S. HRG. 108–519

THE NECESSITY OF A TOBACCO QUOTA BUYOUT: WHY IT IS CRUCIAL TO RURAL COMMUNITIES AND THE U.S. TOBACCO INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

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CONTENTS

Page

HEARING(S):

The Necessity of a Tobacco Quota Buyout: Why it is Crucial to Rural Communities and the U.S. Tobacco Industry 01

Tuesday, April 13, 2004

STATEMENTS PRESENTED BY SENATORS

Dole, Hon. Elizabeth, a U.S. Senator from North Carolina, Chairwoman, Subcommittee on Production and Price Competitiveness, Committee on Agriculture, Nutrition, and Forestry 01

WITNESSES

Panel I

Burr, Hon. Richard, a Representative in Congress from North Carolina 03
Etheridge, Hon. Bob, A Representative in Congress from North Carolina 04

Panel II

Crews, Sam, President, North Carolina Tobacco Growers Association, Oxford, North Carolina 11
Flye, Bruce, President, Flue-Cured Tobacco Cooperative Stabilization, Battleboro, North Carolina 10
Parrish, Keith, Executive Director, National Tobacco Growers Association, Benson, North Carolina 14
Wooten, Larry, President, North Carolina Farm Bureau, Raleigh, North Carolina 07

Panel III

Bunn, Tommy, Executive Vice President, Leaf Tobacco Exporters Association, Raleigh, North Carolina 17
Haymore, Todd, Director, Universal leaf Tobacco Company, External Affairs, Richmond, Virginia 21

Panel IV

Charville, Gene, President, East Carolina, Farm Credit, Raleigh, North Carolina 25
Herring, Wallace, Senior Vice President and Manager of Agribusiness, First Citizens Bank, Clinton, North Carolina 27
Taylor, Dallas, Senior Vice President, Wachovia Corporation, Raleigh, North Carolina 29

Panel V

Langdon, J.H. Chairman, Johnston County Board of Commissioners, Angier, North Carolina 32
Scarborough, Allen, Manager, State Affair, Bayer Crop Science, Raleigh, North Carolina 33

Page

APPENDIX

PREPARED STATEMENTS:
Bunn, J.T. 52
Charville, Gene 64
Crews, Sam 49
Dole, Hon. Elizabeth 38
Flye, Bruce 43
Haymore, Todd 58
Herring, Wallace 68
Langdon, James 73
Parrish, Keith 45
Scarborough, Allen 76
Taylor, Dallas 70
Wooten, Larry 41
DOCUMENT(S) SUBMITTED FOR THE RECORD:
Alliance for Health Economic and Agriculture Development 80
Matthew Myers, President, National Center for Tobacco-Free Kids 85
John R. Seffrin, Ph.D, Chief Executive Officer, American Cancer Society .. 107
Star Scientific, Inc. 98
Henry West, President, Burley Tobacco Growers Cooperative Association . 95
M. Cass Wheeler, Chief Executive Officer, American Heart Association 100

THE NECESSITY OF A TOBACCO QUOTA BUYOUT: WHY IT IS CRUCIAL TO RURAL COMMUNITIES AND THE U.S. TOBACCO INDUSTRY

TUESDAY, APRIL 13, 2004

U.S. SENATE,
SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS, COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., at the Central Tobacco Marketing Exchange, Smithfield, North Carolina, Hon. Elizabeth Dole, [Chairwoman of the Subcommittee], presiding.

Present: Senator Dole.

STATEMENT OF HON. ELIZABETH DOLE, A U.S. SENATOR FROM NORTH CAROLINA, CHAIRWOMAN, SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Senator DOLE. Good morning, ladies and gentlemen. As Chair of the Subcommittee on Production and Price Competitiveness on the Senate Agriculture, Nutrition and Forestry Committee, I am pleased to call this subcommittee hearing to order.

When I was elected to the U.S. Senate, I chose to serve on the Agriculture Committee and to Chair this subcommittee because I wanted very much to help advance one of the chief issues from my campaign. That issue, of course, is tobacco quota buyout.

This hearing is not intended to repeat what has been examined in previous hearings. The Senate Agriculture Committee held several hearings on the tobacco buyout when the issue first came to national attention in 1998. This past year, the House Agriculture Committee held a hearing focusing on the positions of the growers, the companies and the public health community.

Their positions are important, obviously, and those who wish will have the opportunity to submit comments for this record any time before the end of this week.

The real purpose for the hearing today is to examine this issue from a different vantage point, to look at it from the perspective of the long-term viability of the tobacco farm family and the rural community that depends on tobacco production.

In the year 2003, farm receipts from tobacco sales were less than $600,000,000; a decline of over $500,000,000 as compared to 1997. That equates to a $1.1 billion hit on North Carolina's economy at current quota levels. The decline in our tobacco industry will continue to cause a negative ripple effect across our state.

Tobacco production is crucial not only to our farmers and our leaf dealers, it also affects our equipment dealers, chemical dealers and so many others. Under the status quo, we are simply exporting economic progress to Brazil and other developing countries when in fact we could be doing a better job here if only given the opportunity.

I look forward to the testimony of two of North Carolina's Congressmen, our farm leaders, the leaf dealers, financial institutions, one of the major players in crop protection and the Chairman of the Johnston County Board of Commissioners; all of whom will provide their valuable insight on the need for a tobacco quota buyout from their particular area of expertise.

Before we move to the panels, let me give a brief overview of where the buyout stands in the U.S. Senate. As all of you know, this past year, the tobacco state members of the Senate for the very first time were able to come together on a consensus bill that was placed on the Senate calendar and we were very proud of the fact that we were together on that legislation.

Given the current make-up and interest of the members of the Senate, and perhaps most importantly given the rules of the U.S. Senate, the object was to attach the buyout to FDA regulation after that piece of legislation was marked up in the HELP Committee, which is the Health, Education, Labor, and Pensions Committee in the Senate.

Because a deal could not be reached with the public health community, an FDA bill was never reported from the Committee, ending our hopes of passing a tobacco buyout coupled with FDA regulation on the Senate floor before the end of the first session.

Considering the quota cut that was looming at the time and the necessity of getting this buyout achieved, we led an effort to try and get a buyout attached as part of the end of the year consolidated spending bill called the Omnibus Bill.

Because a bill had not passed on the floor of either chamber—the House or the Senate—in the final analysis there just was not enough support to get it included in the Omnibus Bill.

That effort did raise the profile of this issue significantly, and we remain committed to leaving no stone unturned as we move forward this year.

Now, it is my goal that our hearing today will help keep this issue on the front-burner and provide those skeptics in non-tobacco states an opportunity to see a different side to this issue than perhaps what they've been witness to so far.

At this point, I would like to introduce the Subcommittee's first panel, my colleagues on the House side, Congressman Richard Burr, who represent many of the smaller tobacco farmers in this state from the fifth district, and Congressman Bobby Etheridge, a tobacco farmer himself whose district we are in today.

They will present their views on the tobacco buyout and any other comments they'd like to make regarding the status of this important issue in the House of Representatives.

[The prepared statement of Senator Dole can be found in the appendix on page 38.]

Congressman Burr, welcome.

STATEMENT OF HON. RICHARD BURR, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. BURR. Thank you very much, Senator Dole, and more importantly, thank you for holding this important hearing and for inviting Representative Etheridge and I to testify before you on the status of buyout legislation in the House of Representatives.

If I could also, let me thank the audience. It is wonderful to see that you understand the importance of this issue to this state—to every community, to the families that make up those communities and at some point in this process, we will rely on you to really be the push that hopefully helps us push this legislation over the goal line.

As you and many others know, Senator Dole, several months worth of effort—starting in January with a core group of tobacco state members—recently culminated in the introduction of H.R. 4033, the Fair and Equitable Tobacco Reform Act of 2004.

The lead authors of the legislation, which was introduced with thirty-five original co-sponsors, are Representative Bill Jenkins of Tennessee and North Carolina's Mike McIntyre. It's now at 38 co-sponsors, including seven North Carolinians, and we expect to pass the Fletcher co-sponsorship total of 42 when we return to session.

The teaming up of Representative Jenkins and Representative McIntyre is significant. They are the Chair and the ranking members, respectively, of the Specialty Crops Subcommittee of the House Agriculture Committee, which has jurisdiction over the tobacco issues, including quota buyout proposals.

H.R. 4033 is the first quota buyout bill Representative Jenkins has sponsored or co-sponsored. H.R. 4033 proposes to pay quota holders $7 a pound and active producers of tobacco $3 a pound over a 5-year period.

It would do so by diverting revenues from the Treasury up to a ceiling that is determined by the total revenue received by the government through the tobacco taxes. The payments would be based on 2002 quota. Estimates place the total buyout payments under the Bill at approximately $9.6 billion; unlike previous quota buyout bills, though; however, H.R. 4033 would not result in the termination of phase II, meaning that approximately $3 billion in phase II checks would continue to be mailed.

Finally, the bill would limit tobacco production post-buyout to traditional tobacco counties plus contiguous counties, similar to the Georgia model in the McConnell Buyout Bill.

The impact of H.R. 4033 on North Carolina's economy, particularly in tobacco communities, would be tremendous. Estimates by agricultural economists put the total economic impact of the Bill for North Carolina at $6.1 billion over 5 years as farmers and quota holders pay off debt, diversify crops, obtain training and education, or simply spend more on goods and services for their families.

It is believed that this new economic activity would support more than 11,000 jobs—many of them in areas where employment opportunities surely are lacking. As a 9-year representative of tobacco country in the House, I am fully aware of the dire situation facing our state's tobacco families and communities.

Introduction of H.R. 4033 represents one step in our effort to alleviate some of the problems facing tobacco production in our state and a great deal of work still needs to be done. To be fair, that work has been and will remain an uphill effort. If it were easy, we would have finished the process months, if not years, ago.

We are working on a number of fronts to get this proposal moving through the Agriculture Committee and to the floor of the House for consideration. We are pursuing opportunities for the Bill to be considered as a stand-alone measure, but we are also working to identify possible vehicles for the buyout to be attached to. Our efforts in the house have been focused more around what we can't do than what we can do.

Our leadership has indicated that they will not move any buyout that is perceived to increase taxes, so we had to eliminate user fees, assessments, increase in the Federal excise tax and other options. Taking care of this particular issue gives us the bonus side effect of allowing Phase II to stay intact.

They also indicated to us that FDA was a non-starter in the House of Representatives, so we had to remove that from consideration. They told us last year's efforts were too expensive, so we had to come down on the payment level. We have worked to overcome those hurdles, and I believe that H.R. 4033 presents us with an excellent alternative to tries that we have had before.

Is H.R. 4033, at $9.6 billion, a smaller buyout than what we would like? Absolutely. Would we prefer to be able to offer quota holders and farmers $8 and $4? Certainly.

Unfortunately, the political and economic realties we face prevent either from having a chance. Politics is the art of the possible and I, for one, would rather get the buyout done than spend time lamenting the fact that the buyout couldn't be bigger. The situation on the ground in tobacco communities is too desperate for fantasy, and we simply can't afford to let the perfect become the enemy of the good.

Our effort here is to jumpstart the legislative process. It has been stalled for far too long. We have identified some technical and definitional corrections that need to be made in H.R. 4033, but we firmly believe those issues and potentially some of the others mentioned above can be resolved in a conference with the U.S. Senate. We need to get to conference first.

Senator Dole, thank you for the opportunity to be here. I would be happy to answer questions that you might have. Thank you, very much.

Senator DOLE. Congressman Etheridge.

STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. ETHERIDGE. Thank you, Madame Chair, and Senator Dole, let me thank you for holding this Subcommittee hearing and issuing the invitation for myself and Representative Burr to join

me today. As a Johnstonian who grew up just down the road on a tobacco farm, welcome you to my hometown here, and having driven over this morning from Harnett, where Faye and I own some property and have a tobacco farm, we really appreciate this opportunity to talk about an issue that's important to the people in this audience today and a lot of others who aren't here today.

As you mentioned, last July, the House Agricultural Committee held a hearing and testimony from tobacco growers, from companies and from the health community on the possibility of a tobacco buyout. The focus of that hearing, as you know, was to hear about the issue at that time and starting to move a piece of legislation.

The focus of this hearing today is why a buyout is critically important to rural communities, and I commend you for that. It's important. I do want, though, to applaud you for having the hearing and looking at the broader scope of this issue.

A buyout—or even more importantly, the failure to pass a buyout—would impact banks, agri-business, rural towns and communities and even county government. The entire economy and the infrastructure of rural North Carolina could be transformed by the billions of dollars that would be made available from the investment of a buyout payment.

This hearing and the testimony that you will hear later today will broaden and talk about those benefits. I commend you for holding the hearing and thank you for it.

I also want to talk briefly about the buyout efforts in the House during this Congress. Five tobacco buyout bills have been introduced in the House of Representatives. These bills differ widely in how much each farmer would be paid, or quota holders, whether there would be any kind of safety net for farmers in a post-buyout world.

Unfortunately, none of these, as you have already heard from Congressman Burr, have anywhere. Everyone here wants to know. Why can't we pass a buyout? That is really why you are here today. You want to know how Congress can pass a bill that will give relief to the farmers in North Carolina.

There are people in this audience and some have already mentioned it to me, why in the world can we pass a bill to send billions of dollars to Iraq that help put that country back together and we can't have just a little bit of money to help our farmers here in North Carolina and across the southeast who are hurting or are in deep trouble.

I believe, and I would think you and Congressman Burr would agree, that the single biggest obstacle to passing buyout legislation is really the lack of political leadership at the highest level. We can plan and fuss and work all we want to, but it's going to take leadership at the highest level—a leadership, for one reason or another, that cannot help members from tobacco producing states answer our most difficult question and that is how to pay for a buyout.

The bottom line—and Congressman Burr talked about it, we all want to talk about it—that is really, the ultimate issue.

The Senate buyout plan introduced by Senate Majority leader, Whip Mitch McConnell and yourself last year, and I commend you for it, answered this question and what it wanted was an assessment to be paid by the tobacco companies. That was enacted.

This is similar to the same user fee in the approach of a piece of legislation introduced by then-Congressman Ernie Fletcher and myself. Unfortunately, that bill was characterized as a tax increase and did not get going, and I believe those attacks against you and your approach were unfounded and absolutely irresponsible. As your office so succinctly put it, "assessments against the cigarette-makers are not a tax"—and I happen to agree.

With our country facing a $521 billion deficit, finding a budget-neutral way to pay for a buyout, I believe, strengthens our argument for the passage of a piece of legislation this fiscal year.

The Jenkins buyout bill mentioned by Congressman Burr would pay for a buyout by using five cents of the current excise tax. However, this approach has faced heavy criticism from the Speaker already in, and Riley and Locall in Washington, and he has said that "we are not going to add to the deficit." "Well, if we aren't going to use that, and we aren't going to use an assessment," my question is how do we get there?

Some authors of the Jenkins buyout legislation publicly acknowledged that the leadership has told them that the $7 and $3 bill that would provide funds for farmers in Georgia is too generous—to the tobacco farmers and quota holders. Everybody in this room would absolutely disagree with that statement. Well, we started out much higher and now we keep getting chiseled down and squeezed again.

If we can't raise excise taxes and if user fees and assessments are unacceptable, and if the leadership opposes using current excise taxes, what else is left for us? The situation of tobacco farmers has deteriorated so badly and for so long, that they desperately need the relief that the buyout offers, regardless of the source of the funding. We have to have some relief.

In my view, a viable buyout must have two components. First, it must fairly compensate the farm families and quota holders whose lives have been uprooted by the economic catastrophe that we have faced now for the last several years.

Second, we must be able—and this is the critical piece—we have to be able to get the votes in the House and the Senate to pass this legislation and then we have to get the signature of the President of the United States if we hope to get relief for the people on the farm in our communities.

If a buyout meets these criteria, I have said from day one I will support it regardless of who introduced it; regardless of what part of the country they come from; regardless of what their party affiliation is—and you would agree with that. It doesn't matter. The fact is, we need to get the job done.

Anything else that we talk about or anything else is shown is nothing more than window dressing. Our focus should be and should remain on helping North Carolina's farm families and making sure that they aren't forgotten one more time and we just do a lot of talking. The tobacco companies have plenty of friends to protect their interests in Washington. My focus is on the farmer and I know, Madame Chair, that is what your focus is, and I thank you this morning.

North Carolina is fortunate to have you engaged in this issue. Our state also is lucky enough to have farm leaders, who are fight-

ing every day for a buyout this year. Let me take just a moment, if I may, to commend several of them. I don't know if they are here today or not.

Keith Parrish, who is a past president of the Tobacco Growers Association, has walked the halls in Washington many, many days and he continues to do it.

Larry Wooten and the Farm Bureau folks—they have been in Washington almost every week to bring the attention to the Members of Congress and to the National Association and Bruce Flye and his Stabilization Team have been working to broaden support for a buyout among the health groups in this country whose support we are going to have to have if we are going to get any legislation passed in Congress.

Finally, Sam Crews, the current North Carolina Tobacco Growers Association President has kept the faith of his members who, after facing year after year of disappointment, have almost given up hope—but not quite. They are still there fighting.

I look forward to reviewing all the testimony that comes in today and thank you again for holding this hearing.

Tobacco farmers and quota holders are just barely hanging on the edge of a cliff by their fingertips. This December, when the tobacco community faces a possible thirty-three percent cut in quotas—that just might be the last straw—and who's going to be there to catch them? We can do it if we make this buyout a top priority and we get the leadership focused and this becomes part of their commitment when they need our vote for something very important in the halls of Congress in Washington, DC.

Thank you, Madame Chair. I look forward to any questions you might have.

