tobacco products serve as the source of revenue for the proposed buyout (estimated at $0.17 per pack on cigarettes for five years). All of the legislative proposals described in this report include an assessment on manufacturers and importers of tobacco products, or the use of Treasury funds, rather than an increase in excise taxes on cigarettes.

Certainly, manufacturers could benefit from a buyout if the support price for tobacco were reduced. One tobacco manufacturer, Philip Morris, has stated its willingness to help pay for a tobacco buyout program. If U.S. manufacturers could save $0.60/lb. on their 2004 purchase intentions of about 450 million pounds, the savings would amount to $270 million. Additional savings would accrue if a drop in the price of U.S. tobacco pushed down the price of foreign supplies. Additionally, overseas operations also would save on the lower prices for both US. leaf and foreign leaf. One tobacco analyst estimates it would take about 14 years for manufacturers to recover the cost of a $15 billion quota buyout program.[12] Philip Morris [13] has

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[12] USDA economist Bob Tarczy offered this estimate in his presentation on "Potential (continued...)

coupled its offer to participate in a buyout with a proposal for Food and Drug Administration (FDA) regulation of tobacco products. Health groups also advocate FDA regulation.[14] At this time Philip Morris is the only major manufacturer known to support FDA regulation or a quota buyout. (See identical bills H.R. 4433 and S. 2461).

Whether the various interest groups involved in the debate over a tobacco quota buyout (particularly tobacco farmers, health organizations, and tobacco manufacturers) can reach agreement is uncertain. The uncertainty of creating such a broad coalition encouraged sponsors of the latest bill, H.R. 4033 (Jenkins; March 25, 2004), to seek about $9.6 billion in funding out of existing tobacco excise tax revenues, rather than from assessments on manufacturers, and to avoid any linkage to FDA regulatory authority. The bill is cosponsored by most supporters of the so-called House consensus bill. This bill provides $1/lb. lower quota buyout and transition payment rates ($7/lb. and $3/lb. respectively). In contrast to other proposals, Phase II payments to growers continue and provide an additional benefit of about $3 billion. The Jenkins bill also is included as Title VII in H.R. 4520, a tax bill called the American Jobs Creation Act of 2004.

Table 1. National Quota Levels and Actual Marketings of Flue-Cured and Burley Tobacco, 1990-2004

	Flue-cured, types 11-14			Burley, type 31			Flue-cured and Burley		
Crop Year	Basic Quota	Effective Quota	Actual Mktings	Basic Quota	Effective Quota	Actual Mktings	Basic Quota	Effective Quota	Actual Mktings
	Million Pounds								
1990	877.7	936.1	920.2	601.3	741.2	592.2	1,479.0	1,677.3	1,512.4
1991	877.6	891.5	882.5	724.1	846.1	657.0	1,601.7	1,737.6	1,539.5
1992	891.8	899.0	901.0	668.5	835.6	699.8	1,560.3	1,734.6	1,600.8
1993	892.0	889.6	891.7	601.9	717.9	626.6	1,493.9	1,607.5	1,518.3
1994	802.6	798.5	806.8	536.3	605.9	568.0	1,338.9	1,404.4	1,374.8
1995	934.6	924.9	854.2	546.5	577.9	480.4	1,481.1	1,502.8	1,334.6
1996	873.6	943.6	896.7	631.3	719.8	516.3	1,504.9	1,663.4	1,413.0
1997	973.8	1,019.8	1,013.5	704.5	879.8	628.8	1,678.3	1,899.6	1,642.3
1998	814.3	819.6	815.2	635.4	867.5	588.7	1,449.7	1,687.1	1,403.9
1999	667.7	671.5	645.0	452.6	690.1	551.2	1,120.3	1,361.6	1,196.2
2000	543.0	553.0	562.9	247.0	361.9	315.4	790.0	914.9	878.3
2001	548.9	543.0	544.4	332.0	368.8	343.7	880.9	911.8	888.1
2002	582.0	545.3	564.8	324.2	344.0	299.8	906.2	889.3	864.6
2003	526.3	540.0	508	287.8	320.2	290	814.1	860.2	798.0
2004	471.3	501.3	na	302.1	330.9	na	773.4	832.2	na

Source: Data are from Economic Research Service, *Tobacco Outlook*, Dec. 2003, and the Farm Service Agency.

