

TOBACCO COMMUNITIES AT A CROSSROAD

The Preliminary Report of the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health

January 26, 2001

The Commission's Mission

The purpose of the Commission is to advise the President on changes occurring in the tobacco farming economy and recommend such measures as may be necessary to improve economic opportunity and development in communities that are dependent on tobacco production, while promoting the public health by protecting consumers, particularly children, from hazards associated with tobacco use.

The President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health

In September 2000, the President issued Executive Order 13168 (See Appendix A), establishing the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health (Commission). Commission members were chosen subject to provisions of the Executive Order, which provides that members could include tobacco farmers and quota holders; public health experts; Federal, state, and local government representatives; and experts in agricultural economics and economic development.

The Commission is co-chaired by:

William Martin (Rod) Kuegel, President of the Burley Tobacco Growers Cooperative Association and a burley tobacco grower, and

Matthew Myers, President of the National Center for Tobacco-Free Kids.

Other members include:

Andrew Shepherd, flue-cured tobacco grower and Vice-President and Director of Flue-Cured Tobacco Cooperative Stabilization Corporation,

James Hill, flue-cured tobacco grower and Director of Flue-Cured Tobacco Cooperative Stabilization Corporation,

Ronald Sroufe, retired school administrator and burley tobacco grower,

M. Cass Wheeler, Chief Executive Officer of the American Heart Association,

John Seffrin, Chief Executive Officer of the American Cancer Society,

LynnCarol Birgmann, Executive Director of Kentucky ACTION,

Jesse White, Jr., Federal Co-Chair, Appalachian Regional Commission, and

Art Campbell, Assistant Secretary, Economic Development Administration, U.S. Department of Commerce.

This document constitutes the Preliminary Report of the Commission based on input received from public forums, the Commission's website, written comments, and experts in tobacco farming, tobacco health issues, and economic development. The Report represents a starting point for discussions which could lead to legislative and non-legislative initiatives that will seek to improve economic opportunity and development in communities that are dependent on tobacco production, while promoting the public health by protecting consumers, particularly children, from hazards associated with smoking.

The Commission plans to continue collecting comments and information and to issue a final report in May 2001 that makes specific recommendations for addressing the current crisis facing U.S. tobacco farmers and their communities while also promoting public health.

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INTRODUCTION AND GUIDING PRINCIPLES

This Presidential Commission arose out of an unprecedented crisis for tobacco farmers and their communities, an increasing recognition that more needs to be done to reduce the harm caused by tobacco use, and a unique dialogue beginning in the mid 1980s between the health community and tobacco growers. In 1998, this remarkable dialogue produced a set of Core Principles (See Appendix B) among health and agricultural organizations; and it is upon those principles that this Preliminary Report builds.

This Commission has concluded that the problems facing tobacco farmers today are different than in the past. While the demand for the two predominant kinds of American-grown tobacco leaf - flue-cured and burley - has fluctuated in the past, it has recently declined sharply as the result of long term trends. There are multiple causes for the decline in demand for American-grown tobacco leaf. Significantly, world competition has been increasing rapidly. As a result, today U.S. farmers have a much smaller portion of the world tobacco market.

Despite the overall increase in the global market for the American-blend cigarettes* that use flue-cured and burley, exports of U.S. tobacco leaf are down. In addition, the use of foreign-grown tobacco in U.S. manufactured cigarettes has increased substantially and is now at record-high levels. Simultaneously, declines in U.S. smoking have reduced the market for domestic leaf in the United States. In prior periods, declines in domestic consumption have been offset by increases in exports of U.S. leaf and U.S. cigarettes, but that is no longer the case.

This Commission has embraced the notion that the health and safety of the American people and tobacco farming communities are linked, however unlikely that might seem (See Appendix C). It is this belief that leads us, in part, to argue for new Federal efforts to assist tobacco farmers and their communities and to promote the public health. Fairness and equity also justify assistance to tobacco farmers during this period of transition.

The production of tobacco and the manufacturing of tobacco products are now global. More tobacco is being grown overseas and more tobacco products are being manufactured overseas. American tobacco farmers are being gravely threatened by these rapidly growing trends. This phenomenon is familiar in most sectors of the U.S. economy and few have escaped the impact of global competition.

What is unique about tobacco is the role that Federal policy has played in creating the situation and the benefit to the public health by intervention. The Commission recognizes that decades of Federal tobacco programs have limited the amount of tobacco that can be grown in the United

* American-blend cigarettes contain approximately 45 to 50 percent flue-cured leaf, 35 to 40 percent burley, 15 percent Oriental (not grown in the United States), and one percent Maryland leaf (grown primarily in Maryland and Pennsylvania). But the flue cured and burley tobacco they contain need not be grown in the United States. Foreign-blend cigarettes typically include higher percentages of Oriental or darker tobacco leaf.

States, which has fostered family farms. These policies have had the unintentional consequence of making many small farmers heavily reliant on this profitable crop. But the Federal government has also imposed quality standards not required of foreign growers, for example, keeping tobacco free from non-approved pesticides. Its policy of limiting supply and overseeing quality is consistent with health concerns.

This Commission also finds that because past Federal policies themselves have created a heavy dependence on this profitable crop for many farmers and farm communities, the Federal government has, in essence, created a marketable asset upon which quota holders depend. These assets should not be abolished without fair compensation. Quotas held by non-growers and leased out, have the effect of increasing the costs of production to the active growers and keeping the price of American leaf artificially high, thereby further exacerbating global competition.

Although tobacco usage is a threat to the health of many, tobacco farmers are not the culprits. They are our neighbors. They are often small and economically disadvantaged farmers. They are often minorities. They grow a crop that goes back to the founding of this country and is still legal to grow. What these farmers need is assistance to diversify their farming and the economies of their communities in order to reduce dependence on tobacco.

For all of these reasons this Commission calls on the Federal government to continue some type of tobacco program that regulates supply, price and quality; that provides fair compensation for tobacco quotas, especially for those who do not farm; that protects the interests of family farmers; and that provides assistance to tobacco farmers and their communities to diversify their crops and local economies to reduce dependence on tobacco income in the face of negative trends that are both long term and global.

The Commission also calls on the Federal government to recognize the inextricable linkage between protecting the family tobacco farmer and the need to do more to promote health by adopting additional steps to prevent children from starting to use tobacco, to educate, encourage and assist adults who want to quit and to establish fair and effective regulatory standards over manufactured tobacco products.

Guiding Principles Adopted by the Commission

The Commission has not yet made any final decisions about what should be done. This Preliminary Report is intended to lay the foundation for the Commission's future work and final report.

This Preliminary Report presents an analysis of the causes of the current crisis for U.S. tobacco farmers and their communities and provides a summary of the scientifically established harms and costs caused by smoking. It also reviews the role played by the U.S. tobacco price support and production control program and considers what is likely to happen if no new remedial efforts are implemented.

To provide the public an opportunity for further input into the Commission's final deliberations,

this Report sets out a broad range of actions which have been suggested as possible solutions and seeks public comment on these options. These comments will build on the testimony and comments generated by two public forums the Commission held in Raleigh, North Carolina and Louisville, Kentucky on November 9 and November 10, 2000, respectively. Approximately 450 tobacco farmers, health officials, community leaders and other interested persons attended these forums, with 76 participants testifying.