Senator DOLE. Thank you very much. I will apply the usual professional courtesy for my colleagues. There is no question that to achieve a tobacco buyout, we must have strong bipartisan support. There are many obstacles to overcome. Everyone has a constituency they must report to. Our problems have not arisen overnight, as we all know. It goes back for a decade.

I want to thank both of you for your testimony this morning. It is imperative that we accomplish a tobacco quota buyout this year and I look forward to our continued work together to reach this goal. Thank you very much for being with us this morning.

Senator DOLE. Now I would like to call forth the second panel; Larry Wooten, President of the North Carolina Farm Bureau; Bruce Flye, President of the Flue-Cured Tobacco Cooperative Stabilization Corporation; Sam Crews, President of the North Carolina Tobacco Growers Association and Keith Parrish, President of the National Tobacco Growers Association.

Mr. Wooten, will you start, please, and we will proceed one by one down the panel. Welcome.

STATEMENT OF LARRY WOOTEN, PRESIDENT, NORTH CAROLINA FARM BUREAU, RALEIGH, NORTH CAROLINA

Mr. WOOTEN. Thank you very much, Senator Dole. North Carolina Farm Bureau is pleased to testify today on this critical issue of a buyout of the tobacco price support and quota system. Senator Dole, I want to thank you for putting your shoulder to the wheel

on behalf of North Carolina's farmers and quota owners in pushing for a reasonable buyout of this badly broken system.

We recognize that this is not an easy issue to tackle. You have made it your top priority and have worked tirelessly in a bipartisan manner to move this issue toward a successful conclusion. For this, all of us thank you.

The tobacco price support and quota system has been good to farmers. I cannot say enough good things about the economic, social and environmental benefits that this sound program has brought to thousands of North Carolina communities since its inception in the forties. Today, the program is not working for farmers and the tobacco industry for the following reasons:

No. 1, the tobacco price support program was never designed for the current intense world competition that our farmers face today.

No. 2, the price support program was never designed for the massive, large-scale farming operations that many of us have today in this state.

No. 3, the tobacco price support program was never designed to operate under the current marketing conditions, especially contracting.

Last, the Federal tobacco price support program was never designed to withstand the consequences of the Master Settlement Agreement.

North Carolina's rural economy has taken many hits as traditional industries, including tobacco, resize, restructure and adjust to world economic realities. According to Dr. Blake Brown, Extension Economist at North Carolina State, and Senator Dole alluded to these numbers in her opening statement. North Carolina farmers have seen a $500 million drop in annual farm gate income from tobacco since 1997.

Barring a weather disaster, economists are forecasting potential for another $200 million loss next year because of an unprecedented forecast of another huge quota cut of around thirty percent. These combined figures represent a $700 million loss of equity that is used to finance farming operations. Anyone who operates a business understands what happens when the balance sheet reflects such a loss of assets.

I am sure that the panel of Ag lenders who will be up next will address the impact of the loss of collateral on credit worthiness and the ability to repay loans.

If—and I say if—the projected quota cut for 2005 would come to pass, the Flue-Cured Tobacco Stabilization Coop will again be under tremendous pressure to mitigate the impact. I am sure that the Coop chairman who will speak next will explain the difficulty and the consequences on that board of further intervention.

In addition, quota cuts of additional sizes signal the end of the United States being a reliable supplier of flue-cured tobacco to the world market. We have steadily lost foreign buyers due to high prices and low leaf selectivity.

Further loss of quota, ladies and gentlemen, I fear will seal our fate. Our foreign customers are watching this buyout issue very closely and they are being forced to make business decisions on whether to remain customers of American leaf. Once we have lost

these markets for leaf tobacco, it will be extremely difficult to get them back.

Additional quota cuts will cause the already high rent for quota to further escalate—neighbor bidding against neighbor; friend against friend for whatever quota there is left to rent. We will see farmers forced to exit tobacco farming without an option for orderly transition or have a safety net.

As we will have to consider massive restructuring of the current program to salvage some stability for tobacco producers, the question is who will win that political tug-of-war—the east, the piedmont, the quota owners or the producers?

Tobacco quota impacts farmland values. The check-off funded export promotion program run by Tobacco Associates is currently running out of necessary funding. The check-off funded Tobacco Research Commission that is so important to the future of this industry is also hurting.

As assessments spiral out of control, the whole no-net-cost infrastructure has become a house of cards and is on the verge of collapse. All of you know that political realities make Federal funding of these programs impractical. Where do we go and what do we do?

The impending collapse of the tobacco price support system, ladies and gentlemen, will be a harsh and financially devastating occurrence for farmers and rural North Carolina. We have plowed this row, Senator Dole, to the cliff and we can go no farther.

Farmers were not at the table when the Master Settlement Agreement was negotiated in 1998. The public health community hoped that the Master Settlement Agreement would begin the demise of tobacco and cigarette manufacturing. Senator Dole, just the opposite happened.

Today, we have startup cigarette companies that are not only growing but they are thriving and prospering using cheap, imported tobacco and making minimal contributions to the Master Settlement Agreement funds. Because of the impact that the Master Settlement Agreement has had on the quota system, our farmers all across tobacco regions in the southeast United States are swallowing the economic consequences while state governments and city governments balance their budgets with the proceeds of the settlement.

Senator Dole, for there to be a future for North Carolina tobacco farmers, our producers must be unfettered from a program that I said earlier has been extremely beneficial to this industry but has regrettably run its course. Farmers must be allowed to compete and meet their customers' needs, and this can only be obtained when we have a complete, adequately funded, total buyout of the current tobacco quota system.

Adequate compensation for their investment in this program will allow many farmers to exit the industry with dignity. However, there must be a stable future for those farmers who wish to invest in growing and continue selling tobacco.

Senator Dole, in conclusion, North Carolina Farm Bureau is at your disposal any time, any where, any place to continue to work in a serious way with any group—the cigarette manufacturers, the leaf dealers and the public health community and other farm orga-

nizations to make certain that farmers have a future. Thank you for giving me this opportunity.

Senator DOLE. Thank you. Mr. Flye.

[The prepared statement of Mr. Wooten can be found in the appendix on page 41.]

STATEMENT OF BRUCE FLYE, PRESIDENT, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION, BATTLEBORO, NORTH CAROLINA

Mr. FLYE. Thank you, Senator Dole. On behalf of the membership of Flue-Cured Tobacco Coop Stabilization, I appreciate the opportunity to submit testimony regarding the economic plight of tobacco farmers and the future of tobacco production in the United States.

In 1998, the Master Settlement Agreement attempted to address the plight of our tobacco farm communities. Unfortunately, neither tobacco farmers nor community leaders were allowed to participate in these discussions. Tobacco companies raised the prices of tobacco products to pay for the Master Settlement Agreement and to protect their profits.

The very foundation of their prosperity—tobacco farmers and their communities—were left out. A user fee to pay for the tobacco quota buyout would help rectify this mistake.

Since then tobacco quota reductions of almost fifty percent, skyrocketing quota rent and thousands of tobacco farmers and their families are being pushed to verge of bankruptcy. While the tobacco farmers' plight is serious, the lack of action is killing our rural communities.

Our state and county governments are struggling with declining revenues; our schools, churches and small businesses are reeling and worst of all, our young people, our future farmers, are leaving the farm in droves because they see no opportunity.

For every tobacco farmer at risk of being forced out of business, there are ten other people in the farm community who are part of the farm economy, who are in danger of suffering the same fate. Banks, grocery stores, fertilizer and farm equipment dealers and automobile dealerships all depend on the cash-flow from the tobacco economy. Tobacco farmers' problems don't stop at the farm. They affect the entire community.

How do we justify a tobacco quota buyout? All the major row crop commodities—corn, cotton, soybeans and peanuts. Peanuts even have a quota buyout, a lower buyout, but we still have a safety net for peanuts. They are all subsidized.

Tobacco is not subsidized and it is not part of the Agricultural budget. Tobacco farmers pay for their program and have paid a no net cost assessment to the government since 1982. Tobacco farmers pay for USDA inspection and they pay for the losses on CCC loans.

The combination of a tobacco quota buyout and reasonable FDA regulation of tobacco products which includes a listing of the ingredients of cigarettes on the packaging so that our young people will know what the risk is of what they would be ingesting into their bodies—this will be good for the health of our young people and good for our tobacco-producing communities.

Only the U.S. Congress has the authority and the power to set things right. The flue-cured tobacco production section can no longer afford to wait until next year. We are possibly faced with another huge quota decrease and increased no net cost assessment in 2005.

If this happens before Congress can act, the economic toll and human suffering will be catastrophic. Without immediate action, Congress will bear full responsibility for the devastation and ruin of an important sector of our economy and the dashed hopes and dreams of thousands of farm families and their communities.

We are pleading for our very survival, for the survival of our communities. Only the U.S. Congress can intervene. Again, I thank you for the opportunity to give this testimony.

Senator DOLE. Thank you.

[The prepared statement of Mr. Flye can be found in the appendix on page 43.]

Mr. Crews.

STATEMENT OF SAM CREWS, PRESIDENT, NORTH CAROLINA TOBACCO GROWERS ASSOCIATION, OXFORD, NORTH CAROLINA

Mr. CREWS. Thank you, Senator Dole. Thank you for holding this vitally important hearing. I am Sam Crews, a tobacco grower from Granville County and president of the Tobacco Growers Association of North Carolina. Additionally, my family owns and operates a Stabilization Marketing Center, formerly an independent warehouse, and also a farm supply business. My remarks today will address all of these perspectives.

Many opponents have questioned the price of passing a tobacco buyout. Should we not in fairness argue the price of our failure to pass one? Every tobacco farm in North Carolina is a small family business.

In my community of Oxford, the average size farm will grow between 50 and 100 acres. These growers will modestly spend $2,500 to $3,500 per acre in Granville County buying fuel, fertilizer, crop protection inputs, labor, supplies, equipment, etcetera.

On our farm, my brother Jimmy and I operate as a partnership. Beyond our business operating expenditures, we each spend tobacco income at a local grocery store, pay our local utility bills, buy clothes and other necessities for our wives and our school-age children. I have two children and my brother has four.

We use tobacco revenues to trade vehicles with the local auto dealer, secure various loans from the local bank. We also give tobacco profits in the church offering plate as well as donations to other important charitable causes.

All of these activities stimulate the local, rural economy in Granville County. All of these have been negatively impacted as our quota has evaporated. My point is that the tobacco buyout or lack of one reaches far beyond the farm. The merits for achieving a buyout are that it would be the single largest contributor to saving the dismal economy of rural North Carolina.

Nearly a decade ago the Tobacco Growers Association advocated for a tobacco quota buyout realizing that in the future increasing world production occurring while our domestic costs of production

were increasing would someday place us at a competitive disadvantage. The future is now.

The 1997 U.S. flue-cure crop approached one billion pounds. Two-thirds of that crop was produced in North Carolina. In 2004, we will grow the smallest crop in the history of the tobacco program. In fact the entire U.S. production this year will be nearly 200 million pounds less than we grew as a state just 7 years ago.

In 1997, my brother and I grew 206 acres of tobacco. Our independent warehouse sold five and a half million pounds at auction with nearly one hundred percent being purchased by traditional customers. The future for growing and marketing tobacco seemed consistently dependable and optimistic.

This year we are reduced to 145 acres which if not for purchasing quota or renting of neighbors' pounds who were going completely out of farming, we would have been less than 100 acres. As for our warehouse, if it were not for serving as a Stabilization Marketing Center, we would be completely out of that business.

This year we may sell around 3 million pounds at the marketing center in a building that we built to potentially accommodate three times that volume.

How did we arrive at this seemingly irreversible situation? In 1998, a congressional effort to pass a buyout was overloaded—largely due to FDA regulatory efforts and a massive price tag. The 1998 effort, which we refer to as the McCain bill, was never passed. What occurred next none of us could have imagined would ever happen.

In 1999, the major cigarette manufacturers entered into the Master Settlement Agreement in order to avoid future individual state litigation. The price of the MSA was over $250 billion. Obviously it was funded on the backs of cigarette smokers who chose to endure an undisclosed per pack increase.

The option for smokers has been to stop using tobacco, but in more instances use a cheaper made, lower retail cost product. Often that product contains little to no U.S. grown leaf, which of course adversely affects our farms.

The option for cigarette makers was to find ways to lower the costs of making a pack of cigarettes. Reports indicate corporate downsizing and mergers as one management practice. Many if not all of them have sought cheaper, offshore tobacco resulting in a sharp and unprecedented decline in the U.S. quota.

All across rural North Carolina, the absolute costs of the settlement has been thousands of displaced tobacco farm families. Indeed thousands of growers have witnessed business foreclosures and today are struggling to make ends meet.

Additionally the once thriving auction warehouse business like the one my family entered into, has been reduced to little more than a dozen operators in the nations largest tobacco producing state.

Our growers have scrambled to invent new ways to economize their operations. The margins simply do not exist. For nearly every grower, the 2004 crop will be the smallest ever produced. Yet, the 2004 crop will be the most expensive I have ever grown on my farm in Oxford.

Consider the recent spike in various input costs. Fuel is at a record high. Adverse wage rates for guest workers are now over $8 an hour. Many growers find themselves in an escalating rental situation for leased tobacco pounds paying nearly twice the rental rates of 1997. Finally, the marketing assessment fee is double what it was just last year at 10 cents.

If the aforementioned erosion of my chance for profitability isn't enough to test my optimism then last week's newspaper report quoting Dr. Blake Brown did. Dr. Brown predicts we could witness as much as a thirty percent reduction in quota for 2005 if we maintain the status quo.

Senator I, nor any of my neighbors can endure such a catastrophe.

Everything that I have described has occurred in just 7 years. The tragedy is that growers did not create this current plight because of poor business decisions or bad management practices. Unless sweeping changes are implemented, many more will unnecessarily succumb to the unprecedented and unpredictable increased pressures of simply trying to stay in business.

Our challenge is not to simply rectify flawed policy. Ours is a complex arrangement of situations bound together by the Federal tobacco program. The program has served us well since the 1930's but in today's global marketing economy, it is now a deterrent to buying U.S. grown leaf. It is widely considered a relic whose previous merit is obvious and appreciated, but whose current incarnation is crushing us in the world market.

We have been greatly diminished as the world's supplier of premium grown tobaccos. Customers say that our leaf is too expensive relative to the world market. As a producer of that leaf, I am confident that it is worth its price and I am proud to deliver that value. However, as a businessman, I must pay close attention to the characteristics my customer values. We are dangerously approaching the reality of becoming a niche leaf producer for one major manufacturer.

I become increasingly disturbed by the number of proud, yet broke tobacco farmers that I personally know. For the past 2 years many of them hung on hoping for a buyout. A buyout that would afford the opportunity to address debt and either remain profitable or transition away from growing tobacco. Sadly, they remain indebted and completely out of the tobacco farming business.

Absent the achievement of an $8 and $4 tobacco buyout this spring, I, too, may join the ranks of unemployed former tobacco farmers. For too many of us, time has already run out. Please do all that you can to advance and achieve the buyout in the next several months.

On behalf of all NC growers, I thank you for your leadership and attention on this matter.

Senator DOLE. Thank you. Mr. Parrish.

[The prepared statement of Mr. Crews can be found in the appendix on page 49.]

STATEMENT OF KEITH PARRISH, EXECUTIVE DIRECTOR, NATIONAL TOBACCO GROWERS ASSOCIATION, BENSON, NORTH CAROLINA

Mr. PARRISH. I feel like I am sitting on the bench over here. My name is Keith Parrish. I represent the National Tobacco Growers Association as its Executive Director and also am a lead plaintiff in the grower lawsuit for North Carolina. I am most of all a tobacco farmer and quota holder from Benson, North Carolina, and I thank you very much for holding this field hearing on legislation that is critical to the future of all tobacco growers, quota holders, consumers and manufacturers in the American tobacco industry.

Tobacco growers and quota holders have lived under the nation's quota—tobacco quota and price support system since the 1930's. As everyone else has said today, the system that was invented for a different time worked well for many years, but it is now clearly broken. It is imperative that we work together to create a landmark national initiative on tobacco.

American tobacco farmers support a buyout of historic tobacco farm quotas and reasonable FDA regulation of tobacco consumer products. The goal is a healthy future and the path is fairness.

Although it is a product at the economic core of many communities, today tobacco farmers are planting the smallest crop in history. All predictions for the next year are even more grim at a cut of thirty percent or more with a huge assessment—some say close to 20 cents.

Due to the decline in tobacco production and the rising costs associated with production, tobacco growers have farmed our equity away. Today, entire farms are now growing houses where they used to grow field crops. Our bankers are no longer willing to gamble on the promise of a buyout. Thousands are going out of business and the health of our communities are going with them.

Two aspects of the buyout are important to help address this point. First, we need the buyout to occur and occur now without delay. Second, we need to phase in the impact of the buyout on farmers who may be the smallest, the oldest, or the ones who were unfortunate in the last growing season allowing them to receive their money and their compensation in the quickest possible time period. The most basic of rights—the Federal marketing orders, inspections, FSA oversight—all of these must be maintained. Our commodity should have the same rights as all other crops.

The buyout compensation needs to be handled by putting the money into the hands of the growers and quota holders. It is the farmers and their families who largely populate most agricultural towns and counties. They support retail businesses, services, schools and church activities.

If you want an engine to generate a recovery and stabilize these communities as we go forward from the buyout, the compensation needs to be paid to the people who make their living there, who raise their kids there, who farm there and shop there.