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[12] (...continued)
Financial Impact of a Buyout" at the 41st Tobacco Workers' Conference, January 22, 2004, Nashville, TN.

[13] PM USA's *Fundamental Principles of a Tobacco Quota Buyout* and *FDA & Tobacco* are posted on the internet at [http://www.philipmorrisusa.com/home.asp].

[14] The summary of the joint views of several health groups is available at [http://www.tobaccofreekids.org/research/factsheets/pdf/0181.pdf].

Table 2. Comparison of Selected Tobacco Quota Buyout Proposals in the 108th Congress

S. 1490 (McConnell)	**H.R. 3160** (Fletcher, McIntyre, Goode)	**H.R. 4033** (Jenkins)
Tobacco Market Transition Act (TMTA) of 2003	Tobacco Reduction, Accountability, and Community Enhancement (TRACE) Act of 2003	Fair and Equitable Tobacco Reform Act of 2004
FDA Regulation None	None	None
Total Payments and Other Spending Total payments to quota owners and producers are about $11 billion, including Phase II payments. Additional spending of about $2 billion for community assistance, research, administration, and stability programs. (CRS estimates).	Total payments to quota owners and producers are about $15 billion, including Phase II payments. (CRS estimate). Additional spending of about $700 million (sponsor's estimate) for research, administration, and market stability program.	Total payments to quota owners and producers are about $9.6 billion. Phase II payments continue and provide additionally about $3 over other bills. (CRS estimates). There is no additional spending for community assistance or other activities.
Funding Sources Payments to quota owners and active producers are to be made from a Tobacco Trust Fund. Money comes from annual assessments on product manufacturers and importers. Cigarette manufactures pay 98.3%. [Sec. 201 (380S)]	Payments to quota owners and active producers, and other expenses, are to be made from a Tobacco Trust Fund created in the CCC. Money comes from quarterly assessments on product manufacturers and importers. Cigarettes pay 98.303%. [Sec. 5 (380S)]	Funds to make payments are drawn from the general fund of the Treasury, but not to exceed the revenues coming into the Treasury from excise taxes on tobacco products. [Sec. 206]
Payment Timing Payments to quota owners and producers are to be made in six declining annual installments from 2004 through 2009. [Sec. 201 (380B and 380C)]	Payments to quota owners and producers are to be made in seven equal annual installments from 2004 through 2010. [Sec. 201 (380B and 380C)]	Payments to quota owners and producers are to be made in five equal annual installments from FY2005 through FY2009. [Sec. 202(e) and 203(d)]

S. 1490 (McConnell)	**H.R. 3160** (Fletcher, McIntyre, Goode)	**H.R. 4033** (Jenkins)
Quota Owner Payments Quota owners as of July 1, 2002, are to be paid $8/lb. on basic quota levels for marketing year 2002, divided into 6 annual per pound rates of $1.60, $1.50, $1.40, $1.30, $1.20, and $1.00. [Sec. 201 (380B)]	Quota owners as of July 1, 2002, are to be paid in proportion to their 2002 basic quota. Total amount available for payments is $8/lb. times the average basic quota level over marketing years 1997 through 2002. [Sec. 5 (380B)]	Quota owners as of the day before enactment of this bill are to be paid in proportion to their 2002 basic quota. Total amount available for payments is $7/lb. times the total basic quota for the 2002 marketing year. [Sec. 201(3) and Sec. 202 (e)]
Active Producer Payments Traditional producers, who raised tobacco in 2000, 2001, or 2002, are to be paid $4/lb. on effective quota for marketing year 2002, divided into 6 annual per pound rates of 75¢, 75¢, 70¢, 65¢, 60¢, and 55¢. Payments are reduced by 1/3 for each year tobacco was not grown by the producer. [Sec. 201 (380C)] Funds totaling $4/lb. times 1998 quota levels are to be divided among all producers who were active in 2002. [Sec. 103(c)] Each producer is to be paid proportionally based upon the average of the effective and basic quotas for 2001 and 2002. [Sec. 103(d)] (Estimated cost = $5.8 billion.) Exiting producers are paid an additional $2/lb. [Sec. 103(e)] (CRS-estimated payments = $1.8 billion. Calculation assumes 60% participation.)	Traditional producers, who raised tobacco in 2000, 2001, or 2002, are to be paid on their annual average effective quota for those years. The total amount available for payments is $4 times the average effective quota for 1997 through 2002. [Sec. 5 (380C)]	Farmers as of the day before enactment of this bill who shared in the risk of production and were actively engaged in producing tobacco are to be paid in proportion to actual marketings or quantity considered planted in the 2002 marketing year. Total amount available for payments is $3/lb. times the total marketings in the 2002 marketing year. [201(1) and 203(d)]