While the Commission has made no final recommendations, it has adopted the following principles to guide its future deliberations:

- *The Commission's recommendations should both promote the public health and the economic security and stability of tobacco farmers and their communities.*
- *Both short-term and long-term assistance are warranted for family tobacco farmers and their communities because of two factors: (1) the dramatic reduction in the purchase of U.S. tobacco leaf in recent years as the result of a complex set of trends that are both long term and global in nature, and (2) past Federal policies which have led many tobacco farmers to a heavy, if not total, reliance on this crop and way of life.*
- *The preservation of a tobacco program that controls supply, maintains price, moves quotas into the hands of growers and incorporates health and safety protection is in the best interests of tobacco farmers and the public health.*
- *Solutions to the problems facing tobacco farmers should protect family farms, of which a significant number are small farms and owned by minorities.*
- *Policies should be adopted to ensure that any system of direct contracting between manufacturers and U.S. tobacco farmers does not undermine the protections for family farms and the public health that are provided by the tobacco program.*
- *Any tobacco program changes should focus on long-term solutions to the problems facing tobacco farmers, not short-term quick fixes.*
- *Tobacco farmers should be compensated for their quota at a fair and equitable value in order to address their current crisis and reduce their dependency on tobacco, an action which is in the best interests of the tobacco producing and the public health communities.*
- *Economic development assistance to tobacco producing communities is in the best interests of tobacco farmers, their communities and the public health community. The Commission should consider the broadest range of economic actions to assist tobacco farmers, tobacco farm families and their communities in promoting their prosperity, stability, and way of life during this period of transition, including:*

- *Locally driven assistance to tobacco producing communities for economic redevelopment and diversification,*
 - *Support for the growth of supplemental crops (particularly those utilizing specialized tobacco farming skills) and livestock and the infrastructure necessary to produce, process, develop new markets, and bring these commodities to market; and*
 - *Continued research into the development of non-harmful uses of tobacco products.*
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- *The American tobacco farmer and the public should be protected against unfair foreign competition. For example, increased and expanded inspections for non-approved pesticides on imported tobacco are in the best interest of tobacco growers, their communities and the health community.*
 - *More needs to be done to prevent the harm caused by tobacco and this has been acknowledged by some tobacco product manufacturers. Comprehensive programs, such as those suggested in the August 2000 Report of the Surgeon General, to reduce tobacco use and the harm caused by tobacco should be adopted by both the public and private sector with a special emphasis on the problems facing tobacco growing states.*
 - *Tobacco should be regulated. The U.S. Food and Drug Administration (FDA) should have authority to establish fair and equitable regulatory controls over the manufacture, sale, distribution, and labeling of tobacco products, comparable to regulations established for other products regulated by the FDA. Such regulations should have as their goal the protection of public health. The U.S. Department of Agriculture (USDA) should retain its authority to set safety standards governing tobacco farms.*
 - *Measures to fund the recommendations of the Commission must be reliable, long-term and consistent with the best interests of both tobacco farming communities and the public health.*

BASIC INFORMATION ON U.S. TOBACCO FARMING

Number of U.S. tobacco farms in 1978: 188,650

Number of U.S. tobacco farms in 1997: 89,700 U.S. tobacco farms with less than 50 acres of tobacco: 86,100

U.S. farm acreage used for tobacco: 647,000 U.S. farming gross income from tobacco: \$2.27 billion

States with the most tobacco farms:

Kentucky	44,967
Tennessee	14,995
North Carolina	12,095
Virginia	5,870
Ohio	2,811
Indiana	2,017

States with the most tobacco acreage:

North Carolina	320,599
Kentucky	255,053
Tennessee	59,427
South Carolina	54,660
Virginia	54,035
Georgia	41,083

Average total size of farm that grows flue-cured tobacco: 442 acres

Average portion of flue-cured farm acreage used for tobacco: 38 acres (8.6%)

Average total size of farm that grows burley tobacco: 154 acres

Average portion of burley farm acreage used for tobacco: 5 acres (3.2%)

Portion of U.S. tobacco farms' gross farming income from tobacco sales: 79%

Flue-cured tobacco farms that grow only tobacco: 18%

Burley tobacco farms that grow only tobacco: 42%

Average U.S. tobacco farm's gross revenue from tobacco sales: \$43,000

Average Kentucky tobacco farm's gross revenue from tobacco sales: \$19,000

Average Tennessee tobacco farm's gross revenue from tobacco sales: \$14,000

Tobacco farms for which tobacco sales make up at least half of farm sales: 73%

Average value of all farm products sold by these tobacco farms: \$43,750

Average value of all tobacco leaf sold by these tobacco farms: \$34,890 (80% of total)

Per-acre returns from crops above variable and fixed costs (1996):

Flue-cured tobacco:	\$661	Burley tobacco:	\$407
Cotton:	\$132	Corn:	\$52
Peanuts:	\$44	Soybeans:	\$6

Percent of flue-cured farmers for which farming is principal occupation: 89%

Percent of burley farmers for which farming is principal occupation: 43%

Amount of retail tobacco dollar that went to U.S. tobacco farmers, 1980: 7%

Amount of retail tobacco dollar that went to U.S. tobacco farmers, 1998: 2%

Average age of flue-cured tobacco farmers: 52 Average age of burley tobacco farmers: 51

Average age of all farmers: 54.3

Total flue-cured quota owners: 112,625

Total burley quota owners: 303,124

Flue-cured quota owned by Blacks: 16%

Burley quota owned by Blacks: 1%

Flue-cured quota owned by women: 44%

Burley quota owned by women: 35%

This data is from the 1997 *Census of Agriculture* (next Census scheduled for 2002), USDA, *Farm Costs and Returns Survey/Agricultural Resource Management Study* (FCRS/ARMS) (1996), Tobacco Situation and Outlook Report and the Farm Service Agency.

The Role of the U.S. Tobacco Program

Since the early 1930's, the Federal government has operated programs to support and stabilize tobacco prices, thereby insulating growers from seasonal and cyclical price changes caused by the weather and various production and use variations.

The U.S. tobacco program has two key components: (1) a marketing quota system that restricts U.S. tobacco farming only to growers who own or lease production quota rights and (2) a price-support system that guarantees minimum leaf prices for participating growers. The quota component of the U.S. tobacco program restricts tobacco growing to historical production areas. Quota (production rights) determines both where and how much tobacco can be marketed annually. The National quota reflects changes in demand and any change is apportioned to quota holders. The price support component of the tobacco program keeps U.S. tobacco prices higher than they would be without a program. The impact on the demand for cigarettes is minimal because the cost of tobacco leaf, including foreign, comprises only two or three percent of the retail price of cigarettes.

Despite many legislative changes since 1938, the authority to provide an adequate and balanced flow of tobacco through the marketing quota program continues. More than 97 percent of U.S. grown tobacco is produced under a marketing quota program. For each kind of tobacco, quota holders vote every 3 years on whether to continue the program. More than 90 percent of burley and flue-cured tobacco quota holders have consistently voted to continue the program. The next referendum for burley and flue-cured tobacco will occur in early 2001.

Over the years, there have been various changes that have allowed for the transfer of quota away from the farm to which the quota was originally assigned. This transferability has given quotas an economic value and turned them into financial assets. For example, when active, quota-holding farmers have retired they have sold or leased their quota, and quota rental or lease income has become part of the retirement income of a large number of people in tobacco-producing areas. Because of its value, farmers often use their tobacco quota as collateral to obtain loans to diversify their operations.

For information on the number, size, distribution and ownership of quotas by kind of tobacco and state see Appendix D.

I. The Current Threat to U.S. Tobacco Farmers and their Communities

The problems facing tobacco farmers and their communities have reached an urgent stage that requires a comprehensive solution. While the demand for the two predominant kinds of American-grown tobacco leaf, flue-cured and burley, has fluctuated in the past, it has recently experienced sharp, unprecedented declines because of a variety of long-term trends. From the 1997 to 2000 growing seasons, the quota for flue-cured declined by more than 430 million pounds (farm sales weight), a drop of 45 percent, while the quota for burley declined by more than 450 million pounds or 65 percent.

