

U.S. Tobacco Economic & Policy Outlook

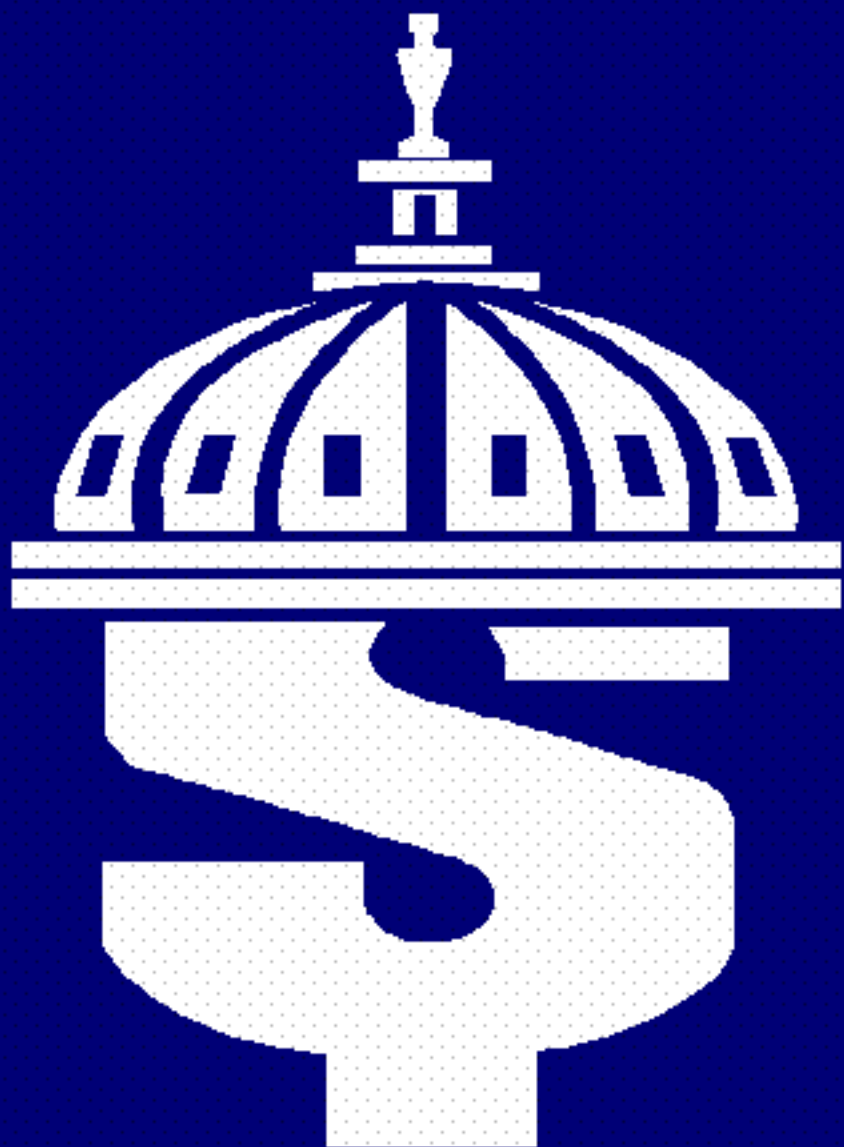
Kelly Tiller

Southern Agricultural
Outlook Conference