S. 1490 (McConnell)	**H.R. 3160** (Fletcher, McIntyre, Goode)	**H.R. 4033** (Jenkins)
Quotas and Licenses Marketing quotas and acreage allotments are terminated. [Sec. 101] In future years, a national base acreage is established for each kind of tobacco and divided among active producers. [Sec. 201 (380I)] Marketing quotas and acreage allotments are eliminated. Production licenses are established as a new mechanism for limiting domestic production to the level that does not exceed domestic and export demand. [Sec. 301-307]	Marketing quotas and acreage allotments are terminated. [Sec. 2] In future years, a national poundage base is established for each kind of tobacco and divided among active producers in traditional tobacco counties. [Sec. 5 (380I)]	Marketing quotas and acreage allotments are terminated. [Sec. 101] There are no restrictions on who can produce tobacco in the future.
Price Support Price support loans and no net cost assessments are terminated. [Sec. 102] Annual assessments of up to 5¢ per pound divided equally between producers and purchasers are used to finance a Tobacco Market Stability Program. [Sec. 201 (380M)]	Price support loans and no net cost assessments are terminated. [Sec. 3] Annual assessments of up to 5¢ per pound divided equally between producers and purchasers are used to finance a Tobacco Market Stability Program, with additional money from the Trust Fund. [Sec. 201 (380M)]	Price support loans and no net cost assessments are terminated. [Sec. 102]
Production Controls and Restrictions An Acreage Limitation Program allocates tobacco base acres among active producers and requires reductions when needed in order to balance supply with demand at reasonable prices. [Sec. 201(380M)]	A Poundage Limitation Program allocates tobacco poundage base among active producers in traditional tobacco counties and requires reductions when needed in order to maintain reasonable and stable supplies and prices. [Sec. 5(380I)]	In 2005 and subsequent marketing years tobacco production is restricted to traditional tobacco counties (counties that produced tobacco in 2002 and contiguous counties). There are no quantity limits or restriction on who can produce tobacco. [Sec. 204]

S. 1490 (McConnell)	**H.R. 3160** (Fletcher, McIntyre, Goode)	**H.R. 4033** (Jenkins)
Tobacco Board Establishes a Tobacco Quality Board to examine domestic production and imports and advise on matters of quality. Establishes a Production Board for each kind of tobacco to advise on the appropriate acreage limitations. [Sec. 201 (380G and 380H)]	Establishes a Tobacco Advisory Board for each kind of tobacco to examine domestic production and imports and advise on matters of quality, the appropriate poundage limitations, and the appropriate insured prices. [Sec. 5 (380G and 380H)]	None
Other Tobacco Programs A Tobacco Market Stability Program makes payments to producers when average domestic prices are below world market prices and when domestic prices are below $1 per pound. [Sec. 201 (380M)]	A Tobacco Market Stability Program makes payments to producers when average domestic prices are below insured prices (set by USDA but not below $1 per pound). Funded by assessments on producers and purchasers up to 5¢/lb., plus $50 mil. per year for four years from Tobacco Trust Fund. [Sec. 5 (380M)]	None
Community Assistance Grants to states for economic development in counties most impacted by declining tobacco sales ($500 million). Federal contribution shall not exceed 75% of the cost of the development initiatives. [Sec. 201 (380O)] Grants to colleges and universities for research on agricultural (tobacco and tobacco-related) enterprises, technologies, and uses($60 million). [Sec. 201 (380Q)]	Grants to colleges and universities for research on agricultural (tobacco and tobacco-related) enterprises, technologies, and uses ($60 million). [Sec. 5 (380Q)]	None