The real issue, also, is a health issue, and it faces all the communities in every state. Tobacco is legal commodity. The demand for tobacco leaf is not going to disappear. Increasingly, manufacturers are turning to imports. We can choose to regulate tobacco and make it a safe product and have it be produced here in the United

States or we can have it produced uncertified and imported in from Zimbabwe, Brazil, China or Mexico.

One major manufacturer has been a main stumbling block in preventing a buyout, and I find it very ironic that they purchase most of their tobacco offshore and have a smaller percentage of their tobacco in our cigarettes that are consumed in America today. This is one of the reasons that we have had so many cuts and been subjected to so much hardship in the past.

We are embarking on a new set of national tobacco policies and we need cooperation from all parties. Tobacco production is unique and the policy covering it needs to reflect its uniqueness, while simultaneously addressing the health concerns. Reasonable FDA regulation of tobacco consumer products is a non-grower issue.

U.S. tobacco growers are willing to accept any form of safety or health check. Tobacco growers understand the Farm Service Agency's system for tracking tobacco which is now in place, is one that they are very familiar with in the past and have used every day.

The point today is that the purpose of tracking will not disappear—it'll change. Instead of tracking for quota, a new health policy on tobacco products will require tracking for health. We make a living growing tobacco, and as a business person, we would welcome the checks and balances that would enable us to grow a premier crop.

We are very proud of what we grow. We would like for all of our consumers to know where our tobacco was produced and where their cigarette manufacturers used the tobacco—where it came from—it came from us. Because a governing organization already exists, any new legislation would not require the need to invent a new entity to register our crops and oversee their certification.

With hundreds of thousands of class members, never in history has there been such a large group of farmers and growers and quota holders that have had the capability to speak as one voice. Tobacco growers were not invited to the table for the MSA, but now there is a unity of positions which has never happened before. The path of fairness allows us to reach our goal for a healthy future of tobacco production.

Our state stands to receive over $6 million. Just imagine the economic impact for our rural counties. I would invite our elected officials to think about this the only way it possibly can work. It is a rare moment for you to accomplish a difficult task—putting together a bipartisan coalition, including health organizations, in a singular direction without political risks.

You can get it done. We need your help. We need your clear leadership to come to our aid. We are looking to you to help us. You are our champion. You are our Senator, and we thank you for all that you have done. We appreciate the focus of your attention on these very important issues that threaten the future of America's growers and I appreciate this opportunity to testify and deliver our views.

[The prepared statement of Mr. Parrish can be found in the appendix on page 45.]

Senator DOLE. Thank you very much. Now, as alluded to in the testimony this morning, Blake Brown, our great agricultural economist at N.C. State, just recently released his quota forecast for the

2005 crop year based on fairly conservative numbers and it is an eye opener, for sure. A thirty plus percent cut. I would like your perspective on what a cut of that magnitude would mean for your communities back home.

Let me start with Mr. Wooten. You are a native of Pender County. What kind of impact is it going to have there?

Mr. WOOTEN. Senator Dole, this tobacco buyout—it's more than an agricultural issue. It's an economic development issue for all of North Carolina. As Mr. Parrish said a while ago, when you take five to six billion dollars and spread it across the state of North Carolina primarily in our rural communities for over a period of 5 to 6 years—and tobacco money traditionally turns over four times in the economy—you can see what type of tremendous economic impact this will have not only for agriculture, but for the rural communities, grocery stores, the school boards and on and on and on.

I did a—I was just looking in six southeastern North Carolina counties, the six southeastern counties of Bladen, Columbus, Duplin, Pender, Sampson and Wayne, in 1997, total tobacco income for those six counties was about $214 million.

In 2002, that income was roughly $147.3 million, a decrease of thirty-one percent just in those six counties, so without this tobacco buyout, more than the farm economy is going to hurt, Senator Dole, in these primarily rural counties.

Senator DOLE. Thank you. Mr. Flye, how is it going to affect your home community of Battleboro?

Mr. FLYE. Senator Dole, more farmers will go out of business. It will affect the financing of the farmers, I believe, and as I mentioned in my remarks, when we lose one farmer, eventually a chain reaction is ten more people losing their livelihood.

We'll see a smaller tax base, but higher taxes on farm land. We'll see schools rejuggled and there will be less students there; there will be more empty pews in our country church. It will have a far reaching effect on our communities, not just the farmers.

Senator DOLE. Mr. Crews, you really answered this question in your testimony. I am going to come back to you in just a moment, but let me ask Mr. Parrish first—you are next door in Harnett County, what is your take on the economic impact of a cut of that magnitude?

Mr. PARRISH. Well, if we don't get it, I wouldn't want to be a politician that had to face election in November—I had that in my speech—and I honestly mean no disrespect by that, I honestly do not. It's a reality that farmers in Harnett County and every county, I believe, in this state and all the other states here and represented and there's people here from Kentucky, there's people here from South Carolina, Virginia—I've seen them here already. That's how much this thing means to people.

In my community, I know that it is something that is going to affect everyone in their heart. It's going to affect their way of life; it's going to affect their churches, their ag businesses—they're already so negatively impacted, they're teetering on the edge of disaster, and I don't think they can withstand what is going to happen here if we do not get a buyout.

A buyout is a saving thing that farmers are looking for and quota holders—everyone is hanging on for that one thing to occur. We desperately need it.

Senator DOLE. Mr. Crews, as President of the North Carolina Tobacco Growers Association, your organization represents communities all over the state. Now many in Washington, DC wonder why tobacco farmers can't just transfer their equipment and their land to the production of another crop.

Would you like to comment on that for the record, please?

Mr. CREWS. Yes, Senator, thank you. Tobacco—a lot of tobacco equipment is tobacco-specific—tobacco barns, I don't know of any other use you could make of a tobacco barn. Also, grain crops, vegetable crops—it doesn't seem to be any crop at all right now in North Carolina that's very profitable, and that's the major reason why we can't transition to another crop without a buyout.

Senator DOLE. Thank you, gentlemen, very much for your testimony today. I appreciate it. Thank you.

Senator DOLE. Now if the third panel will report to the table, please. We will receive testimony from Mr. Tommy Bunn, Executive Vice President of the Leaf Tobacco Exporter's Association and Todd Haymore, Director of External Affairs for Universal Leaf.

Mr. Bunn, thank you very much for being here.

STATEMENT OF TOMMY BUNN, EXECUTIVE VICE PRESIDENT, LEAF TOBACCO EXPORTERS ASSOCIATION, RALEIGH, NORTH CAROLINA

Mr. BUNN. Thank you, Chairwoman Dole and other Members of Congress for being here today and for the opportunity to participate in this important hearing. I would like to say that I am going to bring some good news, but unfortunately this is not possible. As you have heard, this may be the toughest times the U.S. tobacco industry has ever known.

This morning I want to talk about the Leaf Tobacco Exporters Association's views on the state of our industry and tell you what we think must be done to salvage our tobacco industry in this country.

For decades, LTEA members and their companies have worked hard to support the U.S. market, its growers, workers and communities by making major investments in leaf processing facilities within the tobacco-growing region. Today, we find ourselves at a point where there is very little left to support.

U.S. production of flue-cured and burley tobacco is currently less than half the level it was just a few years ago. The decline in production continues as the domestic market for cigarettes fall. High support prices and the restrictive provisions of the Federal tobacco program make it impossible for U.S. growers to compete in the world market. During this same period, other countries have progressively expanded production.

This is not news to any of us that many of the problems in the U.S. market have been brought about by numerous legislative and legal battles during the last decade. Yet the greatest impediment to recovery in the U.S. market remains inviolate and unchanged—and that is the Federal tobacco program with the artificial costs it forces on domestic leaf prices.

Simply put, the program has become so antiquated and inflexible it is destroying the entire tobacco domestic and export trade. Changes must occur. They must occur now if we are to salvage U.S. flue-cured and burley production.

The unnecessary costs that result from the "cost of quota" and the inherent rigidity in the program have dramatically reduced the competitiveness of U.S. leaf in the world market. Besides contributing to the large production cuts of the last 6 years, this situation also has reduced the amount of U.S. leaf exported into the world market. The number of export customers has been dropping for more than a decade and this list is rapidly getting shorter.

Most recently, we lost two important and long-time export customers who decided not to purchase any U.S. flue-cured tobacco, due primarily to the high costs of our leaf. It doesn't stop there. While we continue to promise and promise and promise these customers that U.S. price reform is just around the corner, we now have been informed by the remaining few export customers that they also are seeking less costly alternatives to U.S. leaf.

Further declines in export sales will devastate the already crippled domestic market by reducing our economies of scale for producers and processors.

Leaf Tobacco Exporters Association endures the principles of a buyout and we endorse the principles of a buyout because we believe that a buyout can make U.S. tobacco more competitive in the world market. However, we do have serious concerns about some aspects of the various legislation proposals that have been drafted for deliberation in previous legislative sessions.

We are most concerned about legislative language that would retain the market distorting features of the current Federal tobacco program that restricts production and inflates leaf prices to uneconomic and non-competitive levels.

We believe that any buyout proposal has to be written with the long-term interests of the grower in mind if the legislation is to be economically viable. By growers we mean those producers who intend to continue producing tobacco post-buyout. All of us are feeling the constraints of our shrinking market, but it is the growers who have been hurt the most by the current program's free fall and unresponsiveness to market conditions.

In the long run, growers will not be well served if some of the worst features of that program are permitted to continue hampering farm efficiency and compromising competitiveness.

I want to define LTEA's position on specific features of legislation regarding a tobacco quota buyout and the Federal tobacco program.

First and foremost, LTEA strongly supports any and all efforts to make U.S. leaf tobacco more competitive in the world market. We believe a buyout of the program is an essential step in that direction. The cost of leasing quotas probably adds fifty cents a pound on the average cost of U.S. leaf. The current law places the U.S. growers at a severe competitive disadvantage. There is no other tobacco-producing country in the world that requires growers to pay for the privilege of growing tobacco.

Too often, we make excuses for our high prices saying other countries can pay low wages, they have government subsidies, the

currency exchange rates are against us. These so-called justifications miss the point altogether. These are advantages of our customers and our competitors—they are not reasons we should fail to address the role of competitiveness in our market.

Second, the interests of non-producing quota holders who outnumber the active producers by more than ten to one, are diametrically different from the interests of the growers. Quota holders wish to maximize their income from quota rentals and may be unconcerned if production is reduced as long as their income stream is protected.

Quota owners have exercised a strong influence over the Federal tobacco program for years and have often resisted changes that they believed would reduce quota income.

As a result, needed legislative changes in the program have not been made, and flue-cured and burley quota levels have been reduced by more than half since 1998. Quota rent levels have increased significantly and while good growers have been forced to operate at production levels far below their optimum efficiency.

This has contributed to the dramatic increase in quota lease rates, as growers have bid against each other in an effort to maintain an efficient scale of production. The resulting non-value-added costs have also made it difficult for U.S. growers to accept the lower prices that would be necessary to compete in the world market.

Third, we believe that the only solution to the problem today is dramatic policy change. We believe any legislation that seeks to replace the market distorting features of the existing program with new provisions that continue to limit production and maintain support prices at unrealistically high levels would guarantee a continued decline in the U.S. tobacco production.

More important, it would represent the loss of a historic opportunity to restore the competitive position of U.S. leaf in the world market and provide U.S. growers a chance to stay in business. This can only be done by freeing up efficient growers to do the best job they can, unfettered by restrictions on production and arbitrary floors on price.

Fourth, although Leaf Tobacco Exporter's Association is not taking a formal position on legislative proposals regarding the amount of buyout payments to quota holders and growers, we do have strong concerns about the high cost of a buyout and the financing of these payments through assessments, or user fees, on manufacturers of tobacco products.

Certainly, any assessments placed on the manufacturers would likely be passed along to the consumer, thus forcing the price of U.S. tobacco products to rise and the demand for tobacco products to continue to decline. The unintended consequences of this financing mechanism would likely create even more hardship on the U.S. growers by reducing the need for domestic leaf.

Fifth, we also question the basis in some of these legislative proposals for providing buyout funds to growers who choose to continue producing tobacco because such payments would be contrary to the World Trade Organization provisions on agriculture.

Sixth, we fail to understand the rationale for allowing quota owners and the growers to double-dip by receiving payments for both

their quota and their production and still remain eligible to produce tobacco. We believe this concept has no place in any buyout legislation; it doesn't make sense because it simply costs too much.

Seventh, we believe that a post-buyout marketplace should be characterized by free market supply and demand. We believe U.S. growers should be free to produce tobacco according to the domestic and international market demands. Allowing the cost of U.S. tobacco to become competitive in the world market could minimize the need for imported large volumes of foreign leaf.

In line with this, we also believe that buyout legislation should not place restrictions on post-buyout tobacco production areas. Growers who choose to continue producing tobacco and any new growers who decide to enter the market should have the flexibility to grow tobacco wherever the natural resources and climate conditions would allow. We see no need for a Federal oversight committee to place restrictions to protect a few growers to the detriment of the industry as a whole.

However, Leaf Tobacco Exporter's Association believes that if buyout legislation establishes a national tobacco board, it must include provisions for leaf export dealer representation. Some previous legislative drafts failed to recognize the difference between product exporters and leaf exporters. There is indeed a significant difference that must be addressed.

Finally, while FDA regulations of tobacco products is an issue that primarily concerns the manufacturing sector, we are strongly opposed to any type of FDA regulations that would impose direct oversight on farms and leaf processing operations. Costly and unnecessary government regulations will further burden the tobacco growers and increase the cost of U.S. leaf to our remaining foreign customers.

We also think it is impractical to try to regulate at the farm and processing level. If manufacturers are required to comply with FDA regulations, then it is the manufacturers who should be responsible for issuing specifications to processors and producers and monitoring their compliance.

This would avoid the confusion and the high cost that would be inherent in trying to enforce multi-layers of compliance across multi-levels of the industry. It is, we believe, the only way such a regulatory environment can have any chance of working.

For years now, we have been dismayed by the lack of progress in making any substantive changes in the tobacco program. Even with the failure of so many in our industry to recognize the need for change at all. Now we all are suffering the consequences of this inertia.

Tobacco policy must be changed now. All of the market-distorting, non-competitive features must be laid to rest, relics of a bygone era. We need a marketplace shaped by supply and demand, one that will enable U.S. growers to produce tobacco competitively for the domestic and international markets.

Thank you for the opportunity to testify.

Senator DOLE. Thank you.

[The prepared statement of Mr. Bunn can be found in the appendix on page 52.]

Mr. Haymore, thank you for being with us today as well.

STATEMENT OF TODD HAYMORE, DIRECTOR, UNIVERSAL LEAF TOBACCO COMPANY, EXTERNAL AFFAIRS, RICHMOND, VIRGINIA

Mr. HAYMORE. Thank you, Senator Dole. I do appreciate the opportunity to appear before you and this group to give you Universal Leaf Tobacco Company's position on a few issues.

Before I begin my formal testimony, please allow me to give you a brief overview of Universal and the role that we play in an industry that is so important to the economic vitality of North Carolina and indeed the entire southeast. Universal is the world's largest independent leaf tobacco dealer.

Put more simply, we purchase leaf from the growers, process it and sell it to the manufacturers of tobacco products. Universal's global headquarters is located in Richmond, Virginia, but our U.S. operational headquarters is located in Rocky Mount, North Carolina, and we now have the largest and most modern leaf tobacco processing facility located just outside of Nashville, North Carolina, just up the road here.

The leaf dealer sector, as you know, is often overlooked, but we do contribute a great deal to the economy of North Carolina. During the last flue-cured and burley processing seasons, Universal processed in North Carolina about 120 million pounds of the flue-cured crop and about 110 million pounds of the burley crop.

That translates to about twenty-seven percent of total flue-cured crop sold last year and about forty percent of the total burley crop sold. Let me make a note that we probably would have processed more in our Nash County facility had we opened on a normal July opening day, but because of construction, we were forced to wait until mid- August, so those numbers would have been a little higher.

Also, during the same time period, Universal employed more than a thousand people in North Carolina and paid out more than $20 million in payroll.

With these facts in mind, I want to stress that Universal does play a key role in the U.S. tobacco industry and we are quite proud of our long-time support of the domestic industry, including our recent $130 million investments in the United States, a little more than $100 million was spent right here in North Carolina.

Unfortunately, if drastic change doesn't take place very soon in the domestic tobacco industry very soon, there will be little left for us to support and obviously, we do not want that.

Senator today I am going talk a little bit about how the current state of the domestic tobacco industry is impacting our business and what we would like to see happen to change this situation.

Unfortunately, I must tell you that the domestic tobacco industry is in serious decline, due primarily, we believe, to the Federal price support program that has worked to price U.S. leaf out of the world market and paralyzed good growers by increasing the cost of doing business in the United States.

This, obviously, is having a detrimental impact on our business as well, and these issues have an effect on everybody in this indus-

try as you well know. Let's look at some of the cruel and sobering facts that are out there.

U.S. production of both flue-cured and burley crops is about half of what it was just a few years ago—and obviously it's been stated several times here today that we know from internal and external data that we are facing a potentially devastating quota for the flue-cured crop for 2005.

Exports—the only growth engine left for the domestic market—are shrinking at a very alarming rate, and we believe that both of these issues are directly related to the Federal tobacco program. As a result of these problems, thousands of growers have been forced to scale back their operations, reduce work force, and take income cuts.

I don't need to say that; you are living it. You've made the capital investments and have the equipment to produce a crop twice the size you are today—yet many of you are making probably bad long-term economic decisions today just out of pure necessity to stay in business in the short run.

Growers, you are not alone. We are experiencing pain, too. In the leaf processing and purchasing sector, consolidations fostered again out of basic survival because of exports shrinking, have made all three of the major independent leaf dealers in the United States shut down major processing operations and downsize work forces.