While sales have declined, tobacco-farming costs have surged dramatically and the prices received by farmers have risen only modestly. Today, tobacco farmers face additional cost pressures, such as demands by manufacturers that flue-cured tobacco leaf be marketed in baled form and that flue-cured curing barns be retrofitted.

All of these changes have had a disproportionately harsh impact on small family farms. While there were 188,650 tobacco farms in the United States in 1978, by 1997 there were only 89,700 (a decline of more than 50 percent), and the number of larger tobacco farms (greater than 50 acres) increased by 128 percent. The current crisis facing U.S. tobacco growers has accelerated the loss of small family farms and the consolidation of American tobacco farming into larger units. Despite their best efforts many small and even middle-sized tobacco farmers simply can no longer make ends meet. Those most at risk are those already classified as economically disadvantaged, which include a disproportionate number of farms owned or operated by minorities.

Unless strong steps are taken, this threat to family farms will likely accelerate as tobacco manufacturers continue to move away from purchasing tobacco leaf through the traditional auction system in favor of direct contracting with farmers. The move to contracting also puts renewed pressure on the survival of the existing Federal tobacco program that has been critical to the protection of small farmers and their way of life.

This threat to the family tobacco farm poses unique problems for both tobacco growing communities and the public health. Many tobacco-growing communities have been highly dependent on tobacco as their prime source of revenue and would suffer devastating consequences to their economy and way of life if large farms, many of which might be located elsewhere, displaced the small tobacco farm. In addition, the tobacco program's maintenance of small family farms promotes the public health because it limits the spread of tobacco growing and provides price stability.

The Causes of the Current Tobacco Farming Crisis

Flue-cured and burley tobacco leaf, which accounts for more than 94 percent of all the tobacco leaf grown in the United States, is used primarily for American-blend cigarettes. For decades, world production and consumption of American-blend cigarettes has been expanding rapidly as

increasing numbers of foreign smokers switch to American-blend brands. The global demand for American-blend cigarettes is expected to increase steadily for years to come. As we have seen however, the demand for U.S. flue-cured and burley has not only failed to increase along with the rise in global American-blend cigarette sales, but has recently declined sharply.

The U.S. Farmers Shrinking Share of The Global Market for Tobacco Leaf. The world demand for American-grown cigarette tobacco has declined despite the increasing global sales of American-blend cigarettes. This decline is due, in part, to substantial increases in the foreign production of flue-cured and burley leaf that is typically sold on the world market at lower than U.S. prices. Because of lower labor costs and often lax or absent labor standards and health and safety controls, it has always been possible to grow tobacco more cheaply in many foreign countries. The steady increase over the past few decades in the quantity of improved-quality flue-cured and burley leaf grown overseas has been supported by substantial investments in foreign tobacco farming by the major U.S. cigarette companies and U.S. leaf dealers. In Argentina, Brazil, China, India, Mexico, Russia, Tanzania, Vietnam and numerous other countries, the cigarette companies and leaf dealers have provided foreign growers with financial assistance, seeds, technology and training.

While American-grown tobacco is still of much higher quality than most foreign-grown tobacco, technological manufacturing improvements now enable cigarette companies to maintain adequate taste and flavor levels while using more lower-quality foreign leaf. Consumer shifts to low-tar cigarettes, which require less high-quality tobacco, have also made it easier for the companies to substitute cheaper foreign tobacco for U.S. leaf. In addition, many foreign smokers of American-blend cigarettes are attracted more by the status of the cigarettes than by their taste. Simply having a U.S. brand name or some other link to the United States is often enough to sell American-blend cigarettes overseas, even if they contain no U.S. tobacco - especially because foreign buyers typically do not know how much U.S. tobacco, if any, the cigarettes with U.S. brand names or features actually contain.

During the 1950's and 1960's, U.S. tobacco farmers produced about 40 percent of the world's total flue-cured crop and 55 percent of all flue-cured leaf traded in the world market. For burley, U.S. tobacco farmers accounted for 77 percent of total global production and 51 percent of total trade shipments. Because of the increased availability of foreign leaf and reduced need to use highest-quality leaf, by the end of the 1990's U.S. production of both flue-cured and burley had fallen to around 20 percent of the world totals, and the U.S. share of world trade fell to 14 percent for flue-cured and 18 percent for burley. From 1996 to 2000 alone, the amount of U.S. flue-cured and burley leaf used by the tobacco industry worldwide dropped from 1.6 to an estimated 1.2 billion pounds, or by about 25 percent. In 2000, an estimated 290 million pounds of flue-cured and 150 million pounds (farm sales weight) of burley leaf were exported from the United States. Ten years earlier, over 400 million pounds of flue-cured and about 200 million pounds of burley were exported.

U.S. Farmers Shrinking Share of the U.S. Market for Tobacco Leaf. The increasing availability of cheaper but adequate foreign-grown leaf has also reduced U.S. farmers' share of

the domestic market for tobacco. Although U.S. farmers supplied virtually all flue-cured and burley leaf used in American-made cigarettes in the 1960s, since then the amount of foreign tobacco in U.S. cigarettes has increased by more than 325 percent.[†] Just from 1996 to 1999 the amount of American-grown tobacco in American-made cigarettes dropped by 9.5 percent. Because of the U.S. cigarette companies' increasing use of foreign cigarette tobacco in their American-made cigarettes, during the last twenty years imports of foreign-grown flue-cured and burley tobacco increased by about 220 and 106 percent, respectively. Today 48 percent of the tobacco leaf in cigarettes manufactured in the United States is foreign grown.

Reduced U.S. Demand for Flue-Cured and Burley Leaf. While U.S. farmers' share of the domestic market for flue-cured and burley declined, the overall U.S. demand for cigarette tobacco has been shrinking as well. Most notably, the total number of cigarettes manufactured in the United States increased steadily through 1981, then fluctuated until it reached an all-time high in 1996. Since then cigarette production in the United States has dropped by more than 19 percent, based on USDA estimates for 2000.

Part of this decline comes from reduced U.S. smoking levels. Since peaking in 1981, the number of cigarettes smoked in the United States gradually but steadily declined at a rate of about 1.5 percent per year until 1998. Although there was a drop of almost 6.5 percent from 1998 to 1999, U.S. cigarette sales are expected to decline by more modest annual amounts in the years to come.

From 1986 to 1996, increased manufacturing of cigarettes in the United States for export more than offset declines in U.S. smoking levels. Since 1996, however, U.S. cigarette manufacturing of American brands for export has shrunk by more than 40 percent. This recent drop in exports has occurred in part because of regional economic troubles (e.g., in the Pacific Rim). But it also reflects a much longer-term effort by the U.S. cigarette companies to expand their overseas manufacturing capacity in order to reduce their reliance on U.S. cigarette exports to serve their growing foreign markets. The portion of American brands sold overseas that were actually American-made had been shrinking steadily for years – and the companies' foreign-made cigarettes typically contain much less U.S. tobacco than those made for sale in the United States. For example, Marlboros made in Argentina both for sale there and for export, contain no U.S. leaf.

