

Tobacco Commission

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MAJOR FINDINGS AND RECOMMENDATIONS

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

The President's Commission on U.S. tobacco farming and public health recommends that: (1) the federal government compensate U.S. tobacco farmers for their tobacco-growing quotas as part of a strategic plan to completely revamp the quota system in the federal tobacco program; (2) a new economic development center be created to provide assistance for farmers and their communities receive during their economic transition from dependence on tobacco; and (3) steps be taken to improve the public health including granting the U.S. Food and Drug Administration effective authority to regulate tobacco.

The President's Commission consists of an equal number of tobacco farmer and public health representatives, as well as two economic development experts. Well aware of the crisis situation that has engulfed U.S. tobacco farmers and their communities, the members of the President's Commission unanimously endorsed the Commission's final report and recommendations without qualification. As unlikely as it might seem, the Commission has found that the health and safety of the American people and that of tobacco farming communities are unavoidably linked and would mutually benefit from the implementation of the Commission's recommendations.

The Unique Crisis Facing U.S. Tobacco Farmers and Their Communities

Despite continuing increases in the global demand for American-blend cigarettes and the flue-cured and burley tobacco they contain, there have been huge drops in the demand for American-grown burley and flue-cured leaf, both here and abroad. Today record amounts of foreign grown tobacco are replacing American tobacco in U.S. made cigarettes and more and more tobacco products are being manufactured overseas using little American-grown leaf. At the same time, U.S. leaf prices have not kept up with inflation and U.S. tobacco-farming costs have soared.

Just since 1997, the amount of flue-cured tobacco U.S. farmers are allocated to grow under the tobacco program's quota system has dropped by 45 percent, while the quota for burley leaf has declined by more than 52 percent (despite a major federal government purchase of surplus burley leaf last year that substantially increased the current burley quota). These declines in the amount of tobacco U.S. farmers may grow and sell has drastically reduced their incomes; and any significant future increases in tobacco quota are unlikely without additional government purchases of surplus leaf or other government interventions.

Many U.S. tobacco farmers have already been forced out of business and thousands of others are finding it increasingly difficult to survive. These losses of tobacco farms and tobacco-farming income have also had a devastating ripple effect felt throughout many tobacco-dependent communities in more than a dozen different states. The effects of this economic dislocation include public health declines in these tobacco-dependent communities, which already have disproportionately high levels of smoking-caused disease, and death, as well as many other economic costs.

Unlike other farmers and farming communities facing economic difficulties, the problems facing U.S. tobacco farmers and their communities have been caused in part by current federal programs that have created undue reliance by these farmers and their communities in tobacco even while the government was discouraging tobacco use for health reasons. That program has led to false expectations by creating artificial expectations among tobacco farmers that led them to invest heavily even as demand for U.S. tobacco leaf was decreasing. In the current quota system, the tobacco program has also created a financial asset that the vast majority of U.S. tobacco farmers depend on for both current and future income. Indeed, tobacco-growing quota rights have become major economic assets that tobacco farmers buy, sell, and lease, use as collateral for bank loans, and retain or accumulate for retirement security.

Simply eliminating the federal tobacco program would destroy these economic assets and impoverish tens of thousands of U.S. tobacco farmers and non-farming quota holders. But significant reforms to the program are clearly needed to allow these farmers and quota holders to escape this quota-based tobacco trap. Reforms are also needed to ensure that foreign grown tobacco does not have an unfair competitive advantage over U.S. grown tobacco.

The Recommendations of the President's Commission

To assist tobacco farmers and their communities during this period of economic transition, the Commission recommends:

- 1) the adoption of a Tobacco Equity Reduction Program (TERP) to eliminate the tobacco program's quota system and provide reasonable compensation to existing quota owners and growers for their corresponding economic losses;
- 2) a major restructuring of the federal tobacco program to address changing economic and public health realities; and
- 3) the establishment of a Center for Tobacco-Dependent Communities to provide technical assistance, education, and other guidance and support to help tobacco farmers and the country's 568 tobacco-farming counties to develop alternative sources of income.