Atlanta, GA

September 29, 2003

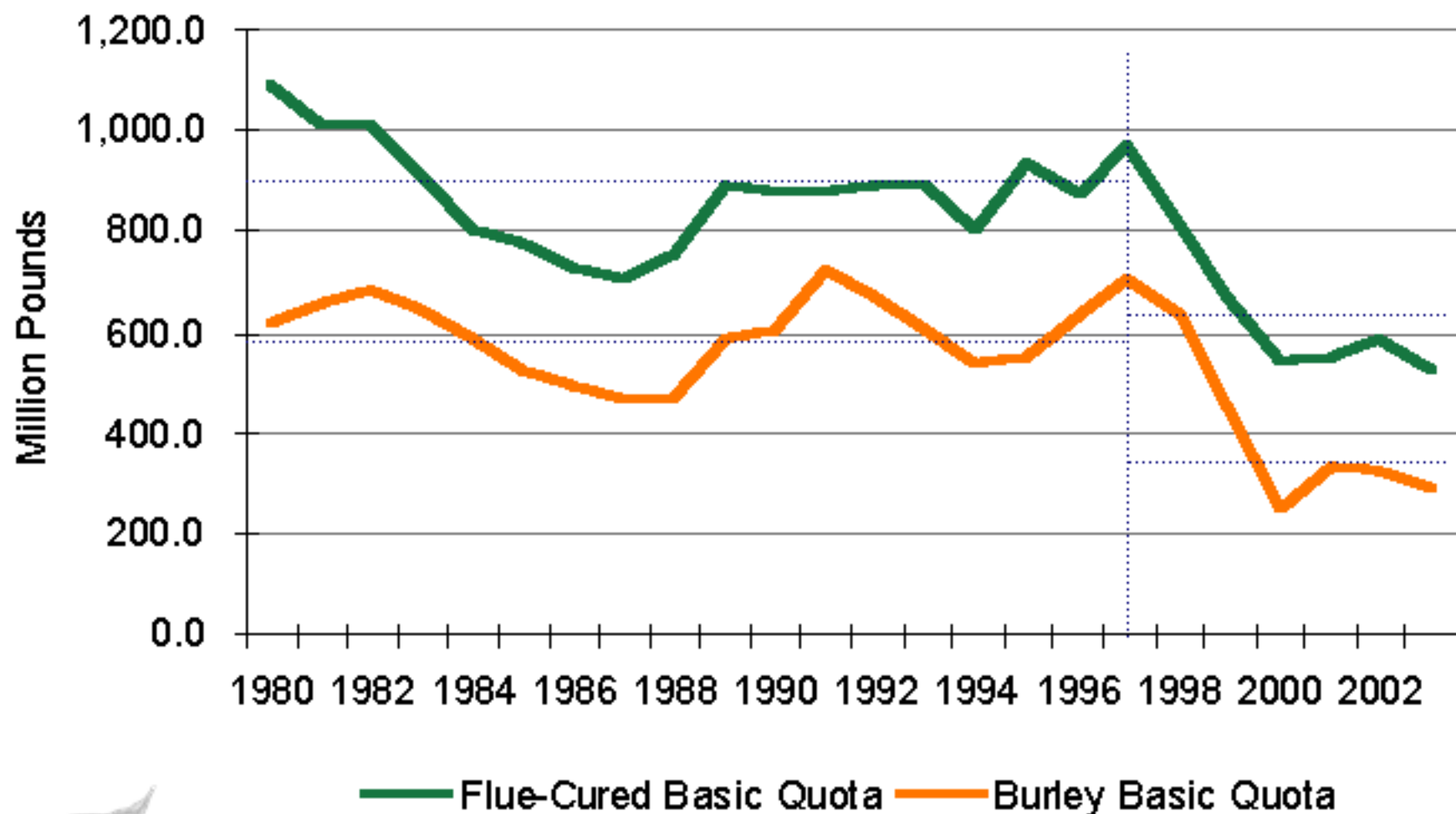




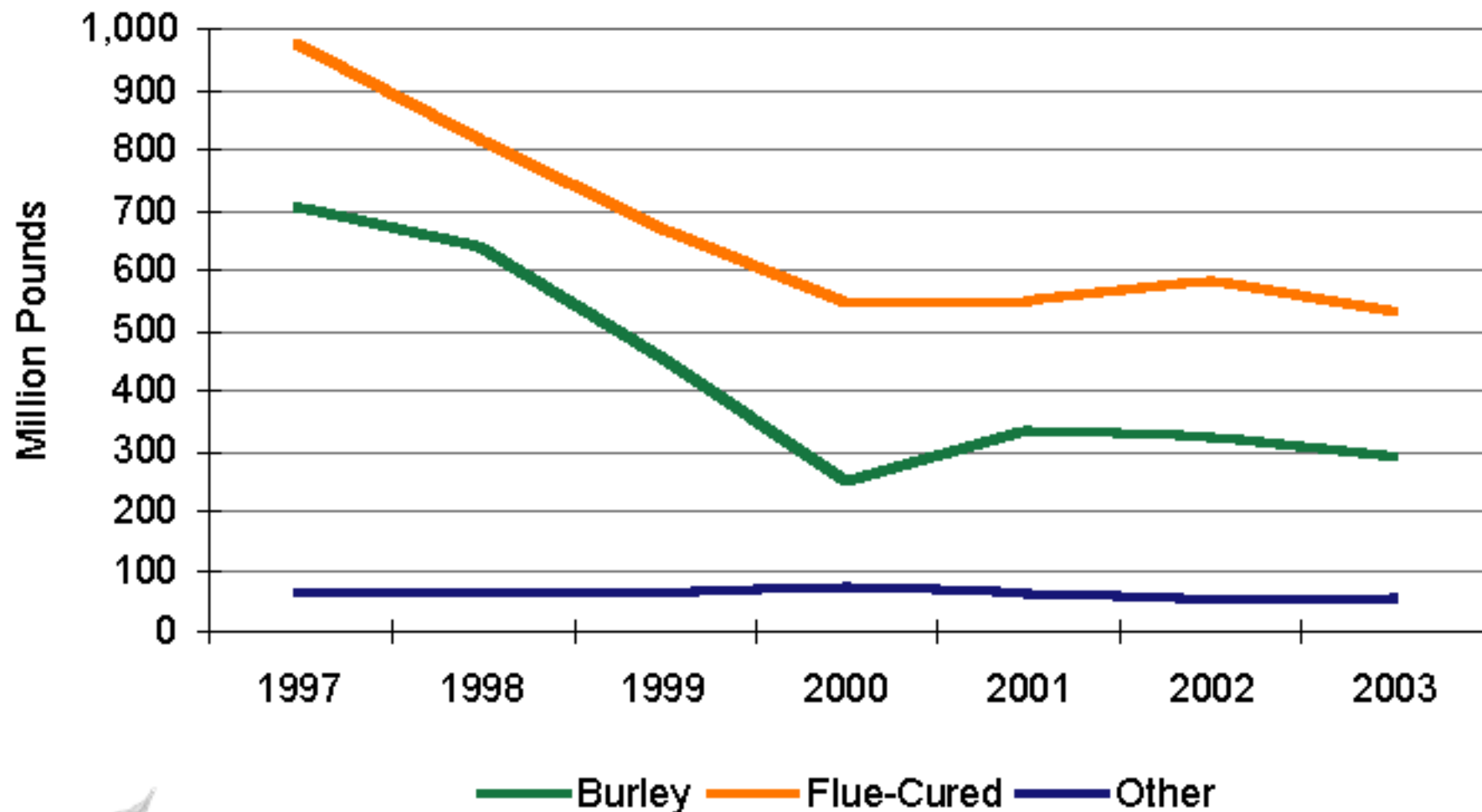
BUY