The Declining U.S. Demand for Cigarette Tobaccos. Recent declines in U.S. cigarette consumption were caused, in part, by sharp increases in the price of cigarettes sold in the United States. Since the beginning of 1998, the major U.S. cigarette companies have increased their prices by more than \$1.10 per pack, more than doubling the price of an average pack of cigarettes. Roughly half of these price increases were made by the companies in order to cover

[†] In response to the rising use of foreign leaf in American-made cigarettes, Congress passed the short-lived Domestic Content Legislation (DCL), included in the Omnibus Budget Reconciliation Act of 1993. The DCL was in effect from January 1, 1994, to September 13, 1995. If foreign leaf content of U.S. cigarettes exceeded 25 percent, a penalty was assessed on the manufacturer for calendar year 1994 only. There were concerns that the DCL violated various international trade agreements, and it was eliminated on September 13, 1995 (retroactive to January 1, 1995), when President Clinton proclaimed a Tariff Rate Quota for cigarette leaf tobacco, mainly flue-cured and burley.

their costs associated with the settlement of the states' lawsuits against the cigarette companies. While tobacco tax increases have also helped to raise cigarette prices, the Federal cigarette tax was stable at 24 cents per pack from 1993 to January 2000, when it increased by ten cents per pack. State cigarette taxes have increased more rapidly, but the average state cigarette tax increased by only 23 cents per pack from 1993 to 2000.

Over the last four years, cigarette price increases have had the greatest impact on U.S. smoking rates because only a few states had well funded comprehensive tobacco prevention programs in effect. This situation could change, however, now that more states are investing significant monies from their tobacco settlement funds, general revenues, or tobacco excise tax receipts in new programs to reduce smoking and other forms of tobacco use. In those states that already have comprehensive programs in place to reduce tobacco use, both youth and adult smoking has declined much more rapidly than in other states. The evidence demonstrates that these programs work when properly implemented. (There is similar evidence that overseas efforts to reduce smoking are accelerating, which could reduce the foreign demand for cigarette tobaccos, including that grown in the United States.)

Economic Impacts on U.S. Tobacco Farmers. The cigarette companies' desire for lower tobacco leaf prices is frequently mentioned as the main reason why the companies and leaf dealers have invested so heavily to increase foreign production of flue-cured and burley tobacco and why U.S. and foreign cigarette companies have increasingly chosen to use foreign-grown instead of U.S. tobacco. At the same time, U.S. flue-cured and burley prices have not kept up with either inflation or increases in U.S. tobacco farmers' production costs over the past 25 years. Accordingly, U.S. farmers are being hurt by both reduced leaf sales and by stagnant or declining real leaf prices. As a result, from 1980 to 1998, the U.S. farmers' share of the retail tobacco dollar shrunk from seven cents to only two, and has declined further since then.

Impact on Tobacco-Farming Communities. These trends, as indicated above, are hurting all U.S. tobacco farmers and tobacco-farming communities, but those farmers and communities with smaller tobacco farms that rely most heavily on their tobacco farming revenues for income are suffering the most. While it is difficult to determine which communities are the most dependent on tobacco farming income, analyses by the USDA's Economic Research Service show that Kentucky, North Carolina and Tennessee have the most counties in which tobacco farming income constitutes a substantial portion of total county farming and non-farming income – with counties in Virginia, South Carolina, Georgia and even Indiana on the list. Overall, tobacco farming is distributed among 568 different counties in more than a dozen different states, and the many tobacco-farming communities are located in vastly different geographic and economic regions with widely varying capabilities to address the ongoing changes to U.S. tobacco production and marketing. Many of these counties are already experiencing significant economic difficulties because of these changes and face even more serious challenges in the years ahead.

For more information on tobacco farming and these tobacco-farming trends, see USDA Economic Research Service, Tobacco Briefing Room, www.econ.ag.gov/Briefing/tobacco; USDA Foreign Agriculture Service, Tobacco Pages, www.fas.usda.gov/cots/tobacco.html; Campaign for Tobacco-Free Kids, Tobacco Farming Pages, <http://www.tobaccofreekids.org/reports/falsefriends>; Burley Tobacco Growers Cooperative Association, <http://www.burleytobacco.com>; and Flue-Cured Tobacco Cooperative Stabilization Corporation, <http://www.ustobaccofarmer.com>.

II. Harms Caused by Smoking and Other Tobacco Use and their Impact on Tobacco States and Tobacco-Farming Communities

In 1964, the Surgeon General first documented the harmful effects of smoking in *Smoking and Health: Report of the Advisory Committee of the Surgeon General of the Public Health Service*, which summarized the state of the science knowledge regarding tobacco use at that time. Research conducted since the release of that Report has established that smoking and other forms of tobacco consumption cause enormous health problems and suffering. Smoking kills more than 400,000 people each year in the United States. It is the leading preventable cause of death in the United States and causes a wide variety of serious illnesses.

Smoking and Cancer. Approximately 30 percent of all cancer cases are caused by smoking. Smoking is responsible for 87 percent of lung cancer cases, and 28 percent of deaths attributable to smoking involve lung cancer. Smoking is also a risk factor for cancer of the larynx, oral cavity, esophagus, bladder, kidney, pancreas, stomach and cervix.

Smoking and Respiratory Diseases. Twenty-six percent of smoking attributable deaths come from respiratory diseases. Smoking is the cause of most cases of emphysema and chronic bronchitis.

Smoking and Heart Disease and Heart Attacks. More men and women in the United States die each year from cardiovascular disease attributed to smoking than cancer or any other single cause. Approximately 18 percent of strokes are attributable to active cigarette smoking. As many as 30 percent of all coronary heart disease deaths in the United States each year are attributable to smoking.

Spit Tobacco Use. Smokeless tobacco use causes gum disease, oral cancer and increases the risk of cardiovascular disease.

Harms from Pregnant Women Smoking. Smoking by pregnant women increases the risk of spontaneous abortions, stillbirths, and sudden infant death syndrome (SIDS) after birth. It also increases the risk of birth complications and respiratory disorders among newborns.

Secondhand Smoke Harms. Children exposed to secondhand smoke, particularly children of parents who smoke, face a higher risk of such health harms as SIDS, acute and chronic respiratory disease, asthma, and middle ear infections. Research has also established that

secondhand smoke exposure increases the risk of disease, including lung cancer and chronic coronary heart disease in otherwise healthy adults.

Smoking Addiction Starts Early. The peak years for first trying to smoke are the sixth and seventh grades, or between the ages of 11 and 12, with many kids starting even earlier. Within weeks or days of first starting to smoke occasionally, young smokers show numerous signs of nicotine addiction; and more than a third of all kids who ever try smoking a cigarette will become regular, daily smokers before they leave high school.

Smoking Harms in the Tobacco States.

Those states and communities with the highest smoking rates and largest per-capita cigarette consumption suffer much higher rates of smoking-caused disease and related harms. Because of the importance of tobacco farming and manufacturing in the tobacco states, their residents have been slower to accept the link between smoking and health harms. These states have fewer health programs to keep kids from smoking or help adults quit. In addition, cigarette prices are considerably lower than the national average in the tobacco states because of lower state cigarette tax rates. As a result, the tobacco-growing states also tend to have higher-than-average smoking rates, and suffer disproportionately from smoking-caused harms.

<u>Table 1. Tobacco States'</u>				
<u>Tobacco Use Rates and Associated Harms</u>				
Major Tobacco States	Youth Smoking	Adult Smoking	Male Youth Smokeless	Smoking Deaths Per 100,000
<i>Georgia</i>	35.3%	23.7%	21.7%	364
<i>Kentucky</i>	41.5%	29.7%	27.8%	444
<i>North Carolina</i>	31.6%	25.2%	14.3%	368
<i>South Carolina</i>	36.0%	23.6%	13.8%	378
<i>Tennessee</i>	32.4%	24.9%	24.3%	390
<i>Virginia</i>	29.6%	21.2%	19.0%	360
Other States' Averages	32.3%	22.8%	15.9%	343

The economic costs to the tobacco states caused by smoking are enormous. The smoking-caused health care costs, alone, in the major tobacco states range from more than \$760 million per year for South Carolina to more than \$1.7 billion per year in Georgia. Nationwide, annual smoking-caused health care expenditures total at least \$89 billion, including smoking-caused Medicaid payments of about \$17 billion per year.