Universal alone has gone from having six processing facilities in 1998 to just two this year, and we have seen our U.S. employment level drop from approximately 8,000 workers in 1998 to about 2,500 this year.

Unfortunately, it is very likely this bad news will continue to occur in our sector and throughout the entire domestic industry unless the handcuffs of the tobacco program are removed and good growers are given the opportunity to compete effectively in the world market.

Now, you may be asking yourself, if the state of the domestic tobacco market is so bad, why did Universal invest $130 million in the United States? How could Universal make such a significant commitment to the United States when the future looks so bleak?

Yes, we recently completed a major modernization effort in the United States by building a brand new, 1.2 million square foot, state-of-the-art leaf tobacco processing facility in Nash County and we expanded and renovated our Danville, Virginia facility so that it, too, would have the most modern, up-to-date leaf processing technology in the world.

Yes, that $130 million outlay represents the single largest investment ever made by Universal in its processing facilities and yes, we are very proud to have made these investments in Virginia and right here in North Carolina. However, I am sorry to say that we made these investments with little or no confidence in the future of the U.S. market.

Rather, we made these investments because we needed to increase efficiency in order to remain viable in the face of smaller U.S. crops and the ever growing quality demands of our customers.

We recognize that we took a substantial risk as the fundamental problems facing our industry remain squarely in place and so far, no one has really shown any true inclination with wanting to deal

with them. We felt like we had to make these the decisions and investments in order to maintain our position as the premier leaf dealer in the United States, even if the export market completely collapses and we are only left to service the shrinking domestic market.

What must be done to ensure the future of the domestic tobacco industry?

We believe without a doubt the greatest challenge facing the industry today is the need for substantial and immediate change. We believe that the time has come to eliminate the Federal tobacco price support program. Let me explain.

As you all know, the program has been historically one of our greatest assets and one of the most effective and efficient farm programs in the United States. Now, however, it has become an albatross—clearly saddled with antiquated rules and non-competitive prices, and as Tommy mentioned, it's become so inflexible that it cannot react and effectively respond to changes in the global or the domestic markets.

Many in the industry, including Universal, believe the program has led to greatly inflated U.S. tobacco prices to the point where the U.S. is simply no longer competitive in the world market, and this is evidenced by the shrinking export figures we have all seen over the last few years. Regrettably, more and more foreign customers are turning away from U.S. leaf and seeking cheaper alternatives from places like Brazil, Malawi, and even China now.

Because of these reasons and others, Universal strongly believes the only way for the U.S. leaf to be more price competitive in the world market is to allow the market to work without restrictions on prices or production.

That's why, in principle, we support a quota buyout and the elimination of quota. The right to grow tobacco must be placed squarely in the hands of growers if the domestic industry has any chance of long-term survival and good growers must have the ability to achieve economies of scale if they are to be able to compete profitably in the world market.

The United States is the only country in the world in some cases where growers have to pay for the privilege of growing tobacco. This is wrong and it places the U.S. growers at a severe competitive disadvantage to growers elsewhere in the world. More importantly, we believe that the complete elimination of the Federal price support system is absolutely essential if the U.S. grower is going to be able to compete effectively in the world market.

Any new tobacco legislation that emerges from the U.S. Congress should not limit production or have measures that support prices at artificial and non-competitive levels. Instead, the production and price issues should be determined by simple supply and demand economics.

Universal believes that a move to a free market system will help to restore the competitive balance of U.S. leaf in the world market and stabilize domestic leaf production. In fact, we believe that it is the only step that can achieve these important objectives and restore the economic viability of the domestic tobacco industry.

These are just two of issues that Universal believes must be resolved in the very near future, but we believe that they are the two

most critical and we will offer a more thorough explanation of our beliefs on these issues for the record at a later date.

Senator Dole, let me close my testimony by stating that Universal has been—and remains today—a significant buyer and the largest processor of U.S. tobacco. We have worked hard to support this market, its growers, and its workers, and I believe that our recent $130 million investment in Virginia and right here in North Carolina lends full credence to our commitment to this market.

We intend to be here for years to come processing U.S. leaf—your leaf—in our state- of-the-art processing facilities in Nash County and Danville, Virginia, but the time is fast approaching when there may be very little for us to support and that is why we believe changes obviously must come and must come soon.

In some cases, the changes will be painful, but no change at all is bringing a great deal of pain right now. To make these changes, it will take strong leaders with the willingness to make tough decisions in the short-term in order to have a more prosperous long-term.

Senator Dole, I do applaud your leadership on this issue and I thank you for bringing these issues to the attention of your Congressional colleagues. Universal stands ready to work with you to do and we know that reaching these goals is going to be difficult, but we are ready to do it, we are ready to be there with you.

Thank you again for having me here today.

[The prepared statement of Mr. Haymore can be found in the appendix on page 58.]

Senator DOLE. Yes, indeed, thank you very much. Now, Mr. Bunn, you mentioned the trend that you are witnessing among foreign buyers as it relates to U.S. tobacco production. How far are we from the point of no return for these buyers?

Once they quit doing business with the American tobacco farmer, is there any incentive for them to come back?

Mr. BUNN. Well, we have always been noted for our integrity and quality and capability to be a steady supplier of tobacco and a stable government—so while our prices may be different than some of our competitors, we still have things to offer.

The problem is now the value of those are not being considered because of our competitors and the price of their tobacco is so much lower than the price of U.S. tobacco.

Senator DOLE. From your perspective, what kind of business decisions do you anticipate another thirty plus percent cut will require your member companies to make?

Mr. BUNN. We will see some dramatic scaling back of operations. In some cases, there may be consolidation of operations, but certainly we would see the plants trying to at least maintain some economies of scale in operation which would mean short time operations perhaps even closing some factories.

Senator DOLE. Mr. Haymore, as you reference in your testimony, Universal Leaf has made a significant investment in a processing plant in Nash County just up I–95 from here. Let me ask you the same question that I have been asking each of these witnesses, how is an additional thirty percent cut going to affect Universal Leaf and what kind of impact is that going to have on the new plant in Nash County?

Mr. HAYMORE. The first easy answer to that is with a thirty percent quota cut, we are going to try to get as much of our competitor's business as possible to make sure it's processed in that facility, but a more, I guess, in depth answer is if we are a volume driven business. If we don't have the volume to run through the plant, it means less time to process, less workers, less jobs.

To give you maybe a historical answer, Senator, just this past year, because of less burley or fewer burley pounds than we expected, we closed our Danville, Virginia—where we just spent $30 million—we closed it 7 weeks earlier than anticipated.

That was 7 weeks of payroll that didn't go out; 7 weeks of time that folks didn't have jobs and quite honestly with a thirty plus percent quota cut, we are looking at unfortunately more of the same probably in both Virginia and North Carolina.

The biggest question mark is if nothing happens and we do have this thirty percent quota cut, how long can we go just scaling back operations before you get to a situation where you must mothball or close permanently a facility. Obviously with the investment we have made, we don't want that to happen.

Senator DOLE. Thank you both very much for your testimony. It's certainly been informative and it's very important to have your testimony on the record. Many thanks.

Will the fourth panel please come forward? We have with us today Mr. Gene Charville, President of East Carolina Farm Credit; Mr. Wallace Herring, Senior Vice President and Manager of the Agribusiness Department for First Citizens Bank; and Dallas Taylor, Senior Vice President for Wachovia.

It's important to get the perspective of the financial institutions on this important issue as well.

Mr. Charville, welcome.

STATEMENT OF GENE CHARVILLE, PRESIDENT, EAST CAROLINA FARM CREDIT, RALEIGH, NORTH CAROLINA

Mr. CHARVILLE. Good morning, Senator Dole, and members of the Subcommittee. I am Gene Charville and I am President of East Carolina Farm Credit. We are an Agricultural Credit Association serving the credit needs of agricultural producers and rural homeowners in eastern North Carolina. Currently our Association serves approximately 3,000 farmers and 500 rural homeowners and provides approximately $700 million in credit.

I would like to thank you, Senator Dole, for your work on behalf of the North Carolina farmers that we serve. Your efforts to bring resources to bear on the agricultural and rural development challenges facing our state are very much appreciated by me, my farmer board members, and all of the farmers and rural citizens we serve.

We are the largest farm lender operating in eastern North Carolina and over fifty percent of the agricultural credit is with our organization; and as a cooperative business, the success of our business parallels the performance of the farmers that we serve. Being a single industry lender, with a loan portfolio that consists nearly entirely of agricultural loans, our success is directly linked to the plight or successes of our farmer/members.

Within that single industry that we serve, our business is even further concentrated predominately in a few main agricultural commodities. The largest commodity concentration is tobacco. Over forty percent of our loans and commitments are to farmers who rely on income from tobacco to pay their bills. For East Carolina Farm Credit, this amounts to an investment of over $300 million.

The future of our business is directly dependent on the ability of tobacco farmers to be successful, build and maintain their equity, generate profits, and repay their debts. Eliminating the opportunity for growth or expansion limits the ability of farmers to succeed. It affects the value of their assets, the collateral they provide for loans, and the entire rural economy.

The tobacco quota cuts that have occurred over the past several years have diminished the ability of tobacco farmers to succeed. Further cuts and the resulting instability could adversely affect the quality of our loan portfolio and the performance of our cooperative business.

Senator Dole, as someone who lives and works in rural America, I see the very real needs facing our farmers and communities. As you know, rural people face daily hardships as they meet the challenges of living and working in a rural area.

The tremendous reductions in the tobacco allotment that have occurred over the past few years have only added to these hardships, making the challenge of surviving as a tobacco farmer nearly impossible.

Farming or working in a rural community no longer offers the appeal necessary to keep the next generation in the rural areas where they were raised. The average age of our customers is fifty-eight years old and that number has been continually increasing for the past two decades.

At East Carolina Farm Credit, we have pursued numerous programs to support and encourage young people to stay on the farm. Despite these efforts, young people, the next generation of farmers, are leaving the rural area. A buyout of the tobacco quota program would help restore economic strength to rural North Carolina.

Tobacco farming, for decades has been a stable and profitable farm enterprise, but it has now become a myriad of risk and uncertainty. The continuing reductions in the quota, increasing operating expenses, marketing changes and an uncertain future have all created a tenuous situation for tobacco farmers, as well as for their cooperative lender.

Farmers today are faced with many of the same obstacles that their fathers and grandfathers faced. They have no control over the costs of the inputs they purchase and no control over the proceeds they receive when they sell their crop, but we have added yet another burden with the uncertainty of whether there will be a buyout. Let's not continue with this burden on an industry that is already stressed.

The good news is that adequate credit is still available to tobacco farmers. With continued cuts and in the absence of a buyout, credit restrictions will be inevitable. The quota cuts of the past several years have financially weakened nearly all tobacco farmers. Net worths have declined, earnings have eroded and tobacco farmers who have worked hard and achieved financial success are now

fighting for their survival. Let's end this downward spiral and let the tobacco industry start on a new course in North Carolina.

East Carolina Farm Credit was established to fulfill unmet credit needs for farmers and assure that a dependable and reliable source of credit would always be available. East Carolina Farm Credit has been fulfilling this need for farmers since 1917.

Farmers still have these same needs for credit and for a lender that understands their needs as they did over 85 years ago. Let's give tobacco farmers the ability to continue to earn a living.

Senator Dole, we are at a turning point. We can sit back idly while we continue to see our tobacco industry slowly and painfully decline, and with this decline a further erosion of our rural communities and businesses that depend on a strong rural economy. Instead, I hope that we seize the opportunity to change the tobacco industry in a positive way.

Let's provide an equitable buyout of the tobacco quota program. Doing so will strengthen eastern North Carolina, it will strengthen the entire state, and it will do so in a way that provides the farmers who are with us today, the farmers that have built eastern North Carolina and its economy, a way to make a transition.

Senator Dole, your interest and support on issues affecting rural North Carolina, your strong support of the tobacco industry, and your pursuit of a tobacco buyout are very much appreciated. Again, thank you for your leadership on this vital issue and for conducting today's hearing.

Senator DOLE. Thank you. Mr. Herring.

[The prepared statement of Mr. Charville can be found in the appendix on page 64.]

STATEMENT OF WALLACE HERRING, SENIOR VICE PRESIDENT AND MANAGER OF AGRIBUSINESS FIRST CITIZENS BANK, CLINTON, NORTH CAROLINA

Mr. HERRING. Thank you, Senator Dole for being here for this very important event. I am Wallace Herring, Senior Vice President and Manager of the Agribusiness division of First Citizens Bank.

This morning I plan to speak from a business perspective about the tobacco buyout and why we need to move forward with it. Our company has a vested interest in what happens to our tobacco farmers. In 1898, we opened our first office in downtown Smithfield, primarily serving the farmers of this community and then agricultural customers throughout Eastern North Carolina.

Over the last century, our company has expanded to 337 offices in North Carolina, Virginia and West Virginia. While we have expanded our products and services beyond agricultural lending, we have never forgotten our roots.

At First Citizens, we have made a considerable commitment to support this sector of our economy. We have a business development team as well as a credit analysis group devoted solely to farming and agribusiness. Many of our bank branches are in rural communities where we provide financial services to farmers, family members and companies who rely on agricultural business for their livelihood.

Without question, tobacco has been a very important part of the economy in these areas, including here in Smithfield. The potential

for a buyout looms heavy on the minds of many people, especially the growers and the quota owners.

As we all know, a tobacco buyout and an end to the tobacco program have been debated for many years. Many of us were hopeful that some type of buyout would take place last year. Obviously this did not happen. Our customers who operate tobacco farms tell us they are frustrated with the continued uncertainty over the buyout.

It's hard to make long-term decisions—should they finance a new tractor or a barn, for example—when income is tight and they don't know what to expect down the road.

Without a buyout, further quota cuts will continue to put pressure on tobacco growers, owners and our rural economies. If the forecast by an N.C. State economist, Blake Brown, who is an expert on this issue holds true, the situation looks increasingly dire, especially if we face the predicted thirty-three percent cut in quota in next year and lose $200 million.

The bottom line is, unless we move ahead with a buyout, tobacco growers will find it hard to stay in business. Some farmers will turn to alternative crops to offset quota cuts and decreased income. Others will sell their operations. Some will turn to other lines of work. We all know good jobs are hard to come by—especially in the rural areas of our state.

The current tobacco program not only hurts farmers, but it also compounds the already distressed economic situation in our rural communities. Many of these areas hard hit by the quota reduction are struggling to discover a replacement for the tobacco dollar, which sustained them for many years. Local companies that do business with tobacco growers are finding that it's hard to make ends meet.

As if this isn't enough, manufacturing plant closures and job layoffs so common to our state in recent years are adding to the economic woes in many of these rural areas. It's time to end the uncertainty and make the buyout a reality, while we still have the opportunity to help our farmers and their communities.

A buyout would allow quota owners and farmers to make the transition if they want to stop raising tobacco. At the same time, it would stabilize the position of larger growers who want to continue their operations. A tobacco buyout would also make a dramatic impact on our state's economy. Growers and owners would use their buyout payments to settle debts, pay taxes, purchase equipment and supplies, invest in education or diversify their operations.

The buyout's impact would spread to other businesses and sectors, resulting in billions of dollars in additional economic activity. According to a University of Tennessee analysis, North Carolina could see an estimated $6 billion in additional growth under the proposed House bill; $1.16 billion in the first year of the buyout alone.

The economic activity would also significantly support the creation of much needed jobs in our agricultural communities. In other words, a tobacco buyout would help steady our state's already fragile rural economy and significantly increase business opportunities in these areas.

First Citizens is proud of the partnership we have built with our agricultural customers over the last 106 years. That's why we support this issue and understand how important it is to the communities and businesses we serve.

I commend Senator Dole for her leadership and for putting together this hearing. We must continue to keep the public aware of agriculture's value to our statewide and local economies. We must support our farmers and take steps to pass a tobacco buyout. Thank you.

Senator DOLE. Thank you. Mr. Taylor.

[The prepared statement of Mr. Herring found in the appendix on page 68.]

STATEMENT OF DALLAS TAYLOR, SENIOR VICE PRESIDENT, WACHOVIA CORPORATION, RALEIGH, NORTH CAROLINA

Mr. TAYLOR. Thank you, Senator Dole. On behalf of Wachovia, thank you for inviting me to speak to the subcommittee today and voice my support for a segment of Wachovia's customer base that has been and continues to be very important to our success.

My name is Dallas Taylor. I have been a Wachovia employee for 38 years. All of those years have been spent in various Wachovia locations in North Carolina. Most of my time with the company has been spent providing loan and deposit services directly to agricultural customers, including numerous tobacco growers and quota owners. Currently, I work on the Risk Management side of the bank. Although I am no longer in direct contact with our customers on a daily basis, I am still part of the team that looks for ways to add value through various credit products.

Over the past several years, I have observed first hand the plight of the farming community in eastern North Carolina. Although change is inevitable within every segment of our economy as business cycles ebb and flow, tobacco farmers have struggled more so than other segments to keep pace with those changes.

We have seen balance sheets erode in asset value and equity value due to rapidly declining quota ownership. We have seen tobacco growers' disposable income dwindle due to the fewer acres grown which combined with rising costs leads to reduced profit margins.

These changes have put more pressure on the grower to find other sources of income to take the place of what was once a thriving income source. With limited alternatives available, we have seen the number of farmers steadily decline and fewer new farmer startups.

The deterioration in tobacco farmers' financial conditions often increases credit risk, resulting in increased bank costs to maintain appropriate capital and increase loan portfolio monitoring. In turn, this reduces the credit flexibility with existing customers and prospective new customers.