OUT

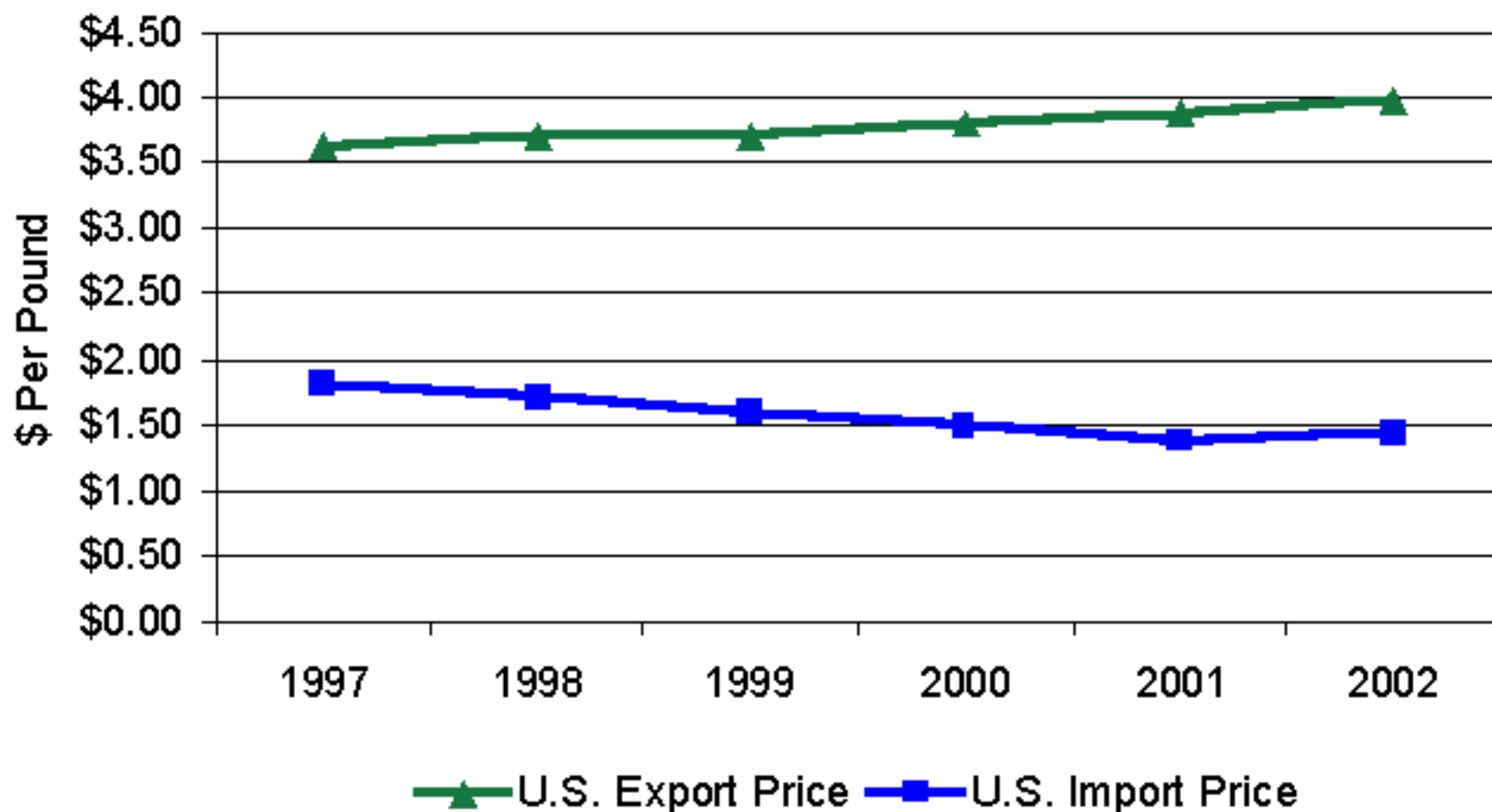
US Tobacco Quota



US Tobacco Quota



U.S. Burley Import & Export Prices