The experiences of those states that have initiated comprehensive tobacco control programs establish that effective measures exist which can prevent tobacco initiation among youth and help adults who want to quit. Comprehensive tobacco control programs – consisting of community-

based initiatives, school-based programs, counter-marketing, public education, programs to help people quit, and vigorous enforcement of state laws forbidding tobacco sales to kids and protecting nonsmokers from secondhand smoke – prolong lives, reduce disease and secure healthcare savings.

For more details on health related tobacco issues, see the following websites: Campaign for Tobacco-Free Kids, www.tobaccofreekids.org; U.S. Centers for Disease Control and Prevention, Office of Smoking and Health, www.cdc.gov/tobacco; American Cancer Society, "Tobacco & Cancer," www.cancer.org/tobacco; and American Heart Association, "Cigarette Smoking, Cardiovascular Disease, and Stroke," www.americanheart.org/Scientific/statements/1997/119702.html.

III. Emerging Challenges for U.S. Tobacco Farmers

Based on current trends, U.S. cigarette production is expected to decline further during the next few years as U.S. cigarette consumption continues to decline slowly and steadily and cigarette exports continue their sharper decline. Whether leaf exports will decline further or leaf imports rise is more difficult to predict, but flue-cured and burley quotas are, at best, expected to remain close to the sharply reduced 2000 levels. It is also clear that U.S. tobacco farmers face challenges other than reduced demand, including the increase in direct contracting between farmers and cigarette companies and the possible termination of the U.S. tobacco program.

Contracting and the Tobacco Price Support Program

Historically, essentially all flue-cured and burley tobacco has been sold at a government-sanctioned auction. However, in 2000 over one-fourth of U.S. burley leaf sales bypassed auction warehouses via contract sales directly to the largest cigarette manufacturer. That percentage is expected to grow, and contracting is also expected to extend to flue-cured tobacco sales in 2001.

At the Commission's hearings and elsewhere, many tobacco farmers expressed serious concerns about the impact of contracting on their future well being. One concern is that contracting will end up leaving out many of the smaller tobacco farms because it is simply too much trouble for the cigarette companies to contract directly with a large number of small-scale farmers. A related problem is that smaller farms with limited financial resources may not be able to comply with the cigarette companies' demands for adopting various new technologies; and smaller farms may not be able to provide large enough sale lots of the kind of quality-segregated leaf the companies now say they want. Additionally, with only small amounts of tobacco available for auction sales, exports would likely decline even more.

In addition, many tobacco farmers worry about losing their independence and autonomy if they enter into direct contracts and lose their ability to sell their leaf through auctions. Many believe that through contracting tobacco farmers risk becoming, in effect, employees of the companies. Because of the unequal bargaining power of tobacco farmers and the large cigarette companies, many farmers also fear that the companies will ultimately demand significant concessions from

the contracting farmers, such as lower prices. Similar shifts to direct contracting in the U.S. poultry and pork markets, for example, have resulted in sharp price reductions, among other problems for farmers.

The U.S. tobacco program currently guarantees minimum prices for tobacco leaf sold in the United States. Contracting could either require farmers to sell at lower prices (rather than exercise their option of selling through the auction at the program-guaranteed minimum price) or could even lead to the end of the tobacco program. For example, if farmers holding a majority of all flue-cured or burley quota were under contract to the cigarette companies, they might vote to end the tobacco program so that they could escape its production and sales limits and sell more leaf to the companies through their contracts (thereby reducing the demand for non-contract tobacco).

In an analysis of tobacco contracting, University of Kentucky tobacco economist William Snell found that contracting would not only lower prices and favor large growers, but would likely reduce grower independence while increasing the cigarette companies' control, thereby creating a greater risk of market power abuses by the companies. He also concluded that direct contracting could reduce the amount of public information on prices, quantities sold, and quality and grade that the current auction system provides, and which the price support program requires.

Because of these concerns, the Commission has received proposals that Federal legislation is needed to make sure that tobacco contracting does not put existing U.S. tobacco farmers in an even worse position than they are in today. Related comments were also received expressing the view that tobacco sold under contract should still be inspected for quality and safety both to ensure fair competition with non-contract leaf and to address public health concerns.

Possible Termination of the Tobacco Program

Beyond the rise of contracting, the recent sharp reductions in tobacco quotas coupled with stagnant prices and large increases in quota rental rates are also jeopardizing the future of the U.S. tobacco program. Finding it increasingly hard to survive under the tobacco program, farmers might simply vote to end it. But eliminating the tobacco program would create major hardships for most tobacco farms, particularly small family-run operations. While overall U.S. tobacco production and sales would probably increase, prices would drop considerably – and many farmers would not be able to make up for the price cuts through increased sales. In addition, virtually all flue-cured and burley tobacco would soon be grown under contract, with the potential problems described above, and the number of active tobacco farms would decline sharply.

While it is difficult to predict exactly how much U.S. leaf prices would drop and sales would increase if the tobacco program were eliminated, various tobacco economists and researchers have developed estimates based on an analysis of historical data and existing circumstances. For example, studies suggest that 25 percent price reductions would increase overall U.S. tobacco leaf sales by about 36 to 62 percent, although the most recent study supports the lower figure. In a 1999 study, which took into account the different domestic and global markets for burley and

flue-cured tobacco, agricultural economists and tobacco specialists Blake Brown, William Snell, and Kelly Tiller calculated that the end of the tobacco program would reduce burley prices by more than twenty percent, but burley sales would increase by only 13 to 16 percent. In contrast, they project that flue-cured prices would drop by about 27 percent, but flue-cured sales would increase by 84 to 89 percent.[‡] However, some observers believe the calculated flue-cured sales figures are too high because of the likelihood that offsetting price reductions and other adjustments would occur in competitor countries.

These calculations suggest that burley growers would, as a whole, suffer more from the end of the tobacco program because the overall increased demand for burley would not compensate for the price drop. Total U.S. burley revenues would decline. Because the demand for flue-cured leaf would increase relatively more than its price would drop, flue-cured growers, as a group, would do better than the burley growers. Nonetheless, many individual flue-cured growers would still be unable to expand their own production sufficiently, or at a low enough cost, to make up for the reduced prices, and many smaller-scale flue-cured growers would not be able to compete successfully against larger farms with lower production costs. It is also important to note that there are many more burley farmers than flue-cured farmers in the United States.

Initially, production of flue-cured tobacco would likely move to larger farms that could produce the tobacco most cheaply, with shifts away from the Piedmont areas of North Carolina and Virginia to eastern North Carolina, South Carolina and Georgia. Similarly, burley production would likely move out of the Appalachian regions and concentrate in the Bluegrass and South Central areas of Kentucky. Eventually, production could also move to non-traditional growing areas, including non-tobacco states, and be grown on much larger, more mechanized farms than exist today, under more direct control of the cigarette companies.