Recognizing that tobacco farmers and tobacco-farming communities currently suffer – along with all other Americans and U.S. communities – from numerous public health challenges, including extensive harms caused by smoking and other forms of tobacco use, the Commission also recommends:

- 4) providing the U.S. Food and Drug Administration with effective and meaningful authority over manufactured tobacco products and their marketing that parallels its authority over other manufactured products (without creating any new FDA authority over tobacco farming);
- 5) offering new grants to the states to enhance their existing tobacco-prevention or public-health efforts; and,
- 6) providing smokers who wish to quit with assistance through the Medicaid and Medicare programs.

Implementing this package of recommendations would not only resolve the economic crisis facing U.S. tobacco farmers and their communities but also help to minimize the pediatric epidemic of smoking and other forms of tobacco consumption that affect all Americans.

The Nuts & Bolts of TERP and the Related Tobacco-Program Reforms.

TERP replaces the marketing quota system with a production permit system to get tobacco production into the hands of active growers. Quotas would be eliminated and quota owners and growers compensated appropriately for the loss of their quota assets based on their actual economic value. Growers who choose to continue farming tobacco would receive less compensation than those who do not continue. If the TERP is implemented, half of all active tobacco growers are expected to stop growing tobacco.

Based on the economic value of existing quota, the Commission recommends that all quota owners be compensated at \$8 per pound. Active tobacco growers – including those who do not own but only lease quota -- would receive \$4 per pound for every pound of tobacco they agree to permanently stop producing, with those continuing to grow receiving only \$2 per pound. Under these recommendations, the average per-year compensation per quota owner would be \$5,400 over the five-year compensation period. Because of joint farm ownership, calculating the compensation per tobacco farmer is difficult, but the average annual compensation per tobacco farm would be approximately \$10,500 over the five-year compensation period, assuming that 50 percent of the farms continue to produce tobacco under the new production-permit system.

Under the new production-permit system:

- The tobacco-farming permits will be issued annually only to active tobacco growers, including new growers who meet requirements related to experience and adequate means of production (labor, equipment and so forth).
- Unlike current tobacco quota, the new permits will not be or become marketable assets because they cannot be bought, sold, leased, or rented. Accordingly, the permits will not be able to create the kind economic dependence on tobacco farming that the quota system has created.
- The amount of tobacco grown under the production permits will be based on demand for tobacco and existing inventories, and will ensure that tobacco production in the United States does not expand substantially or displace any other crop farming by moving into new geographic areas.
- Price supports for tobacco – which have operated since 1982 at no net cost to the taxpayer (other than administrative costs) – will continue at the same no-net cost basis.

The recommended tobacco-program reforms would also ensure that imported foreign-grown leaf is subject to the same quality standards as American-grown tobacco. The Commission also calls for establishment of a Tobacco Grower Advisory Board to advise USDA, EPA, FDA, the U.S. Trade Representative's Office and related federal departments and agencies that issue rules and regulations governing tobacco production and product control.

Funding The Commission's Recommendations.

To fund its recommendations, the President's Commission calls for a 17-cent increase in the federal excise tax on all packs of cigarettes sold in this country. Revenues from the tax increase would be deposited in a self-liquidating trust fund in the U.S. Treasury and earmarked over a ten-year period as follows:

- **First five years:** All of the funds used to compensate quota owners and growers for the loss of their quota assets and to create and sustain the new Center for Tobacco-Dependent Communities. The compensation would be spread over the five years in equal payments, except that people owning 1,000 pounds or less of quota and who elect to stop growing tobacco may choose to receive their payment in one lump sum during the first year of the program.
- **Second five-years:** Continued funding for the Center for Tobacco-Dependent Communities and all remaining funds to support state tobacco prevention and cessation programs and other public health efforts and full coverage for tobacco cessation programs under Medicaid and Medicare.

After the second five-year period, all revenue from the 17-cent-per-pack increase to the federal excise tax on cigarettes would go to general revenues. Based on existing U.S. cigarette pack sales and expected annual declines of roughly two-percent per year, on average, the recommended excise tax will raise an average of about \$3.4 billion annually. While the tax increase will help to reduce the amount of smoking in the United States, especially among youths, it will reduce the overall, global demand for American-grown burley and flue-cured tobacco by only about one percent.