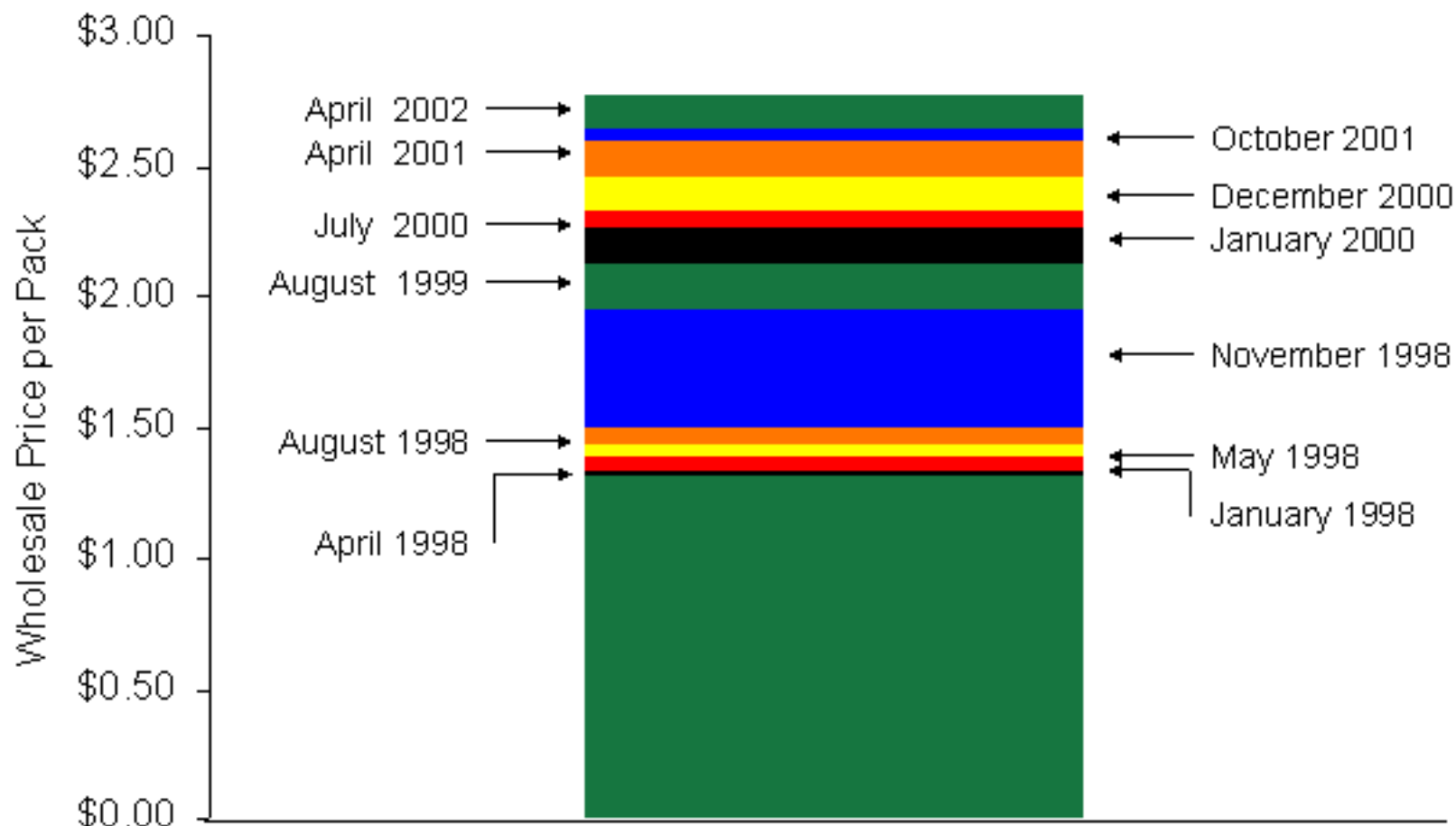


US Tobacco Trade

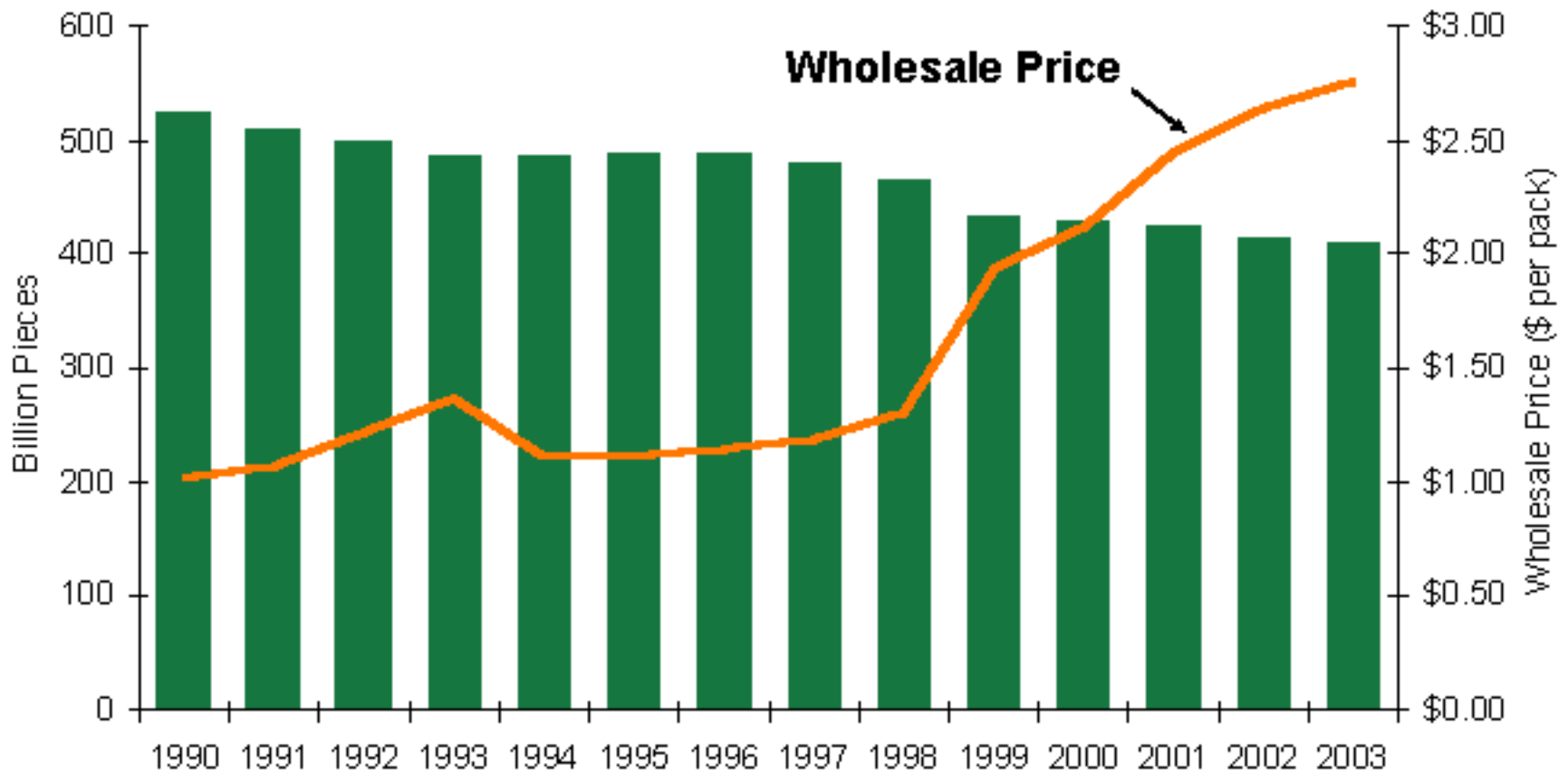
- Exports of US tobacco have declined 36% since 1996, and near 50% over the last 25 years
- The US share of world tobacco exports has fallen from 27% in 1960 to 7% in 2002
- US imports of tobacco are increasing
- US tobacco accounts for less than 50% of the tobacco used in US-produced cigarettes