Besides putting many existing tobacco farmers out of business, these shifts would create considerable additional hardships for tobacco-dependent local economies and input suppliers that are already suffering. Tobacco auction warehouses would likely disappear. Moreover, the end of the tobacco program would also eliminate existing quota rights with no compensation, which would be a serious economic loss for many quota holders, especially those who rely on income from renting or leasing their quota. The value of existing tobacco farmland, which would no longer have an exclusive right to grow tobacco, would also decline sharply. In Kentucky, for example, farmland values would probably drop by about 10 percent and could reduce the value of the land owned by current tobacco farm owners, or their landlords by as much as \$7 billion.

The end of the tobacco support program would also prompt a substantial shift of income and profits from current U.S. tobacco growers and quota holders to the U.S. cigarette companies. Tobacco economists Brown, Snell and Tiller calculate that the loss of quota value alone caused by the end of the tobacco program would transfer over \$500 million per year in yearly income from quota holders to the cigarette companies. Based on the cost savings caused by the declines in U.S. and foreign tobacco leaf prices, others have estimated that the end of the tobacco program would transfer \$800 million or more per year to the cigarette companies from tobacco farmers.

[‡] These changes in U.S. leaf prices and sales would also reduce foreign leaf prices and sales.

Because of these concerns, the Commission does not support ending the U.S. tobacco program without continuing some kind of system for limiting U.S. tobacco production to existing farming areas, maintaining minimum prices, and promoting public health and safety concerns. There are many ways that the current tobacco program could be modified, including some form of quota buyout which is discussed in the next section of this Preliminary Report. Accordingly, the Commission requests additional comments and proposals from all interested parties to guide its efforts to develop the most constructive ways possible to modify the tobacco program and address the many concerns related to the rise of contracting and the possible termination of the tobacco program, while protecting family farmers and the public health.

For more information on contracting, the future viability of the U.S. tobacco program, and the possible consequences from its elimination, see Working Draft, Policy Issues and Options Surrounding a Buyout of U.S. Tobacco Quotas by Will Snell and Daniel Green, December 2000 and Report to the Presidential Commission on Tobacco by A. Blake Brown, December 1, 2000 which may be found on the Commission's website at <http://www.fsa.usda.gov/tobcom>; and Contracting in Tobacco? By Carolyn Dimitri and Edward Jaenicke on the Economic Research Service's website at <http://www.ers.usda.gov/briefing/tobacco>.

IV. Options and Opportunities for Assisting Tobacco Farmers and their Communities - Without Harming the Public Health

The many challenges currently facing tobacco farmers and their communities can be addressed in part by helping tobacco farmers develop new sources of income besides growing tobacco for consumption, helping tobacco farmers and their communities become less dependent on tobacco and making sure the American tobacco farmer is protected against unfair trade practices and unfair foreign competition. From its hearings in Raleigh, North Carolina and Louisville, Kentucky as well as written comments, the Commission heard from a broad spectrum of agricultural, health, economic and community representatives who presented a range of ideas, opportunities and described existing initiatives that could play key roles in ensuring both the short and long term viability of tobacco producing communities and regions. This section of the Preliminary Report offers a brief outline of the key options and opportunities. The Commission will consider these and other ideas further - and looks forward to obtaining additional information, ideas, and insights from tobacco farmers and others - prior to issuing its final report and recommendations.

1. Buying Out Existing Owners of Tobacco Quotas to Enable those that so Desire to Reduce or Eliminate their Reliance on Tobacco Farming Income.

Tobacco farmers and others expressed strong support at the Commission's public hearings for a quota buyout. Because of the sharp, recent declines in the amount of tobacco that can be grown under quota in the United States, interest in a quota buyout is rapidly gaining momentum. Quota owners are supporting a buyout to receive reasonable compensation for their dwindling assets, while growers desire some means to lower both their current farming costs and the cost of

obtaining additional production rights. In addition, a buyout of existing quota rights may be a necessary first step toward making the kinds of fair and constructive reforms to the existing tobacco program and U.S. tobacco farming that many tobacco farmers want and need.

Past U.S. government policies have helped to make many farmers and farm communities dependent on tobacco-farming income. By creating tobacco-growing quotas and related farming restrictions, the U.S. tobacco support program has created important financial assets that many who own or lease quota rely on. Whether a buyout will occur, or what precise form a buyout might take, has not been determined. The Commission has determined that existing quota rights should not be eliminated without providing fair compensation.

While setting a reasonable buyout price for flue-cured or burley quota is complicated and depends on a variety of factors and predictions about the future, reasonable buyout prices probably range somewhere between the current market price of quota and the prices proposed in 1998 buyout discussions. The total cost of any quota buyout, however, would depend on whether it is partial or complete, voluntary or mandatory, and its budgetary impact would depend on how it is financed and the period of time over which buyout payments were made. Possible funding options include existing Phase I or Phase II settlement funds (funds from the settlement between states and cigarette companies), an increase in Federal or state tobacco excise taxes, or earmarked funds from an increase in U.S. cigarette prices or from cigarette company savings from associated tobacco price reductions. Although funding a buyout from new Federal taxes or charges against the cigarette companies could reduce the companies' Phase II payments to tobacco farmers and quota holders, any such losses could be offset by the benefits to farmers and quota holders from the buyout.

Along those same lines, one of the important questions for any buyout system is how buyout funds should be allocated among existing farming and non-farming quota holders and those tobacco farmers who lease quota.

This Commission has already determined that some kind of tobacco program that limits production and maintains minimum prices should be maintained even if there is a complete buyout of existing quota. Accordingly, any decision to institute a buyout must also determine what form the new tobacco program should take, including how the new production rights or limits should be structured, how they should be allocated among those who continue tobacco farming, and whether they should be transferable.

In its consideration of these and the many other questions pertaining to a possible buyout, the Commission will continue to meet and hear from growers, economists and others before it makes its final recommendations and issues its final report.

2. Developing Alternative Uses for Tobacco that do not Harm the Public Health.

Alternative uses of tobacco other than for smoking or other consumption are already under development and may some day create substantial new markets for tobacco. For example, researchers and bioengineering entrepreneurs have begun to use tobacco plants as hosts for

bioengineering processes that could be used to produce new antibiotics, vaccines, cancer treatments, other medicines, blood substitutes and even biodegradable plastics and industrial enzymes and solvents. Similarly, researchers are exploring the use of genetically engineered tobacco plants for use in cleaning up contaminated areas just by growing them in the contaminated dirt. But these efforts are in their early, still speculative stages, and are likely to provide immediate assistance to only a very few current tobacco farmers.

Looking ahead, however, the United States could firmly establish itself as the world leader in this area with only relatively small additional investments of public and private funds. In addition, the existing structure and oversight of tobacco production in the United States -- including the production adjustment and price support program, the tobacco grower cooperatives, and USDA oversight -- provide an ideal infrastructure for the safe and constructive production and regulation of bioengineered or transgenic tobacco. More broadly, producing tobacco for non-harmful uses may be an area where the public health community, tobacco farmers, the biotechnology industry, and governmental agencies such as USDA, the FDA and the National Institutes of Health can work together to develop and administer a coordinated plan to protect and benefit both the public health and tobacco producing communities. The Commission seeks advice from a wide spectrum of interests on the potential of bioengineered tobacco and how such production might be supported, organized and administered in the United States most constructively.

3. Helping Tobacco Farmers and their Communities become Less Dependent on Tobacco through new Agricultural and Economic Development Strategies.

In a 1995 survey of tobacco farmers, the majority of farmers indicated that they were interested in trying other on-farm ventures to supplement tobacco income, and 58 percent said they had tried to learn about on-farm alternatives to tobacco. Testimony at the Commission hearings and other information indicates that the interest of tobacco farmers in alternative forms of income is now even higher. Because of the recent, sharp declines in tobacco-farming income, developing new agricultural and off-farm income options for existing farmers has become critically important. But as USDA recently pointed out in its report Tobacco and the Economy: Farms, Jobs, and Communities, “a number of counties, mostly in Kentucky, North Carolina, and Virginia, depend on tobacco for a significant share of local income. These counties have generated relatively few economic alternatives to tobacco.”