Since its beginnings in the late 1800's, Wachovia has been a friend to the agricultural community. The farmers and tobacco growers are one of the economic engines in eastern North Carolina. If the farmers are viable, they funnel money into our economy through the purchase of products and services, and they create and maintain a large percentage of jobs in this region. As their finan-

cial institution of choice, we have a vested interest in their ongoing success. If our customers thrive and succeed, so do we.

In summary, the financial deterioration of tobacco growers increases our cost to provide credit through higher credit risk, reduces the credit flexibility available to tobacco growing customers and impairs the financial viability of lending to tobacco-dependent producers.

Based on our understanding of the various tobacco buyout proposals presented to date, tobacco growers and quota owners would be given the opportunity to better control their own destinies as well as bolster their deteriorating balance sheets and income streams.

This may give the tobacco grower the option to expand existing operations, retire from farming or maintain operations at the same level with less fear of further financial deterioration due to quota cuts.

Wachovia is not here to directly support any kind of new legislation—what we are in support of are our customers. Again, thank you for this opportunity to voice our support for valued Wachovia customers. We wish them continued success. Thank you, Senator Dole.

[The prepared statement of Mr. Taylor can be found in the appendix on page 70.]

Senator DOLE. Thank you. Mr. Charville, East Carolina Farm Credit obviously provides great service to the farm community and your customer base truly is rural North Carolina. You stated in your testimony just how important a tobacco quota buyout is for that customer base. Keeping consistent with my questioning, what kind of an impact will another substantial cut in quota—like thirty percent—have on this customer base from your perspective, and what other ways do you see this impacting rural communities?

Mr. CHARVILLE. Continued cuts will have a tremendous impact on our financial institution as well as our customer base. With the cuts that have already occurred, we have seen the financial strength of our customers decline; their net worths have been reduced; their earnings abilities have been significantly eroded.

To date, we have been able to continue to provide credit and adequate credit is available, but with continued cuts, at some point, the impact of that will be felt even more so from a credit standpoint to the point that credit availability could be lessened to the point that many wouldn't be able to obtain credit to put their crop out.

The impacts on the communities would be significant. The rural areas of eastern North Carolina—the rural communities that are there today have been built by the tobacco industry and sustained by the tobacco industry and continued cuts and continued deductions would, we believe, lead to continued reduction in opportunities available, less opportunities that would keep our young people in the communities they were raised, and just a weakening of the overall economy.

Senator DOLE. Thank you. Mr. Herring, you mentioned a general economic impact of the House buyout bill in your testimony, and I understand that you've been involved in agribusiness from the

banking perspective for a long time. How hard is it for tobacco farmers to get their credit extended as compared to previous years?

Mr. HERRING. Tobacco has always been considered a very stable source of income for our farmers. Reduction in that source of income has already had an impact on many farm operations by reducing their ability to service term debt, make the needed investments in equipment and other capital expenditures necessary to keep the operation viable.

As an agribusiness banker, I can tell you emphatically that the tobacco income plays a big part in credit decisions in rural eastern North Carolina on tobacco farmers.

Senator DOLE. Are there other side effects of the current economic decline resulting from the inflexibility of the current tobacco program that aren't obvious to those who live outside of tobacco dependent communities?

Mr. HERRING. We feel that there are. We think that the tobacco program the way it is now—the current program has made some of the smaller farmers stay in business who would have ordinarily gotten out or to convert to cash leasing their quota to neighboring farms, which simply does not produce adequate income to even consider any form of diversification that might enhance their livelihood and their quality of living in the rural environment.

Senator DOLE. Now, if North Carolina were to get back the annual $1.1 billion in economic activity it's currently losing due to this broken Federal policy, how much of an impact would that have on capital investments? How many new job opportunities would that create in these rural communities?

Mr. HERRING. Those numbers have been alluded to all morning in these discussions. In a recent study conducted by Dr. Kelly Tillen at the University of Tennessee, it is estimated that the buyout will produce the $1.16 billion in income chained to economic activity for the year 19005 with $789 million of that going to the quota owners and growers. The remaining $371 million, more or less, would flow directly into the local economies of these communities.

According to this study, the change in economic activity would support more than 11,000 jobs in our state. North Carolina would realize an increase of more than $6 billion overall.

Senator DOLE. Thank you very much for that answer. Mr. Taylor, it's well known and been documented today just how important tobacco is to the overall economy in North Carolina. Our state ranks third in agricultural diversification and it is the State's No. 1 industry. What kind of impact would a tobacco buyout have on that part of the population that is not involved in agriculture?

Mr. TAYLOR. Well, outside the tobacco industry, the cuts that we have seen in the past few years certainly has a ripple effect on the entire community—agribusiness, every business that you can think of—car dealers, furniture dealers, anyone who is in retail and it will have a tremendous impact in reference to North Carolina, particularly eastern North Carolina, as it would create jobs and provide a tremendous amount of cash-flow into the population. As we have indicated with consideration to balance sheets, it would go a long ways to turning that tide and strengthen those—and that would have a ripple effect throughout the economy.

Senator DOLE. Thank you very much, gentlemen. Your testimony has been most helpful. Thank you. I appreciate your joining us.

Senator DOLE. Will the last panel please come forward? We have the Chairman of the Johnston County Board of Commissioners, Mr. J.H. Langdon and Mr. Allen Scarborough, Manager of State Affairs with Bayer CropScience.

Mr. Langdon, welcome.

STATEMENT OF HON. J.H. LANGDON, CHAIRMAN, JOHNSTON COUNTY BOARD OF COMMISSIONERS, ANGIER, NORTH CAROLINA

Mr. LANGDON. Thank you. Thank you, Senator Dole, for asking me to be here today to participate in this event. We have heard a lot of things today about how tobacco affects and what's happening to affect our citizens in North Carolina—particularly eastern North Carolina—and I would like to put a focus on what we have done in Johnston County.

Johnston County is one of the fastest growing counties in North Carolina, so we have a mix of things happening, but tobacco is still an extremely important part of our economy in Johnston County. In 2003, the estimated farm income from tobacco was $35,363,561. The income was shared among an estimated 550 active growers, probably the largest number of producers in one county in the United States.

There are some growers who do not own quotas, but most growers, well over eighty percent, own quotas and lease tobacco quotas from other quota owners. Johnston County had the second highest amount of quota in the state, Pitt County being first. Tobacco has been a stable source of income and to some degree, it stabilized our local economy over the years. Because the crop was grown under the quota system with price supports, growers have been able to make business plans and arrange to secure resources necessary to do what they need to do in their farming operations.

Tobacco has been profitable for growers and for quota owners and because it's profitable, the quota has value, and of course, that value has allowed farmers to purchase land and paid for their equipment based on that value.

If we change that value, we make it very difficult for them to maintain the level of living they have and to carry out the kinds of things that they need to.

As we know, times have changed, haven't they? Eighty-three percent of tobacco produced in Johnston County in 2003 was sold under marketing contract. Since 1997, the quota in Johnston County has dropped forty-seven percent—from 37 million pounds in 1997 to 19 million pounds last year and in that same period, the income from tobacco has dropped by forty-five percent from $64 million in 1997 to $35 million in 2003, which the projections have been mentioned a number of times today about the thirty percent reduction in quota in 2005—that would be an $11 million hit for Johnston County. This would significantly impact our farmers and our quota holders.

Johnston County tobacco farmers and allotment holders need the buyout and with the present tobacco program, quotas and allotments are in a downward spiral. While quotas and allotments be-

come smaller, growers are suffering from the lack of dependable source of income and the value of assets that quota owners and producers have invested in is decreasing. A buyout will compensate allotment holders for their investments. This includes over 5,000 Johnston County citizens.

Most important, a buyout will help active growers transition into other commodities and industries and we must remember that money that comes from tobacco multiplies three to five times.

When we say we are going to possibly have an $11 million cut, you are looking at a tremendous cut in our local economy. The ability of our people to work and make a living and to carry on the things they need to carry on is really important and Senator Dole, I hope you will continue to work hard like you have for our tobacco buyout.

Senator DOLE. Thank you. Mr. Scarborough.

[The prepared statement of Mr. Langdon can be found in the appendix on page 73.]

STATEMENT OF ALLEN SCARBOROUGH, MANAGER, STATE AFFAIRS, BAYER CROP SCIENCE, RALEIGH, NORTH CAROLINA

Mr. SCARBOROUGH. Senator Dole, I really appreciate the opportunity to come and to give testimony for this hearing representing a segment of the ag community, and the tobacco economy, as well, and to the folks that are certainly vital to our business as well, our partners in agriculture.

Bayer CropScience researches, develops, manufactures and sells a broad range of innovative crop science products for crop protection, biotechnology, seed markets; the turf and ornamental and professional pest management markets; the consumer lawn and garden markets.

You can see we are vitally diversified throughout crop protection. Our U.S. business headquarters is in Research Triangle Park, North Carolina. I myself live in Raleigh. We employ about 400 people throughout this state and many more throughout the U.S.

The success of Bayer CropScience is directly linked to the economic health of U.S. agriculture and the producer community. Our business is reliant upon the ultimate users of our products and technology and, beyond our own work force, is partnered with the distribution and retail businesses that sell, service, and help to steward what we develop and manufacture. It's very important throughout the entire chain.

The crop protection/production industry is affected by the crop acreage under production. A drop in acreage directly represents a reduction in the potential market for that crop. It's a very simple analysis from my perspective certainly. Additionally, the value of the crop to the grower also determines the producers' input decisions affecting the purchasing of our technology or our products.

In a simple analysis, if a market or other factors reduce crop acreage and/or the value of the crop declines, then our industry experiences reduced sales for that market. The impact is also felt within the broader agribusiness community. We are very much aware of that and tied directly to that.

For the agricultural industry, the basic manufacturers of crop protection products, the wholesalers and the retailers of input prod-

ucts and technology, from our perspective and our interest, are the components most directly affected.

Of very important concern, the long-term economic viability of the producer community will ultimately affect the continued and future markets for agrichemicals and related businesses. For tobacco, the acreages have declined and I hear different reports, but certainly around forty percent since the late 90's and we have heard support of that information this morning.

According to North Carolina State University, each lost acre no longer receives chemical inputs worth hundreds of dollars per acre. A continued decline in acreage and/or the potential loss of producers would adversely affect crop protection/production sales, but could affect the viability of distribution and retail locations in such areas of these losses. The bottom line of national suppliers such as us certainly also is affected.

For our industry and the economic health of the region, it is important that legislation support agribusiness by supporting the producer community. Without that support, many producers may leave farming altogether. Clearly, the loss of producers would negatively affect the crop protection/production industry.

Thank you very much.

[The prepared statement of Mr. Scarborough can be found in the appendix on page 76.]

Senator DOLE. Thank you. Mr. Langdon, you may very well have the best overall perspective on this important issue as Chairman of the County Board of Commissioners. As evidenced by your testimony, you see the impact from all sides. You've seen first hand how the decline in tobacco quota has affected the County. How important is tobacco quota to the county tax base?

Mr. LANGDON. It's very important, as you well know. The ability to pay your taxes has a lot to do with what happens in government and the services we provide, so the quotas and tobacco being—because we are still a very rural county, it is extremely important that we are able to maintain that base.

Senator DOLE. Johnston County is the fastest growing County in North Carolina—that makes your job all the much more demanding. What are examples of services that would have to be cut if the tobacco industry were to simply dry up or does it mean that taxes would have to be raised?

Mr. LANGDON. It would not mean that we cut services, as much as it would be taxes would be a problem for the people. We would hope that services that are important to our citizens we would be able to maintain, but the ability of people to pay local taxes is a very important effect of that, and it becomes our board having to make decisions that could be really tough on the services we provide.

Senator DOLE. Mr. Scarborough, how much of an impact would continued quota cuts, particularly the thirty percent cut looming for the 2005 crop have on your local business and tobacco areas and if you could also answer, what other businesses that Bayer CropScience works with would be impacted?

Mr. SCARBOROUGH. Certainly, I alluded in my comments, there's a simple calculation just on an acreage basis and something that's occurred to me during this morning and should have been more ob-

vious certainly tobacco growers versus some of the other row crops would probably have fewer acres under production totally and to make up that difference in diversification would require an extensive addition of acres—at this point, if they are in a situation where they choose to go to another crop, for example, and would require further acreage to try to make similar economic grounds, if that transition can't be made, it's simply a reduction in acreage.

The second part to your question is the partners and I also alluded to that—the other businesses key to us in our industry are the dealers, the distribution network as well as the producers—and on a local basis, those are the folks that service our products and help to get it on the ground directly and it's sort an environmentally conscious to make sure that the labels are followed to the best maximum usage—so it's an acreage issue from the fact that local businesses and down the chain with us going all the way to the grower as well as our individual sales structure and support staff and research.

Senator DOLE. Thank you. I want to thank all of the witnesses who joined us today. Your testimony has been very informative and will be an extremely valuable resource for us as we continue to work with the other ninety percent of Congress who are not from tobacco states to make this buyout a reality.

Before I call the Subcommittee adjourned, let me take a moment to thank Frank Lee and his staff who have allowed us to use his warehouse and who went to great efforts to get all of this arranged for us today. We are extremely grateful. Thank you very much for being with us—all of you—today.

The subcommittee hearing is adjourned.

[Whereupon, the subcommittee was adjourned.]

APPENDIX

April 13, 2004

Subcommittee on Production and Price Competitiveness
of the U.S. Senate Committee on Agriculture, Nutrition and Forestry
Tuesday, April 13, 2004
Opening Statement and Hearing Outline
Senator Elizabeth Dole

As chair of the Subcommittee on Production and Price Competitiveness on the Senate Agriculture, Nutrition and Forestry Committee I am pleased to call this Subcommittee hearing to order. When I was elected to the US Senate I chose to serve on the Agriculture Committee – and to chair this Subcommittee in particular – to help advance one of the chief issues from my campaign. That issue, of course, is the tobacco quota buyout.

This hearing is not intended to repeat what has been examined in previous hearings. The Senate Agriculture Committee held several hearings on a tobacco buyout when this issue first came to national attention in 1998. This past year the House Agriculture Committee held a hearing focusing on the positions of the growers, the companies and the public health community. Their positions are important, obviously, and those who wish will have the opportunity to submit comments for the record from that perspective by the end of this week.

But the real purpose for the hearing today is to examine this issue from a different vantage point – to look at it from the perspective of the long-term viability of the tobacco

farm family and the rural communities that depend on tobacco production. In 2003, farm receipts from tobacco sales were less than 600 million dollars – a decline of over 500 million dollars as compared to 1997. That equates to a 1.1 billion dollar annual hit on North Carolina's economy. The decline in our tobacco industry will continue to cause a negative ripple effect across our state. Tobacco production is crucial not only to our farmers and our leaf dealers; it also affects our equipment dealers, chemical dealers, and so many others. Under the status quo, we are simply exporting economic progress to Brazil and other developing countries when in fact we could be doing a better job here– if we just had the opportunity. I look forward to the testimony of North Carolina's farm leaders, the leaf dealers, financial institutions, one of the major players in crop protection, and the chairman of the Johnston County Board of Commissioners – all of whom will provide their valuable insight on the need for a tobacco quota buyout from their particular area of expertise.

Before we move to those panels, let me give a brief overview on where the buyout stands in the US Senate. As all of you know, this past year the tobacco state members of the Senate – for the very first time – were able to come together on a consensus bill that was placed on the Senate calendar. Given the current make-up and interest of the members of the Senate – and perhaps most importantly, the rules of the Senate – the object was to attach the buyout to FDA regulation after that piece of legislation was marked up in the Health, Education, Labor and Pensions (HELP) Committee. Because a deal could not be reached with the public health community, an FDA bill was never reported from the Committee -- ending our hopes of passing a tobacco buyout coupled with FDA regulation on the Senate floor before the end of the 1st Session. Considering

the quota cut that was looming at the time and the necessity of getting this buyout achieved, we led an effort to try to get a buyout attached as part of the end of the year consolidated spending bill. Because a bill had not passed on the floor of either chamber, in the final analysis there just wasn't enough support to get it included. But that effort did raise the profile of this issue significantly, and we remain committed to leaving no stone unturned as we move forward this year.

It is my hope that our hearing will help keep this issue on the front-burner and provide those skeptics in non-tobacco states an opportunity to see a different side to this issue than perhaps what they have been witness to so far.

At this point I would like to introduce the Subcommittee's first panel, my colleagues on the House side, Congressman Richard Burr, who represents many of the smaller tobacco farmers in this state from the 5th district, and Congressman Bobby Etheridge whose district we are in today, to present their views on the tobacco buyout and any other comments they would like to make regarding the status of this important issue in the House of Representatives.

Larry B. Wooten
President
North Carolina Farm Bureau
PO Box 27766
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Testimony for the Subcommittee on Production and Price Competitiveness
US Senate Committee on Agriculture, Nutrition and Forestry
April 13, 2004

North Carolina Farm Bureau is pleased to testify today on this critical issue of a buy out of the tobacco price support and quota system. Thank you for putting your shoulder to the wheel on behalf of North Carolina's farmers and quota owners in pushing for a reasonable buy out of this badly broken system. We recognize that this is not an easy issue to tackle. You have made it your top priority and have worked tirelessly in a bipartisan manner to move this issue towards a successful conclusion. For this I thank you.

The tobacco price support and quota system has been good to farmers. I cannot say enough good things about the economic, social and environmental benefits this sound program has brought to thousands of communities. Today though, the program is not working for farmers and the tobacco industry for the following reasons:

1) It was never designed for the current intense world competition that our farmers face today.
2) It was never designed for large-scale farming operations that we have today.
3) It was never designed to operate under the current marketing conditions, especially contracting.
4) It was never designed to withstand the consequences of the Master Settlement Agreement.