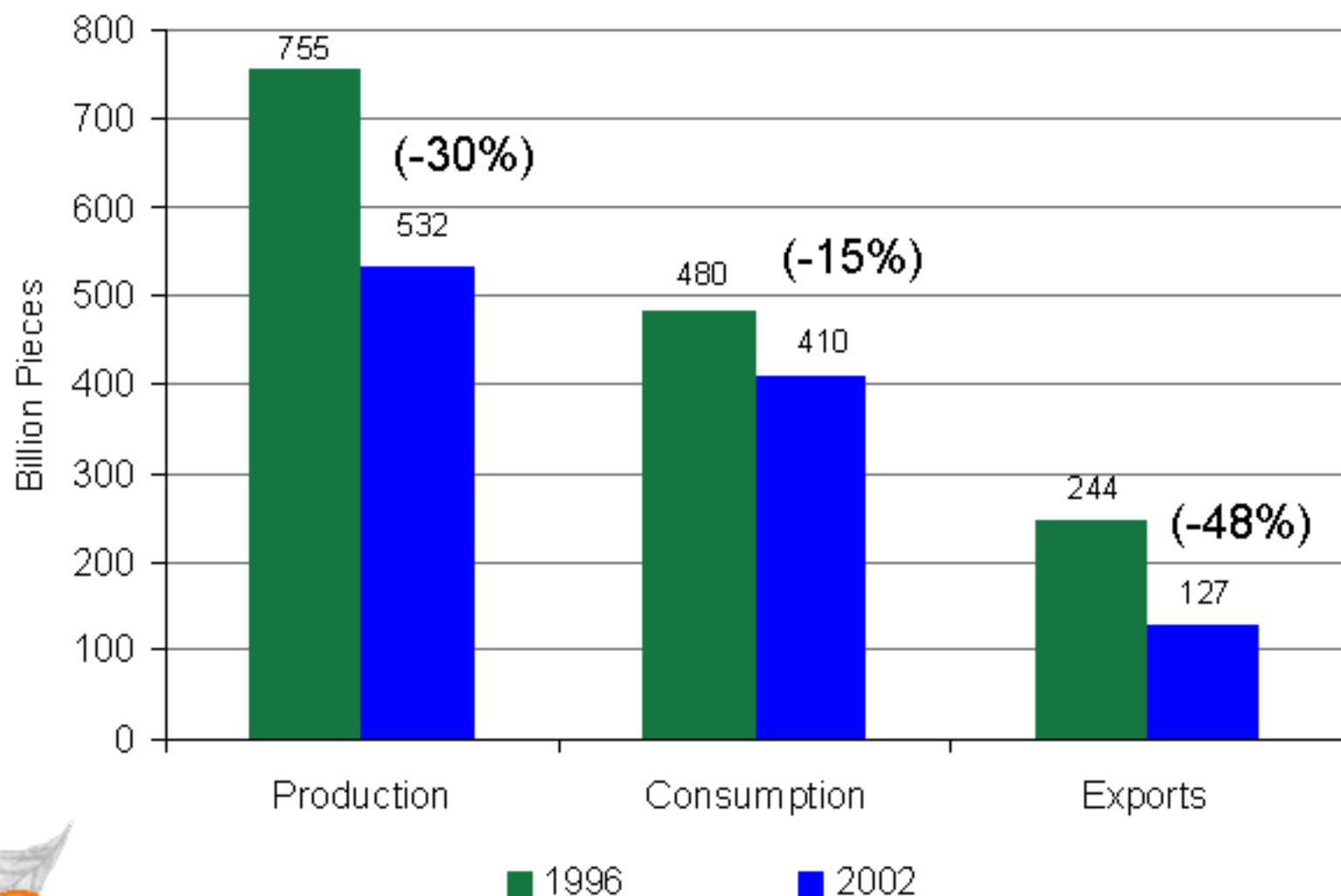
Change in Wholesale Cigarette Price Since January 1998