To begin addressing this problem, several tobacco states have allocated portions of their tobacco settlement funds to transitional assistance and economic development. North Carolina, for example, has set aside 50 percent of its Phase I tobacco settlement funds to support a new nonprofit foundation that will assist tobacco communities, with an additional 25 percent going to a trust fund for tobacco growers, allotment holders, and workers in tobacco-related businesses. Virginia also set aside 50 percent of its settlement proceeds for tobacco growers and communities and established a commission to oversee spending of the funds.

These new initiatives should be helpful, both in terms of direct assistance and by increasing knowledge and experience about what works best to help tobacco farmers and their communities.

Carefully monitoring and evaluating these new efforts -- and, when necessary, retargeting or restructuring them -- will ensure that they provide the most effective assistance possible. Nevertheless, additional agricultural and economic development and diversification efforts may also be needed to improve the currently troubled economic prospects of many tobacco farmers and tobacco-farming communities. Moreover, no comprehensive regional analysis, investment, or coordination strategy has yet been developed for the tobacco region, much less one that addresses the diverse needs of each of the many different tobacco-farming communities.

Developing Alternative or Supplementary Crops. Most tobacco farmers already grow crops other than tobacco or have other sources of farm income to supplement their tobacco revenues. Flue-cured farmers are most likely to also grow cotton, grains, and related crops, while burley farmers tend to produce beef cattle. But increasing non-tobacco farm incomes must entail more than simply helping tobacco farmers increase their production of existing supplementary crops or livestock. Existing markets may not be able to absorb any significant increases in the production of these other agricultural products, or could do so only through significant price cuts that would reduce farmers incomes. Accordingly, initiatives to help tobacco farmers to increase other forms of farm income must be coordinated with efforts to identify existing markets with unmet demand, to develop new markets, and to make sure that tobacco farmers can access these other markets effectively.

Existing agricultural diversification and development efforts in the tobacco states and nationwide can provide guidance for these new efforts, as can the initiatives already underway to help tobacco farmers develop alternative or supplemental farm income. Land-grant universities, extension services, state departments of agriculture, non-profit foundations and tobacco farm organizations have already been assisting farmers, in varying levels among the several states, in identifying and adopting viable alternatives that can provide high (and stable) returns per acre. Several USDA, Appalachian Regional Commission and Small Business Administration programs have funded new initiatives in recent years for tobacco diversification, and USDA's Rural Business Cooperative Service and the Sustainable Agriculture Research and Education program have focused on agricultural entrepreneurship and new enterprise development.

Among other things, new agricultural development strategies should also consider the possible benefits of developing new business structures or coordinating entities, such as direct-marketing strategies and new farmer-owned processing or marketing cooperatives for non-tobacco crops or livestock. Consideration must also be given to environmental concerns, such as those raised in reference to the expansion of the intensive livestock industry in North Carolina and some of Kentucky's tobacco-farming regions. Another key issue is how to address actual or potential labor shortages for some farming enterprises that require high-levels of seasonal or temporary labor.

Entrepreneurship and Economic Development. In addition to agricultural diversification, other economic strategies will be essential for many tobacco producing communities to weather changes in the tobacco industry. Entrepreneurial development - the nurturing and growing of locally-owned new businesses that create new jobs and increase local wealth - is an increasingly attractive development strategy for communities seeking to diversify their local economy. To be

successful, communities committed to this strategy must develop and enhance local resources and institutions to attract or nurture entrepreneurs and provide both the capital and technical assistance new businesses need to thrive. How a community pursues such a strategy and acquires the means to grow new businesses, both on-farm and off-farm, are issues that need to be explored further.

In addition to entrepreneurial development, tobacco growing communities can seek to strengthen their ties to local economic development agencies, such as the multi-county area development districts, county industrial authorities, or local chambers of commerce. These organizations work on a daily basis to bring new business and job opportunities to the towns and counties they serve. And while the majority of these organizations focus on finding medium and large scale industries to locate in their service area, many of these groups also can work with a specific community and help them identify their strengths and new opportunities, thus softening the blow resulting from declining tobacco income. A key issue for tobacco growing communities is to determine how they can best benefit from these organizations' resources.

Access to Capital. A major barrier facing many farmers who wish to develop non-tobacco income, both on-farm and off, is the difficulty of obtaining the funds necessary to finance their new business. Studies of rural capital markets have found that such financing is often generally available, but bankers tend to be cautious about lending money for new or unfamiliar enterprises. Put simply, small tobacco farmers seeking financing for new businesses with unfamiliar markets are often seen as high-risk borrowers that may not qualify for loans; and there is little or no private equity capital available for these kinds of new ventures.

To improve access to funding for new enterprises, several rural areas have launched Development Venture Capital (DVC) funds to attract new sources of equity financing. Like traditional venture capital funds, DVCs seek a strong return on investments, but they also seek to provide social benefits to the communities. Another approach is micro-credit funds, which provide loans for small new economic ventures. Micro-credit funds are typically offered through a variety of non-profits and supported by government and foundation grant funds. These and other approaches to improving tobacco farmers' access to capital for new agricultural and economic ventures need to be explored further.

Leadership and Civic Capacity Development. Whether a community determines its future lies in agriculture, entrepreneurship or manufacturing, building civic capacity and leadership at the local and regional levels is a key starting point for long-term successful economic development. Indeed, the extent to which a community will grow is dependent on its commitment to educate, motivate, reshape and engage its citizens toward the achievement of a shared community vision. While several counties and geographic regions within the tobacco states have initiated strong civic capacity-building initiatives, few efforts have focused on the unique challenge of building leadership and a shared vision for the rural tobacco communities. One possibility that needs to be explored is the establishment of new entities to enhance and coordinate regional and interstate economic and agricultural development strategies. Some existing regional approaches that could serve as useful examples include the President's Economic Adjustment Initiative for the Pacific Northwest and Northern California, which provides funding and technical assistance to timber-

dependent communities in the Pacific Northwest. Other examples include the Delta Compact, representing the multi-state Lower Mississippi Delta region; the Tupelo Model, Tupelo Mississippi; and the President's Interagency Task Force on the Economic Development of the Southwest Border, which covers 56 counties in California, Arizona, New Mexico and Texas.

The options and opportunities available for economic and agricultural development and restructuring are extensive and complex. The Commission has in many ways only scratched the surface in this Preliminary Report and looks forward to hearing a great deal more about what is being done and what can be done locally, at the state level and regionally in order to ensure the short term and long term viability of these communities.

4. Protecting U.S. Tobacco Growers Against Unfair Trade Practices and Unfair Foreign Competition.

During its hearings, the Commission heard testimony from growers, public health organizations, economists and others on a number of options and opportunities that should be considered to improve the competitiveness of U.S. tobacco farmers in the global market. It is the Commission's view that no options should be implemented that risk harming the public health, impede current public health efforts or threaten the viability of the family-run tobacco farm. Some of the most promising options are outlined here.

Labeling of manufactured tobacco products. Manufactured tobacco product labels contain little information. Additional information could both promote the use of American tobacco leaf and the public health. For example, many smokers, both in the United States and abroad, would choose cigarettes with higher percentages of U.S. tobacco if that information were available.