North Carolina's rural economy has taken many hits as traditional industries, including tobacco, resize, restructure and adjust to world economic realities. According to Blake Brown, Extension Economist at NC State University, North Carolina farmers have seen a $500 million dollar drop in annual farm gate income from tobacco farming since 1997. Bar a weather disaster, economists are forecasting potential for another $200 million dollar loss next year because of an unprecedented 30% quota cut. These combined figures represent a $700 million dollar loss of equity used to finance farming operations. Anyone who operates a business understands what happens when the balance sheets reflect such a loss of assets. I am sure the panel of ag lenders will address the impact of loss of collateral on credit worthiness and the ability to repay loans. If the 2005 projected quota cut comes to pass, the Coop will again be under tremendous pressure to mitigate the impact. I am sure the coop chairman will explain the difficulty and consequences of further intervention.

Additional quota cuts signal the end of the United States being a reliable supplier of flue-cured tobacco on the world market. We have steadily lost foreign buyers due to high prices and low leaf selectivity. Further loss of quota will seal our fate. Our foreign customers are watching the buyout issue very closely. They are

being forced to make the business decisions on whether to remain customers of American leaf. Once we have lost these markets for leaf tobacco, it will be difficult to get them back.

Additional quota cuts will cause the already high rent for quota to further escalate. Neighbor bidding against neighbor ... friend against friend for whatever quota there is left to rent. We will see farmers forced to exit tobacco farming without an option for orderly transition or a safety net. As we consider massive restructuring of the program to salvage some stability for tobacco producers; who will win that political tug-of-war, the east – the piedmont – the quota owners – or the producers?

Tobacco quota impacts farmland values. The check-off funded export promotion program run by Tobacco Associates is running out of necessary funding. The check-off funded Tobacco Research Commission is also hurting. As assessments spiral out of control, the whole no-net-cost infrastructure has become a house of cards and is on the verge of collapse. Political realities make federal funding of these programs impractical. So where do we go? What do we do?

The impending collapse of the tobacco quota system will be a harsh and financially devastating occurrence for farmers and rural North Carolina. We have plowed this row to the cliff and can go no farther.

Farmers were not at the table when the Master Settlement Agreement was negotiated in 1998. The public health community hoped the MSA would begin the demise of tobacco manufacturing. Sen. Dole, just the opposite happened. Today, we have startup cigarette companies that are not only growing, but thriving using cheap imported tobacco and making minimal contributions to the MSA funds! Because of the impact the MSA has had on the quota system, farmers are swallowing the economic impact while state governments balance their budgets with the proceeds of the settlement.

Senator Dole, for there to be a future for North Carolina tobacco farmers, our producers must be unfettered from a program that has regrettably run its course. Farmers must be allowed to compete and meet their customer's needs. This can only be obtained through a complete, adequately funded, total buyout of the current tobacco quota system.

Adequate compensation for their investment in the program will allow many farmers to exit the industry with dignity. However, there must be a stable future for those farmers who wish to invest in growing and selling tobacco.

NC Farm Bureau is at your disposal ... anytime ... anywhere ... anyplace ... to continue to work in a serious way with any group ... the manufacturers, leaf dealers and the public health community to make certain farmers have a future.

Thank you very much.

STATEMENT OF BRUCE L. FLYE, PRESIDENT, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORPORATION
1304 ANNAPOLIS DRIVE
RALEIGH, NC 27608

TESTIMONY SUBMITTED TO THE SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS OF THE UNITED STATES SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

APRIL 13, 2004

On behalf of the membership of Flue-Cured Tobacco Cooperative Stabilization Corporation, I appreciate the opportunity to submit testimony regarding the economic plight of tobacco farmers and the future of tobacco production in the United States. Flue-Cured Tobacco Cooperative Stabilization Corporation is the flue-cured tobacco owned cooperative that administers the price support portion of the tobacco program for flue-cured tobacco through a contractual arrangement with the United States' Department of Agriculture, Commodity Credit Corporation. Our cooperative was created in 1946 in order to assist tobacco farmers in becoming financially viable and to provide expanded opportunities for farm families and their communities.

In 1998, the Master Settlement Agreement attempted to address the plight of our tobacco farm communities. Unfortunately, neither tobacco farmers nor community leaders were allowed to participate in the discussions. Tobacco companies raised the prices of tobacco products to pay for the Master Settlement Agreement and to protect their profits. The very foundation of their prosperity, tobacco farmers and their communities, were left out. A user fee, to pay for the tobacco quota buyout would help rectify this mistake.

Since then tobacco quota reductions of almost fifty percent, skyrocketing quota rent and thousands of tobacco farmers and their families being pushed to verge of bankruptcy. While the tobacco farmers' plight is serious, the lack of action is killing our rural communities. Our state and county governments are struggling with declining revenues, our schools, churches and small businesses are reeling and the worst of all, our young people, our future farmers, are leaving the farm in droves because they see no opportunity. For every tobacco farmer at risk of being forced out of business, there are ten other people in the farm community who are part of the tobacco economy, who are in danger of suffering the same fate. Banks, grocery stores, fertilizer and farm equipment dealers and automobile dealerships all depend on the cash flow from the tobacco economy. Tobacco farmers' problems don't stop at the farm, they affect the entire community.

This year, the United States Congress has a historic opportunity to address the problems experienced by the tobacco production community. Several tobacco quota buyout bills have been introduced in the U.S. Senate and the U.S. House. There are various proposals that address many of our current problems. We must find a way to make other members of Congress understand that tobacco farmers shouldn't be treated differently than other farmers and that without quick action, an entire region of the U.S. will experience a worsening economic situation.

How do we justify a tobacco quota buyout? All the major row crop commodities (cotton, corn, peanuts and soybeans) have a safety net. They are all subsidized. Tobacco is not subsidized and is not part of the Agricultural budget. Tobacco farmers pay for their program and have paid a No Net Cost assessment to the government since 1982. Tobacco farmers pay for USDA tobacco inspection and they pay for the losses on CCC loans.

The combination of a tobacco quota buyout and reasonable FDA regulation of tobacco products, which includes a listing of the ingredients of cigarettes on the packaging so that our young people will know what the risk is of what they would be ingesting into their bodies, will be good for the health of our young people and good for our tobacco producing communities.

Only the U.S. Congress has the authority and the power to set things right. The flue-cured tobacco production sector cannot afford to wait until next year. We are possibly faced with another huge quota decrease and increased No Net Cost assessment in 2005. If this happens before Congress can act, the economic toll and human suffering will be catastrophic. Without immediate action, Congress will bear the full responsibility for the devastation and ruin of an important sector of our economy and the dashed hopes and dreams of thousands of southeastern farm families and their communities.

We are pleading for our very survival, for the survival of our communities. Only the U.S. Congress can intervene. Again, I thank you for the opportunity to give testimony today.

D. Keith Parrish
CEO National Tobacco Growers Association
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Benson, North Carolina 27504

Testimony for the Subcommittee on Production and Price Competitiveness for The United Stated Senate Committee on Agriculture, Nutrition, and Forestry
April 13, 2004

My name is Keith Parrish. I am a tobacco farmer and quota holder from Benson, North Carolina. I thank you for holding this field hearing on legislation that is critical to the future of tobacco growers, quota holders, consumers, and manufacturers in the American tobacco industry.

Tobacco growers and quota holders have lived under the nation's tobacco quota and price support system since the 1930s. The system, invented for a different time, worked well for many years but now it clearly is broken. It is imperative that we work together to create a landmark national initiative on tobacco. American tobacco farmers support a buyout of historic tobacco farm quotas and reasonable FDA regulation of tobacco consumer products. The goal is a healthy future and the path is fairness.

Tobacco farming was the historical economic backbone of the colonies and was the only means of support for the family. In fact, tobacco was America's first export and was used as a trade commodity back when our country was in its early development stage. Tobacco remains built on these traditional roots since the creation of tobacco quota has inherent value to its holder. Indeed, tobacco quota is a property right in most tobacco producing states. Strong dependence on income generated from tobacco production is a fact of life for farmers and their communities in tobacco growing states. Entire communities and counties have been built on the concept and value of the tobacco quota.

Although it is a product at the economic core of many communities, today, tobacco farmers are planting the smallest crop in history. The value of U. S. tobacco production declined 46% from 1997 to 2002. Now we can add another 10.5% to the equation. All predictions for next year are even more grim at 30% and more than 25 cents assessments. I think we all can agree that only a few will survive and their days will be numbered.

Due to the decline in tobacco production and the rising costs associated with production, tobacco growers have farmed our equity away. While operating under the current tobacco program, the only thing allowing us to stay on our farm land is to renew our bank notes, and use our equity as collateral to borrow against. Tobacco farmers are forced to get their debt load down to manageable levels. For example, many of the farmers have been

forced to sell timber before maturity and road front lots from their property to make ends meet while they are hoping and praying for a buyout. Entire farms now grow houses.

A lot of us farm small grains, cotton, soy beans, beef cattle, tobacco and other commodities. However, the most management intensive crop we grow and the most stable is tobacco. Despite the low tobacco prices, which are the subject of a class action antitrust case in federal court in Greensboro, tobacco is still the one commodity where, because of the quota protection, we can take it to the bank and use it to get a loan for the next year's crop. Now, due to the cuts in quota, we are unable to do this. Our bankers are no longer willing to gamble on the promise of a buyout. Thousands are going out of business and the health of our communities are going with them.

Farming, in general, has changed along with the economic difficulties facing tobacco growers. Farmers have always worked together and depended on each other throughout our history. When one is down, others pick him up. Each farmer recognizes that it may be him who is down the next season, and cooperation among farmers has been one of our strongest traits. The fabric of farming communities has been like this since the Mayflower landed.

Now, however, the critical changes that have taken place in how quota is held and used are tearing the fabric of solidarity apart. Instead of helping a farmer who has had a rough growing season, some who have bigger or more efficient operations silently stand by, perhaps hoping to be the first to offer to take up the quota when the owner folds. I am reminded of an image of vultures in dead oak trees, waiting to sweep down on their prey.

Two aspects of the buyout are important to help address this point. First we need the buyout to occur now, without delay. Second, we need to phase in the impact of the buyout on farmers who may be the smallest, the oldest, or the ones who were unfortunate in the last growing season. The most basic of rights i.e. federal marketing orders, inspections, and F.S.A. oversight must be maintained. Our commodity should have the same rights as all other crops.

The buyout compensation needs to be handled by putting the money into the hands of the farmers. It is farmers and their families who largely populate most agricultural towns and counties. They support retail businesses, services, schools and church activities. If you want an engine to generate a recovery and stabilize these communities as we go forward from the buyout, the compensation needs to be paid to the people who make their living there, who raise their kids there, who shop there, who farm there.

It is also important to offer the farmer the chance to diversify his farming operation. Whether he wants to continue to farm tobacco or another commodity should be his choice. A buyout will provide us with the opportunity to transition from tobacco to other commodities. Diversification has always been a part of our farming operations. The tobacco income allowed for this opportunity to occur. The farmer does not want to be forced to sell off his farming operation and move to the city where virtually no jobs exist

for him, therefore, it makes sense to give him the option of farming. When diversification is allowed, the community stays intact.

Although tobacco auctions have not been competitive for a very long time, the current quota aspect of the tobacco program most frantically started to fail after the Master Settlement Agreement (MSA) was entered into in 1998. Manufacturers began to purchase large amounts of foreign tobacco. This created a lack of demand for domestic tobacco leaf and quotas were drastically cut. It seems to me that the one major manufacturer who has opposed the buyout is the one who is the most quilty. A strong commitment to American growers through increased buying intentions and content of their products sold would be greatly appreciated.

After the quota cuts started to occur in 1998, tobacco farmers began anticipating a buyout. Today, farmers are dealing with 60% of the quota that we had in '98. Even with the drastic cuts in quota, tobacco farmers are paying more for production due to the increased cost of quota rents. We repeatedly told the banks, that we have equity, we have it on $8/4 per pound. Since tobacco is such a special commodity and quota has value on its own like no other crop, the banks treated it differently. Now, we are faced with whether the quota system will even exist or when a buyout will occur.

If the buyout does not occur it is suicide (and not by choice) for the tobacco farmer. My family has had five generations of tobacco farming, this could be my last crop if we don't get the buyout. My two sons can not afford to come back to the farm. Another family farm may soon cease to exist.

The real issue is a health issue, and it faces all the communities in every state. Tobacco is legal commodity. The demand for tobacco leaf is not going to disappear. Increasingly, manufacturers are turning to imports. We can choose to regulate tobacco and make it a safe product and have it be produced here in the USA, or we can have it produced uncertified, and imported in from Zimbabwe, Brazil or China.

The focus is on how do we want to proceed in the future? How do you want us to grow this commodity? Our nation has moved far down the road in understanding health risks of tobacco use. The decline in tobacco consumption, and the search for harm reduction, are things we applaud. Tobacco farmers believe we can accomplish this goal of growing the safest crop in the world. This will only occur with a buyout and accompanying FDA legislation.

Tobacco should be trackable and accountable. Every other commodity under the 2002 Farm Bill has accountability. Tobacco should not be different, why regulate every other aspect of the industry and not the most important part---production?

We are embarking on a new set of national tobacco policies and we need cooperation from all parties. Tobacco production is unique. It is unlike any other commodity crop

and the policy covering it needs to reflect its uniqueness while simultaneously addressing the health concerns. There is special knowledge required in handling of the chemicals and there are details in the growth process that are unlike any other crop. We have the know-how, the technology, the USDA and EPA compliance programs necessary to carry harm reduction discoveries into our tobacco crops.

Reasonable FDA regulation of tobacco consumer products is a non-grower issue. U. S. tobacco growers are willing to accept any form of safety or health check. Tobacco growers understand the Farm Service Agency's "FSA" system for the tracking of tobacco which is now in place. The point today is that the purpose of tracking will not disappear, it will change. Instead of tracking for quota, a new health policy on tobacco products will require tracking for health. We make a living growing tobacco, and as a business person, we would welcome the checks and balances that would enable us to grow a premier crop.

We are fortunate in this country not to need a new bureaucracy to accomplish our new health goals in the tobacco growing sector. In fact, growers already register and certify our crops with FSA. Because a governing organization already exist any new legislation would not need to invent a new entity to register our crops and oversee their certification.

With hundreds of thousands of class members, never in history has there been such a large group of growers that have the capability to speak as one voice. Tobacco growers were not invited to the table for the MSA, but now there is a unity of positions which has never happened before. The path of fairness allows us to reach our goal for a healthy future of tobacco production.

I would invite our elected officials to think about this the only way it can possibly work. It is a rare moment for you to accomplish a difficult task, putting together a bipartisan coalition, including health organizations, in a singular direction without political risks. You can get it done.

Senator Dole, thank you for focusing attention on these very important issues that threaten the future of America's tobacco growers. On behalf the American tobacco growers and quota holders, I appreciate this opportunity to testify and present our views.

Respectfully submitted,

D. Keith Parrish

D. Keith Parrish

Select Committee on Production and Price and Competitiveness
For the
United States Senate Committee of Agriculture, Nutrition and Forestry

Testimonial
By:

Sam Crews, President
Tobacco Growers Association of North Carolina
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Raleigh, NC 27612

Smithfield, North Carolina
April 13, 2004

Thank you Senator Dole for holding this vitality important hearing. I am Sam Crews, a tobacco grower from Granville County and president of the Tobacco Growers Association of North Carolina. Additionally, my family owns and operates a Stabilization Marketing Center (formerly an independent warehouse) and a farm supply business. My remarks today will address all of these perspectives.

Many opponents have questioned the price of passing a tobacco buyout. Should we not in fairness argue the price of our failure to pass one?

Every tobacco farm in NC is a small family business. In my community of Oxford the average size farm will grow between 50 and 100 acres. These growers will modestly spend $2,500.00 to $3,500.00 per acre in Granville County buying fuel, fertilizer, crop protection inputs, labor, supplies, equipment, etc.

On our farm, my brother Jimmy and I operate as a partnership. Beyond our business operating expenditures we each spend tobacco income at a local grocery store, pay our local utility bills, buy clothes and other necessities for our wives and our school-age children. I have two children and Jimmy has four. We use tobacco revenues to trade vehicles with the local auto dealer and secure various loans from the local bank. We give tobacco profits in the church offering plate as well as donations to other important charitable causes.

All of these activities stimulate the local, rural economy in Granville County. All of these have been negatively impacted as our quota has evaporated. My point is that the tobacco buyout or lack of one reaches far beyond the farm.

The merits for achieving a buyout are that it would be the single largest contributor to saving the dismal economy of rural North Carolina.

Nearly a decade ago the Tobacco Growers Association (TGANC) advocated for a tobacco quota buyout realizing that in the future increasing world production occurring while our domestic costs of production were increasing would someday place us in a competitive disadvantage.

The future is now. The 1997 U.S. flue-cure crop approached 1 billion pounds. Two-thirds of that crop was produced in North Carolina. In 2004 we will grow the smallest crop in the history of the tobacco program. In fact the entire U.S. production this year will be nearly 200 million pounds less than we grew as a state just seven year ago.

In 1997 my brother and I grew 206 acres of tobacco. Our independent warehouse, Granville Warehouse sold 5.5 million pounds at auction with nearly 100% being purchased by traditional customers. The future for growing and marketing tobacco seemed consistently dependable and mostly optimistic.

This year we are reduced to 145 acres which if it were not for purchasing quota or renting of neighbors pounds who were going completely out of farming we would have been less than 100 acres.

As for our warehouse, if it were not for serving as a Stabilization Marketing Center we would be completely out of that business. This year we may sell around 3 million pounds as a marketing center in a building we built to potentially accommodate three times that volume.