U.S. Cigarette Consumption & Wholesale Price



U.S. Cigarette Production, Consumption & Exports



Grower Support for a Buyout

- Even with grower settlement purchase commitments, outlook for U.S. leaf is not very optimistic
- Lower probability of TLAP, TOPP payments
- Quotas supplies are tight
 - Burley and flue-cured quotas have fallen about 50% over five years
- Grower settlement increases buyout probability
 - \$5 million for quota buyout fund (lobbying)
 - One less distraction among key stakeholders
 - May facilitate appearance of a more united front for the buyout



Grower Support for a Buyout

- Lease prices unsustainable at current levels
- Contracting has further pressured the program
- 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



Buyout?

Politics



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
 - Placed on Senate Legislative Calendar under General Orders
- FDA legislation “ready”, not yet filed

Current Buyout Status - House

- H.R.3160 – Tobacco Reduction, Accountability, and Community Enhancement (TRACE) Act
 - Introduced by Reps. Fletcher and McIntyre Sept. 24
 - House consensus bill similar to Senate version
 - About 40 co-sponsors, mostly from tobacco states
- Markup in full House Ag Committee not yet scheduled



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



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



The Political Process

- Senate: floor vote, doesn't require committee hearing, needs 60 votes
- House: Ag Committee markup, floor vote, could be attached to another bill
- H-S Conference Committee: hammer out differences, bill reported out of Conference goes back to House and Senate for floor vote, additional Conference Committee Report
- Administration: signs into law
- USDA: writes regulation, public hearings/comment, implementation



Quota Outlook: No Buyout

- Quota cuts
 - Depends on purchase intentions
 - Could be about 10% reduction or more?
- Continued pressure on lease prices
- Industry begins to shrink
- Significant impacts on tobacco-dependent communities



Quota Outlook: Buyout

- Buyout money infused in major tobacco states
- About half (or more?) of all growers exit?
- Production levels increase?
- Prices decrease?



Political Realities

- It really is a “political” matter
- A narrow window of opportunity
 - House expected to adjourn early November?
 - Senate expected to adjourn mid-November?
 - Conference Committee can meet after adjournment
- FDA still an unknown
- Expect opposing manufacturers to launch strong campaign
- NOTHING is certain, NOTHING is impossible



Today's Probability* of Passage



60:40

** Probability prediction forecast is good for one hour only.*


For More Information ... www.agpolicy.org

APAC - Agricultural Policy Analysis Center, The University of Tennessee - Microsoft Internet Explorer

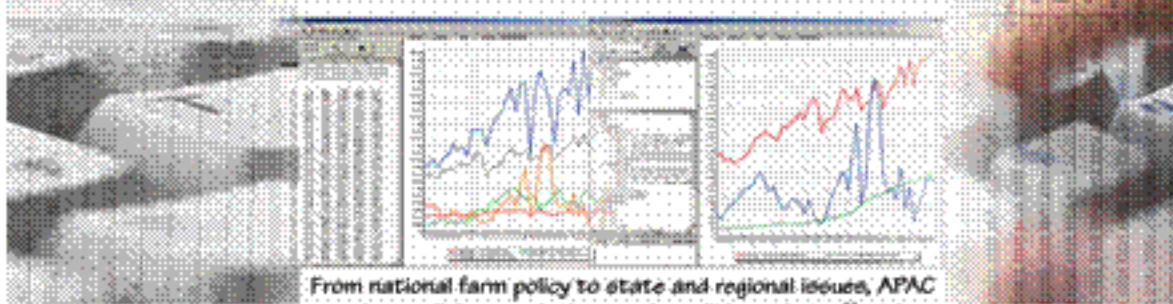
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- Farm Bill
- Tobacco Policy and Economics
- Bioenergy and New Crop Uses

Research Tools

- POLSYS
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