More extensive ingredient disclosure requirements could also help U.S. tobacco farmers in the same way. For example, some U.S. companies are replacing tobacco leaf with reconstituted tobacco consisting of stems, stalks and floor sweepings. A requirement that cigarette packaging inform consumers of the portion of reconstituted tobacco used in cigarettes could lead to less use of reconstituted leaf in cigarettes and greater purchases of whole leaf from farmers. Similarly, requiring disclosure of additives, ingredients, constituents, pesticides and toxins in cigarettes or the leaf they use could promote the greater use of U.S. tobacco, which has fewer non-approved pesticides than most foreign leaf and which can also produce higher-quality flavor and taste without resorting to as many additives.

Fair trade. Making sure that foreign leaf imported into the United States is held to as stringent health and safety standards as U.S. leaf could make the competition between U.S. and foreign leaf in the U.S. market fairer and more competitive. For example, the pesticide requirements for foreign produced tobacco may not be as rigorous as those applied to U.S. leaf.

Taking advantage of changing technologies. The production of tobacco has remained relatively consistent for decades, and little attention has been given to how new and developing technologies can be applied to tobacco production. New technologies are already being implemented to significantly reduce the amount of tobacco-specific nitrosamines (TSNA) in

tobacco leaf. TSNA's are some of the most significant among the more than 40 carcinogens in tobacco leaf. It is also possible that new transgenic or bioengineering processes could be applied to tobacco production to reduce the use of pesticides, reduce or eliminate toxins and control flavor and taste.

While many questions remain about the health impact of lower TSNA leaf and genetically modified tobacco, it makes sense to promote the exploration of these technologies under the guidance of agencies such as USDA, EPA and FDA to ensure that adequate safety and health controls are in place. These actions could increase the competitive position of U.S. tobacco leaf by establishing health and safety standards for U.S. tobacco that consumers would demand worldwide.

Foreign marketing policies that do not adversely impact public health. The Commission supports the existing prohibition against any U.S. government efforts to increase smoking overseas or to promote the sale of U.S. brands in foreign countries as necessary for the protection of public health. But the Commission also realizes that government efforts to remove unfair trade barriers to the sale of U.S. tobacco leaf overseas could be done without creating any risk of increasing smoking levels or harming the public health. Allowing U.S. leaf to compete fairly with its competition overseas will neither increase foreign smoking levels nor make cigarettes more harmful. Accordingly, U.S. export policies concerning tobacco leaf should be reviewed and both the potential and the risk of China's new trade policies examined.

Increased U.S. tobacco leaf exports to China are now possible because of the reduction of China's general trade barriers prompted by China's entry into the World Trade Organization. Some hope that China could be the next large export market, but others believe that U.S. tobacco is too expensive and would have to be deeply discounted before China would import significant amounts. Moreover, China could become another major competitor of U.S. tobacco farmers in the world market for exported tobacco leaf.

Tobacco-related data collection by USDA and others. More accurate and complete data on domestic and foreign tobacco production, exports, quality and prices are needed to better understand U.S. farmers competitive position and to support more effective planning and policy development. Unfortunately, the tobacco-related data collection and dissemination activities of USDA's Foreign Agricultural Service, often the only reliable source of certain data on world tobacco production and consumption, have been reduced, as have those of USDA's Economic Research Service, which provides extensive data on domestic tobacco production and related topics. Restoring and enhancing the tobacco-related data collection and dissemination by these two units of USDA should be considered.

Other Options and Possibilities

While this section of this Preliminary Report has tried to identify some of the major areas of opportunity for assisting U.S. tobacco farmers without harming the public health, it is by no means complete and much more information and analysis is needed regarding each of the presented ideas and options. Accordingly, the Commission hopes that this section will prompt

additional submissions of new information, ideas, insight and concerns to the Commission from tobacco farmers, community leaders, policymakers, agency and program staff, agricultural and economic experts, members of the public health community and other interested parties.

V. Ways to Reduce Tobacco Use that are Consistent with Efforts to Assist U.S. Tobacco Farmers and Reduce their Economic Problems

The Commission heard testimony from a number of witnesses about the critical public health importance of doing more to reduce the public health impact of tobacco, particularly in the tobacco-growing regions which have suffered disproportionately because of higher smoking rates and other forms of tobacco use. Numerous witnesses testified that they believed that the problems of tobacco growers and the public health were inextricably intertwined.

The Commission also received a number of recommendations about ways in which the health interests could be promoted that also positively impact the tobacco farming communities and the Commission seeks comments on these suggestions.

There was a good deal of discussion about the need for expanded comprehensive tobacco prevention and cessation efforts designed to prevent young people from starting, educate, encourage and assist adults who wish to quit to do so, and take steps to reduce the harm caused by tobacco products. The Commission concluded that comprehensive programs, such as those suggested in the August 2000 Report of the Surgeon General, to reduce tobacco use and the harm caused by tobacco should be adopted with special attention to the need for these programs in tobacco growing states. These programs should be based on the best available science and should be tailored to the needs of individual communities. The Commission has not yet addressed the issue of how these programs should be funded, but as is the case with the programs to be developed to assist farmers and their communities, these programs will need a reliable and sustained funding base.

The Commission also heard testimony about the importance of establishing a fair and equitable regulatory mechanism for tobacco that protects both the public health and farmers. The Commission concluded that the FDA should be provided with effective authority over the sale, distribution, labeling, marketing and manufacturing of tobacco products with the USDA retaining its authority to set safety standards governing tobacco farms. This authority should be comparable to FDA's authority over other products. The authority should include measures to prevent the use of tobacco by young people, encourage and assist adults who wish to quit to do so, require full disclosure of ingredients, harmful constituents and other information FDA considers necessary to protect the public health, prevent misleading labeling and claims, evaluate the relative harmfulness of different products, ingredients and constituents and set safety standards for the product itself. Its goal should be the promotion of public health, but not the banning of tobacco products. Support for this objective was specified in the Core Principles adopted by farmers and public health groups in 1998.

The FDA should share overall responsibility with the USDA, EPA, and Federal Trade Commission in the oversight of tobacco and tobacco products. The USDA should have responsibility over the growing and production of tobacco; the EPA for the regulation of pesticide use; and the FDA for the regulation of manufactured tobacco products and oversight of tobacco manufacturers.

While the role of the FDA in protecting the public health is obvious, there may also be advantages to tobacco farmers and their communities. Growers in the United States pride themselves on the production of the best quality leaf in the world. FDA labeling of manufactured tobacco products that discloses content information, the establishment of manufacturing standards, EPA establishment of pesticide regulations and developing new uses for tobacco could improve the competitive position of U.S. growers both here and in international markets and positively impact on public health.

The Commission seeks comment on these health related recommendations, as well as suggestions for other options that the Commission should consider.

VI. Request for Comments

The Commission finds that U.S. tobacco farmers and tobacco-farming communities are in perilous financial conditions. Public input indicates that immediate relief is needed for many tobacco growers and many family farms who are burdened with a severe financial crunch caused by declining quotas and increased foreign competition. At the same time, the problems facing U.S. tobacco farmers and their communities require long-term solutions and comprehensive approaches. There are no quick fixes.

Because of the many complex problems associated with tobacco production and public health, all interested parties are invited to comment on issues raised in this Preliminary Report or on any other issues pertinent to the Commission's charge. Public comments on this Preliminary Report are requested through February 16, 2001. Comments may be made through the Commission's website www.fsa.usda.gov/tobcom, by email to tobcom@wdc.usda.gov, by fax 202 418-4270, or by writing Tobacco Commission, STOP 0574, 1400 Independence Avenue, SW, Washington, DC 20250-0574.

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