How did we arrive in this seemingly irreversible situation? In 1998 a congressional effort to pass a buyout was overloaded, largely due to FDA regulatory efforts and a massive price tag. The '98 effort, which we refer to as the McCain bill was never passed. What occurred next none of us could have imagined would ever happen.

In 1999 the major cigarette manufacturers entered into the Master Settlement Agreement (MSA) in order to avoid future individual state litigation. The price of the MSA was over $250 billion. Obviously it was funded on the backs of cigarette smokers who chose to endure an undisclosed per pack increase.

The option for smokers has been to stop using tobacco but in more instances use a cheaper made, lower retail cost product. Often that product contains little to no U.S. grown leaf, which of course adversely affects our farms.

The option for cigarette makers was to find ways to lower the costs of making a pack of cigarettes. Reports indicate corporate down sizing and mergers as one management practice. Many if not all of them have sought cheaper, offshore tobacco resulting in a sharp and unprecedented decline in the U.S. quota.

All across rural North Carolina the absolute costs of the settlement has been thousands of displaced tobacco farm families. Indeed thousands of growers have witnessed business foreclosures and today are struggling to make ends meet. Additionally the once thriving auction warehouse business like the one my family entered into has been reduced to little more than a dozen operators in the nations largest tobacco producing state.

Our growers have scrambled to invent new ways to economize their operations. But the margins simply do not exist. For nearly every grower the 2004 crop will be the smallest ever produced. Yet, the 2004 crop will be the most expensive I have ever grown on my farm in Oxford.

Consider the recent spike in various input costs. Fuel is at a record high. Adverse wage rates for guest workers are now over $8 per hour. Many growers find themselves in an escalating rental situation for leased tobacco pounds paying nearly twice the rental rates of 1997. Finally, the marketing assessment fee is double what it was just last year at 10 cents.

If the aforementioned erosion of my chance for profitability isn't enough to test my optimism then the last week's newspaper report quoting Dr. Blake Brown did. Dr. Brown predicts we could witness as much as a 30% reduction in quota for 2005 if we maintain the status quo.

Senator, I, nor any of my neighbors can endure such a catastrophe.

Everything that I have described has occurred in just seven years. The tragedy is that growers did not create the current plight because of poor business decisions or bad management practices.

Unless sweeping changes are implemented many more will unnecessarily succumb to the unprecedented and unpredictable increased pressures of simply trying to stay in business.

Our challenge is not too simply rectify flawed policy. Ours is a complex arrangement of situations bound together by the federal tobacco program. The program has served us well since the 1930's but in today's global marketing economy it is now a deterrent to buying U.S. grown leaf. It is widely considered a relic whose previous merit is obvious and appreciated, but whose current incarnation is crushing us in the world market.

We have been greatly diminished as the world's supplier of premium grown tobaccos. Customers say that our leaf is too expensive relative to the world market. As a producer of that leaf I am confident that it is worth its price and I am proud to deliver that value. However as a businessman I must pay close attention to the chacteristics my customer values. We are dangerously approaching the reality of becoming a niche leaf producer for one major manufacturer.

I become increasingly disturbed by the number of proud, yet, broke tobacco farmers that I personally know. For the past two years many of them "hung on" hoping for a buyout. A buyout that would afford the opportunity to address debt and either remain profitable or transition away from growing tobacco. Sadly, they remain indebted and completely out of the tobacco farming business.

Absent the achievement of an $8 and $4 tobacco buyout this spring I too may join the ranks of unemployed former tobacco farmers. For too many of us time has already run out. Please do all that you can to advance and achieve the buyout in the next several months.

On behalf of all NC growers I thank you for your leadership and attention on this matter.

J.T. Bunn
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Testimony for the Subcommittee on Production and Price Competitiveness of the U.S. Senate Committee on Agriculture, Nutrition and Forestry

Tobacco Quota Buyout Field Hearing

April 13, 2004
Smithfield, N.C.

"The unquestionable pillars of tobacco production in the United States are our soil and climate, our research capabilities, our knowledge and experience, and our reputation for a steady and reliable supply of quality leaf. None of these is dependent upon a Tobacco Program. With or without a program, we still have a solid basis for tobacco production.... With or without a Tobacco Program, what we will have to change is our strategic focus. We will have to turn our focus away from reliance on government ... to a strategy that emphasizes responsiveness to customer needs and assurances of product integrity." - J.T. Bunn, December 9, 1998

Thank you, Chairwoman Dole and Congressional members for inviting me to participate in this important hearing. I would like to say that I am going to bring you some good news. Unfortunately, that is not possible. As you have heard, this may be the toughest time the U.S. tobacco industry has ever known. This morning I want to talk about the Leaf Tobacco Exporters Association's views on the state of our industry and tell you what we think must be done to salvage our tobacco industry in this country.

For decades, LTEA member-companies have worked hard to support the U.S. market - its growers, workers and communities, by making major investments in leaf processing facilities within the tobacco-growing region. Today, we find ourselves at a point where there is very little left to support. U.S. production of flue-cured and burley tobacco is currently less than half the levels of just a few years ago. The decline in production continues as the domestic market for cigarettes falls. High support prices and the restrictive provisions of the federal tobacco program make it impossible for U.S. growers to compete in the world market. During this same period, other countries have progressively expanded production.

It is not news to any of us that many of the problems in the U.S. market have been brought on by numerous legislative and legal battles during the last decade. Yet the greatest impediment to recovery in the U.S. market remains inviolate and unchallenged - and that is the federal tobacco program with the artificial costs it forces on domestic leaf prices. Simply put, the program has become so antiquated and inflexible it is destroying the entire tobacco domestic and export trade. Changes must occur. And they must occur NOW if we are to salvage U.S. flue-cured and burley production.

The unnecessary costs that result from the "cost of quota" and the inherent rigidity in the program have dramatically reduced the competitiveness of U.S. leaf in the world market. Besides contributing to the large production cuts of the last six years, this situation also has reduced the amount of U.S. leaf exported into the world market. The number of export customers has been dropping for more than a decade, and the list is rapidly getting shorter each year. Most recently, we lost two important and long-time export customers who decided not to purchase any U.S. flue-cured tobacco, due primarily to the high costs of our leaf. And it does not stop there. While we continue to promise and promise and promise these customers that U.S. price reform is just around the corner, we now have been informed by the remaining few export customers that they too are seeking less costly alternatives to U.S. leaf. Further declines in export sales will devastate the already crippled domestic tobacco market by reducing our economies of scale for producing and processing.

Leaf Tobacco Exporters Association endorses the principle of a buyout because we believe a buyout can make U.S. tobacco more competitive in the world market. However, we do have serious concerns about some aspects of the various legislative proposals that have been drafted for deliberation in previous legislative sessions. We are most concerned about legislative language that would retain the market distorting features of the current federal tobacco program that restrict production and inflate leaf prices to uneconomic and non-competitive levels.

We believe that any buyout proposal has to be written with the long-term interests of the growers in mind if the legislation is to be economically viable. And by "growers" we mean those producers who intend to continue growing tobacco post-buyout. All of us are feeling the constraints of our shrinking market, but it is the growers who have been hurt the most by the current tobacco program's free-fall and unresponsiveness to market conditions. In the long-run, growers will not be well served if some of the worst features of that program are permitted to continue, hampering farm efficiency and compromising competitiveness.

I want to define LTEA's position on specific features of legislation regarding a tobacco quota buyout and the federal tobacco program.

First and foremost, LTEA strongly supports any and all efforts to make U.S. leaf tobacco more competitive in the world market. We believe a buyout of the program is an essential step in this direction. The cost to lease quota probably adds 50 cents per pound on average to the cost of U.S. leaf tobacco. The current law places the U.S. growers at a severe competitive disadvantage. There is no other tobacco-producing country in the world that requires growers to pay for the privilege of growing tobacco. Too often, we make excuses for our high prices. Other countries can pay low wages, they have government subsidies, the currency exchange rates are against us. But these so-called justifications miss the point altogether. These are advantages of our competitors - they are not reasons we should fail to address the role of price in a competitive market.

Second, the interests of non-producing quota holders, who outnumber active producers more than ten to one, are diametrically different from the interests of the growers. Quota holders wish to maximize their income from quota rental and may be unconcerned if production is reduced as long as their income stream is protected. Quota owners have exercised a strong influence over the federal tobacco program for years and have often resisted changes that they believed would reduce quota income.

As a result, needed legislative changes in the program have not been made, and flue-cured and burley quota levels have been reduced by more than half since 1998. Quota rent

levels have increased significantly while good growers have been forced to operate at production levels far below their optimum efficiency. This has contributed to the dramatic increase in quota lease rates, as growers have bid against each other in an effort to maintain an efficient scale of production. The resulting non-value-added costs also have made it difficult for U.S. growers to accept the lower prices that would be necessary to compete in the world market.

Third, we believe that the only solution to this problem today is dramatic policy change. We believe any legislation that seeks to replace the market distorting features of the existing program with new provisions that continue to limit production and maintain support prices at unrealistically high levels would guarantee a continued decline in U.S. tobacco production. More important, it would represent the loss of a historic opportunity to restore the competitive position of U.S. leaf in the world market and provide U.S. growers a chance to stay in business. This can only be done by freeing up efficient growers to do the best job they can, unfettered by restrictions on production and arbitrary floors on price.

Fourth, although LTEA is not taking a formal position on legislative proposals regarding the amount of buyout payments to quota holders and growers, we do have strong concerns about the high cost of a buyout and the financing of these payments through assessments, or user fees, on manufacturers of tobacco products. Certainly, any assessments placed on the manufacturers would likely be passed on to the consumer, thus forcing the price of U.S. tobacco products to rise and the demand for tobacco products to decline even further. The unintended consequence of this financing mechanism would likely create even more hardship for the U.S. grower by reducing the need for domestic leaf.

Fifth, we also question the basis in some proposed legislation for providing quota buyout funds to growers who choose to continue producing tobacco because such payments would likely be contrary to World Trade Organization provisions on agriculture.

Sixth, we fail to understand the rationale for allowing quota owners who are also growers to "double-dip" by receiving payments for both their quota and their production, **and still** remain eligible to produce tobacco. We believe this concept has no place in any buyout

legislation - it doesn't make sense because it simply costs too much.

Seventh, we believe that a post-buyout marketplace should be characterized by free market supply and demand. We believe that U.S. growers should be free to produce tobacco according to domestic and international market demands. Allowing the cost of U.S. tobacco to become competitive in the world market could minimize the need to import large volumes of foreign leaf.

In line with this, we also believe that buyout legislation should not place restrictions on post-buyout tobacco production areas. Growers who choose to continue producing tobacco and any new growers who decide to enter the market should have the flexibility to grow tobacco wherever the natural resources and climatic conditions would allow. We see no need for a federal oversight committee to place restrictions to protect a few growers to the detriment of the industry as a whole.

However, LTEA believes that if buyout legislation establishes a national tobacco board, it must include provisions for leaf export dealer representation. Some previous legislative drafts failed to recognize the difference between product exporters and leaf exporters. There is indeed a significant difference that must be acknowledged.

Finally, while FDA regulation of tobacco products is an issue that primarily concerns the manufacturing sector, we are strongly opposed to any type of FDA regulation that would impose direct oversight of farms and leaf processing operations. Costly and unnecessary governmental regulations will further burden the tobacco growers and increase the cost of U.S. leaf to our remaining foreign customers. We also think it is impractical to try to regulate at the farm and processing levels. If manufacturers are required to comply with FDA regulation, then it is the manufacturers who should be responsible for issuing specifications to processors and producers and monitoring their compliance. This would avoid the confusion - and the high cost - that would be inherent in trying to enforce multiple layers of compliance across multiple levels of the industry. It is, we believe, the only way such a regulatory environment can have any chance of working.

For years now, we have been dismayed by the lack of progress in making any substantive changes in the tobacco program. Even with the failure of so many in our industry to recognize the need for any change at all! Now we all are suffering the consequences of this inertia.

Tobacco policy must be changed. **Now.** All of the market-distorting, non-competitive features must be laid to rest, relics of a bygone era. We need a marketplace shaped by supply and demand, one that will enable U.S. growers to produce tobacco competitively for the domestic and international markets.

Thank you . . . .

Universal Leaf Tobacco Company, Inc.

Richmond, Virginia 23260

Testimony for the Subcommittee on Production and Price Competitiveness
Of the United States Senate Committee on Agriculture, Nutrition, and Forestry
Field Hearing in Smithfield, North Carolina
April 13, 2004

Todd P. Haymore
Assistant Vice President, External Affairs
Universal Leaf Tobacco Company, Inc.
1501 North Hamilton Street
Richmond, VA 23230

Senator Dole, thank you for holding this important hearing, and thank you for offering Universal the opportunity to participate.

Before I begin my formal testimony, please allow me to give you a brief overview of Universal, and the role that Universal plays in an industry that is so important to the economic vitality of North Carolina.

Universal is the world's largest independent leaf tobacco merchant.

Put more simply, we purchase leaf from the growers and process and sell the leaf to tobacco product manufacturers.

Universal's global headquarters is located in Richmond, Virginia, but our U.S. operational headquarters is located in Rocky Mount, North Carolina and we now have the largest and most modern leaf processing plant in the world located just outside of Nashville, North Carolina.

The leaf dealer sector is part of the domestic and global tobacco industry that is often overlooked, but we contribute a great deal to the economy of North Carolina.

During the last flue-cured and burley processing seasons, Universal processed in North Carolina about 120 million pounds of the flue-cured crop and about 110 million pounds of the burley crop.

That translates to about 27 percent of total flue-cured crop sold and about 40 percent of the total burley crop sold.

In addition, during the same time period, Universal employed more than 1,000 people in North Carolina and generated more than $20 million in payroll for the North Carolina economy.

With these facts in mind, I want to stress that Universal plays a key role in the U.S. tobacco industry.

And, we are proud of our long-time support of the domestic industry, including our recent $130 million investments in the U.S, of which more than $100 million was spent in North Carolina.

Unfortunately if drastic change doesn't take place very soon in the domestic tobacco industry, there will be very little left in the United States for Universal to support.

.....

Senator, your staff asked me to speak today about how the current state of the domestic tobacco industry is impacting Universal's business, and what we believe must happen to dramatically change this situation.

Unfortunately, I must tell you that the domestic tobacco industry is in serious decline, due primarily to the federal price support program that has worked to price U.S. leaf out of the world market and paralyzed good growers by rewarding mediocrity and increasing the cost of doing business in the U.S.

This, obviously, is having a detrimental effect on our business.

Without a doubt, the last several years have been some of the most tumultuous and uncertain in the history of tobacco in the United States.

And these times have had an effect on everyone in the industry.

Let's look at some of the cruel and sobering facts:

- U.S. production of both flue-cured and burley tobacco is currently at half of the level of just a few years ago – and we know from internal and external data that we're facing a potentially devastating quota cut for the 2005 flue-cured crop;

- Exports – the only growth engine left for the domestic market – are shrinking at an alarming rate;

And, we believe both of these issues are directly related to the federal tobacco program.

As a result, thousands of growers have been forced to scale back their operations, reduce workforce, and take income cuts.

Growers have made the capital investments and have the equipment to produce a crop twice the size as today – yet many growers are making bad long-term economic decisions today out of pure necessity just to stay in business in the short term.

But, growers and their families are not alone in experiencing pain.

In the leaf purchasing & processing sector, consolidations fostered out of basic survival have shrunk the industry as domestic and export purchase levels continue to decline without a bottom in sight.

All three of the major independent leaf dealers have been forced to shut down major processing operations and downsize their workforce.

Universal alone has gone from having seven leaf processing facilities in 1998 to three in 2004.

And, Universal's U.S. employment level has dropped from approximately 8,000 jobs to about 2,500 during that same time period.

Unfortunately, it is very likely that more bad news will occur in our sector – and throughout the entire domestic industry unless the "handcuffs" of the tobacco program are removed and good growers are given an opportunity to compete in the world market.

.....

Now, you may be asking yourself, if the state of the domestic tobacco market is so bad, why did Universal recently invest $130 million in the United States?

How could Universal make such a significant commitment to the United States market when the future looks so bleak?

Yes, we recently completed a major modernization effort in the United States by building a brand new, 1.2 million-square-foot, state-of-the-art processing factory in Nash County, as well expanding and renovating our Danville, Virginia facility so that it, too, would contain the most modern leaf processing equipment in the world.

Yes, that $130 million outlay does represent the single largest investment ever made by Universal in processing facilities.

And, yes, we are very proud to have made these investments in North Carolina and Virginia.

However, I am sorry to say that we made these investments with little or no confidence in the future of the U.S. market.

Rather, Universal made these investments because we needed to increase efficiency in order to remain viable in the face of smaller U.S. crops and the ever-higher quality demands of our customers.

Universal recognizes that we took a substantial risk as the fundamental problems facing our industry remain squarely in place and, so far, no one has shown any true inclination to deal with them.

But, we felt that these were the decisions and investments that we had to make in order to maintain our position as the premier leaf dealer in the U.S. – even if the export market completely collapses and we only service the shrinking domestic market.

.....

So, what must be done to ensure the future of the domestic tobacco industry?

Without a doubt, the greatest challenge the industry faces today is the need for substantial and immediate change – the time has come to eliminate the federal tobacco price support program.

Let me explain.

The program has been historically one of our greatest assets and one of the most effective and efficient farm programs in the United States.

Now, it has become an albatross – clearly saddled with antiquated rules and non-competitive prices.

And, it has become so inflexible that it cannot react and effectively respond to changes in global and domestic markets.

Many in the industry – including Universal – believe the program has led to greatly inflated U.S. tobacco prices to the point where the U.S. is no longer competitive in the world market.

This is evidenced by the declining export figures we've all seen.

Regrettably, more and more foreign customers are turning away from U.S. leaf and seeking cheaper alternatives in other countries such as Brazil, Malawi, and China.

Because of these reasons and others, Universal strongly believes the only way for U.S. leaf to be more price competitive in the world market is to allow the market to work without restrictions on production or prices.

That's why, in principle, we support a quota buyout and its subsequent elimination.

The right to grow tobacco must be placed squarely in the hands of the growers if the domestic industry has any chance of long-term survival.

Good growers must have the ability to expand and achieve economies of scale if they are to be able to compete profitably in the world market.

The United States is the only country in the world where growers, in some cases, have to pay for the privilege of growing tobacco.

This places U.S. growers at a severe competitive disadvantage to growers elsewhere in the world.

But more importantly, we believe that the complete elimination of the federal price support system is absolutely essential if the U.S. grower is going to be able to compete effectively in the world market.

Any new tobacco legislation that emerges from the U.S. Congress should not limit production or have measures that support prices at artificial and non-competitive levels.

Instead, these production and price issues should be determined by simple supply and demand economics.

Universal believes that a move to a free market system will help to restore the competitive position of U.S. leaf tobacco in the world market and stabilize domestic leaf production.

In fact, we believe that it is the only step that can achieve these important objectives and restore the viability of the domestic tobacco industry.

These are just two of issues that Universal believes must be resolved in the very near future, but we believe that these are the most critical issues.

I will offer a more thorough explanation of our views on these and other issues for the record.

Senator Dole, let me close my testimony by stating that Universal has been – and remains today – a significant buyer and the largest processor of U.S. tobacco.

We have worked hard to support this market, its growers, and its workers – and I believe that our recent $130 million investments lends full credence to our commitment to the U.S. market.

We fully intend to be here for years to come – processing U.S. tobacco in our state-of-the-art processing facilities.

But, the time is fast approaching when there may be very little left for us to support.

That is why change must come and it must come soon.

In some cases, these changes will be painful – but no change at all is bringing a great deal of pain as well.

It will take strong leaders with the willingness to make the tough decisions in the short-term in order to have a prosperous long-term.

Senator Dole, I applaud the leadership that you have shown in focusing congressional attention on these issues that are so vital to the future of the domestic tobacco industry.

Universal stands ready to work with you to do what needs to be done.

Yes, reaching these goals will be difficult and challenging.

But, the cost of not acting is further decline in production of tobacco in the United States and the rapid disappearance of one of the Southeast's most important industries.

.....

Thank you again for inviting me to testify before this subcommittee hearing.

I greatly appreciate the opportunity you have given me, and I hope that you find my testimony useful as you and your colleagues in the United States Congress discuss ways to stabilize and improve the domestic tobacco industry.

I look forward to answering any questions that you may have.

* * *

Testimony of

Gene Charville, President
East Carolina Farm Credit, ACA
Raleigh, North Carolina

before the

Subcommittee on Production and Price Competitiveness for the United States Senate Committee on Agriculture, Nutrition, and Forestry

April 13, 2004

Good morning Senator Dole and members of the Subcommittee. I am Gene Charville and I am President of East Carolina Farm Credit. We are an Agricultural Credit Association serving the credit needs of agricultural producers and rural homeowners in eastern North Carolina. Currently our Association serves approximately 3000 farmers and 500 rural homeowners and provides approximately $700 million in credit.

I would like to thank you Senator Dole for your work on behalf of the North Carolina farmers that we serve. Your efforts to bring resources to bear on the agricultural and rural development challenges facing our state are very much appreciated by me, my farmer Board members, and all of the farmers and rural citizens we serve.

East Carolina Farm Credit's Business is Tied to the Business of Farming

We are the largest farm lender operating in eastern North Carolina with over 50% of the agricultural credit market share. As a cooperative agribusiness, the success of our business parallels the performance of the farmers we serve. We lend over $.50 of every dollar borrowed by farmers. Being a single industry lender, with a loan portfolio that consists nearly entirely of agricultural loans, our success is directly linked to the plight or successes of our farmer/members.

Within that single industry that we serve, our business is further concentrated predominately in a few main agricultural commodities. The largest commodity concentration is tobacco. Over 40% of our loans and commitments are to farmers who rely on income from tobacco to pay their bills. For East Carolina Farm Credit, this amounts to an investment of over $300 million.

The future of our business is directly dependent on the ability of tobacco farmers to be successful, build and maintain their equity, generate profits, and repay their debts. Eliminating the opportunity for growth or expansion limits the ability of farmers to succeed. It affects the value of their assets, the collateral they provide for loans, and the entire rural economy. The tobacco quota cuts that have occurred over the past several years have diminished the ability of tobacco farmers to succeed. Further cuts and the resulting instability could adversely affect the quality of our loan portfolio and the performance of our cooperative business.

Senator Dole, as someone who lives and works in rural America, I see the very real needs facing our farmers and communities. As you know, rural people face daily hardships as they meet the challenges of living and working in a rural area. The tremendous reductions in the tobacco allotment that have occurred over the past few years have only added to these hardships, making the challenge of surviving as a tobacco farmer nearly impossible.

Farming or working in a rural community no longer offers the appeal necessary to keep the next generation in the rural areas where they were raised. The average age of our customers is 58 and has continually increased for the past two decades. At East Carolina Farm Credit, we have pursued numerous programs to support and encourage young people to stay on the farm. Despite these efforts, young people, the next generation of farmers, are leaving the rural area. They see the lack of economic vitality and lack of opportunity. A buyout of the tobacco quota program would help restore economic strength to rural North Carolina.

Tobacco Farmers Face a Myriad of Adversity

Tobacco farming, for decades a stable and profitable farm enterprise, has now become a myriad of risk and uncertainty. The continuing reductions in the quota, increasing operating expenses, marketing changes, and an uncertain future have all created a tenuous situation for tobacco farmers and their cooperative lender.

Farmers today are faced with the same obstacles that their fathers and grandfathers faced.....they have no control over the costs of the inputs they purchase and no control over the proceeds they receive when they sell their tobacco. But we have added yet another burden with the uncertainty of whether there will be a buyout. And yet they must continue to rely on income from the sale of their crop to buy their groceries, to educate their children, and to pay their bills. Let's not continue with this burden on an industry that is already stressed.

Farmers across the country face many problems and uncertainties with the commodities they produce. External forces, far beyond the control of the farmer, impact the income producing potential of nearly every commodity. Often, a rural community, or even an entire county can be entirely dependent on the fate of one or a few crops. In our case, nearly half of our customers are tobacco farmers. Like all of us, they see forces beyond their control presenting nearly insurmountable hurdles to them continuing in the only occupation that they know. Nearly everyday they see negative news and uncertainty regarding tobacco. For the 98% of the population not connected to agriculture, this negative news is seen as justifiable adversity. For us and our customers it changes our way of life, it weakens our communities, and places our livelihoods in peril.

Continued Quota Cuts and Uncertainty of a Buyout Will Impact the Availability of Credit

Adequate credit is still available to tobacco farmers. With continued cuts and in the absence of a buyout, credit restrictions will be inevitable. The quota cuts of the past several years have financially weakened nearly all tobacco farmers. Net worths have declined, earnings have eroded, and tobacco farmers who had worked hard and achieved financial success are now fighting for their survival.

Many tobacco farmers have been unable to properly upgrade, replace, or even maintain their equipment. Quota cuts have made expansion virtually impossible and improved efficiency unattainable. Let's end this downward spiral and let the tobacco industry start on a new course in North Carolina.

East Carolina Farm Credit was established to fulfill unmet credit needs for farmers and assure that a dependable and reliable source of credit would always be available. East Carolina Farm Credit has been fulfilling this need for farmers since 1917. Farmers still have these same needs for credit and a lender that understands their needs as they did over 85 years ago. Fortunately, the Farm Credit System is there to provide the capital, the experienced staff, the network of offices, the willingness, and the desire to meet those needs. Let's give tobacco farmers the ability to continue to earn a living.

A Tobacco Buyout will Benefit all of Rural North Carolina

Senator Dole, we are at a turning point. We can sit back idly while we continue to see our tobacco industry slowly and painfully decline, and with this decline a further erosion of our rural communities and our businesses that depend on a strong rural economy. Instead, I hope that we seize the opportunity to change the tobacco industry in a positive way. Let's provide an equitable buyout of the tobacco quota program. Doing so will strengthen eastern North Carolina, it will strengthen the entire state, and it will do so in a way that provides the farmers who are with us today, the farmers that have built eastern North Carolina and it's economy, a way to make a transition.

Senator Dole, your interest and support on issues affecting rural North Carolina, your strong support of the tobacco industry, and your pursuit of a tobacco buyout are very much appreciated. Again, thank you for your leadership on this vital issue and for conducting today's hearing.

Wallace Herring
Senior Vice President
First Citizens Bank
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Clinton, North Carolina 28328

TESTIMONY FOR THE SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS FOR THE UNITED STATES SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

April 13, 2004

Thank you. I'm Wallace Herring, senior vice president and manager of the Agribusiness division of First Citizens Bank.

This morning I plan to speak from a business perspective about the tobacco buyout and why we need to move forward with it.

Our company has a vested interest in what happens to our tobacco farmers. In 1898, we opened our first office in downtown Smithfield, primarily serving the farmers of this community and then agricultural customers throughout Eastern North Carolina.

Over the last century, our company has expanded to 337 offices in North Carolina, Virginia and West Virginia. While we've expanded our products and services beyond agricultural lending, we've never forgotten our roots.

At First Citizens, we've made a considerable commitment to support this sector of our economy. We have a business development team as well as a credit analysis group devoted solely to farming and agribusiness.

Many of our bank branches are in rural communities, where we provide financial services to farmers, family members and companies who rely on agricultural business for their livelihood.

Without question, tobacco has been a very important part of the economy in these areas, including here in Smithfield. And the potential for a buyout looms heavy on the minds of many people, especially the growers and the quota owners.

As we all know, a tobacco buyout and an end to the tobacco program have been debated for many years. Many of us were hopeful that some type of buyout would take place last year. Obviously this did not happen.

Our customers who operate tobacco farms tell us that they're frustrated with the continued uncertainty over the buyout. It's hard to make long-term decisions — should they finance a new tractor or purchase a barn, for example — when income is tight and they don't know what to expect down the road.

Without a buyout, further quota cuts will continue to put pressure on tobacco growers, owners and our rural economies.

If the forecast by an N.C. State economist who's an expert on this issue holds true, the situation looks increasingly dire — especially if we face the predicted 33 percent cut in quota in next year and lose $200 million in income.

The bottom line is, unless we move ahead with a buyout, tobacco growers will find it hard to stay in business.

Some farmers will turn to alternative crops to offset quota cuts and decreased income. Others will sell their operations. Some will turn to other lines of work. We all know good jobs are hard to come by, especially in the rural areas of our state.

The current tobacco program not only hurts farmers, but it also compounds the already-distressed economic situation in our rural communities. Many of these areas hard hit by the quota reduction are struggling to discover a replacement for the tobacco dollar, which sustained them for many years. Local companies that do business with tobacco growers are finding that it's hard to make ends meet.

As if this isn't enough, manufacturing plant closures and job layoffs, so common to our state in recent years, are adding to the economic woes in many of these rural areas.

It's time to end the uncertainty and make the buyout a reality, while we still have the opportunity to help our farmers and their communities.

- A buyout would allow quota owners and farmers to make the transition if they want to stop raising tobacco. At the same time, it would stabilize the position of larger growers who want to continue their operations.

- A tobacco buyout would also make a dramatic impact on our state's economy. Growers and owners would use their buyout payments to settle debts, pay taxes, purchase equipment and supplies, invest in education or diversify their operations.

- The buyout's impact would spread to other businesses and sectors, resulting in billions of dollars in additional economic activity. According to a University of Tennessee analysis, North Carolina could see an estimated *$6 billion* in additional growth under the proposed House bill — $1.16 billion in the first year of the buyout alone.

- This economic activity would also significantly support the creation of much-needed jobs in our agricultural communities.

- In other words, a tobacco buyout would help steady our state's already fragile rural economy and significantly increase business opportunities in these areas.

First Citizens is proud of the partnerships we've built with our agricultural customers over the last 106 years. That's why we support this issue and understand how important it is to the communities and businesses we serve.

I commend Senator Dole for her leadership and for putting together this hearing.

We must continue to keep the public aware of agriculture's value to our statewide and local economies.

And we must support our farmers and take steps to pass a tobacco buyout. Today's meeting is a good start. Thank you.

Dallas W. Taylor
Senior Vice President
Wachovia Bank, National Association
150 Fayetteville Street Mall
Raleigh NC 27601

Testimony before the Subcommittee on Production and Price Competitiveness of the United States Senate Committee on Agriculture, Nutrition and Forestry

On behalf of Wachovia, thank you for inviting me to speak to the subcommittee today and voice my support for a segment of Wachovia's customer base that has been and continues to be very important to our success.

My name is Dallas Taylor. I have been a Wachovia employee for 38 years. All of those years have been spent in various Wachovia locations in eastern North Carolina. Most of my time with the company has been spent providing loan and deposit services directly to agricultural customers, including numerous tobacco growers and quota owners. Currently, I work on the Risk Management side of the bank. Although I am no longer in direct contact with our customers on a daily basis, I am still part of the team that looks for ways to add value through various credit products.

Over the past several years, I have observed first-hand the plight of the farming community in eastern North Carolina. Although change is inevitable within every segment of our economy as business cycles ebb and flow, tobacco farmers have struggled more so than other segments to keep pace with those changes. We have seen balance sheets erode in asset value and equity value due to rapidly declining quota ownership. We have seen tobacco growers' disposable income dwindle due to fewer acres grown, which

combined with rising costs leads to reduced profit margins. These changes have put more pressure on the grower to find other sources of income to take the place of what was once a thriving income source. With limited alternatives available, we have seen the number of farmers steadily decline and fewer new farmer start-ups.

The deterioration in tobacco farmers' financial conditions often increases credit risk, resulting in increased bank costs to maintain appropriate capital and increase loan portfolio monitoring. In turn, this reduces credit flexibility with existing customers and prospective new customers.

Since its beginnings in the late 1800's, Wachovia has been a friend to the agricultural community. The farmers and tobacco growers are one of the economic engines in eastern North Carolina. If the farmers are viable, they funnel money into our economy through the purchase of products and services, and they create and maintain a large percentage of jobs in this region. As their financial institution of choice, we have a vested interest in their ongoing success. If our customers thrive and succeed, so do we.

In summary, the financial deterioration of tobacco growers increases our cost to provide credit through higher credit risk, reduces the credit flexibility available to tobacco growing customers, and impairs the financial viability of lending to tobacco-dependent producers. Based on our understanding of the various tobacco buy-out proposals presented to-date, tobacco growers and quota owners would be given the opportunity to better control their own destinies as well as bolster their deteriorating balance sheets and

income streams. This may give the tobacco grower the options to expand existing operations, retire from farming or maintain operations at the same level with less fear of further financial deterioration due to quota cuts.

Wachovia is not here to directly support any kind of new legislation. What we are in support of are our customers. Again, thank you for this opportunity to voice our support for valued Wachovia customers. We wish them continued success.

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Fred Smith
W. Ray Woodall

April 13, 2004

James H. Langdon, Jr. Chairman
Johnston County Board of Commissioners

Points in Support of a Tobacco Buy-out for Johnston County Citizens

The tobacco industry has been and is still very important to Johnston County. It is important not only to producers and quota owners but to the entire economy of the county. The following is a listing of some of the impact that tobacco has on our local economy in Johnston County:

- In 2003 the estimated farm income from tobacco was $35, 363,561.
- The income was shared among an estimated 550 active growers, probably the largest number of tobacco producers in one county in the United States. There are some growers who do not own quota but most growers, well over 80 %, own quota and lease tobacco quota from other quota owners.
- Johnston County has the second highest amount of quota in the State. Some years, Johnston county growers sell more tobacco than growers in Pitt County, the nation's largest tobacco producing county and in other years growers in Robeson County, the third largest tobacco producing county, produce more tobacco than Johnston County growers.
- Tobacco has been a stable source of income and to some degree has stabilized the local economy. Because the crop was grown under a quota system with price supports, growers could make business plans, and arrangement to secure the resources they needed in their farming operations.
- Tobacco has been profitable for producers and quota owners. Because it is profitable, the quota has value. Farmers purchased land on the basis of tobacco allotments and in such cases land values were dependent on tobacco allotments.

Times have changed and the tobacco industry has changed.

- Eighty-three percent of the tobacco produced in Johnston County is sold under a marketing contract.
- Since 1997 the quota in Johnston County has dropped 47% from 37 million pounds in 1997 to 19 million last year.
- During this same period the income from tobacco has dropped by 45% from $64 million in 1997 to $35 million in 2003.
- The latest outlook projection indicates a 30% reduction in quota for 2005. A 30% reduction in the 2004 quota would decrease receipts another $11 million in Johnston County. This would significantly impact Johnston County farmers and quota owners.

- The United States has lost its market share and is no longer a player in the world market.

Johnston County tobacco farmers and allotment holders need a buy-out.

- With the present tobacco program, quotas and allotments are in a downward spiral.
- While quotas and allotments become smaller, growers are suffering from the lack of a dependable source of income. The value of assets that quota owners and producers have invested in is decreasing.
- A buy-out will compensate allotment holders for their investments. This includes over 5000 Johnston County citizens.
- A buyout will help active growers transition into other commodities and industries.

Johnston County tobacco farmers and quota owners want, need and deserve a buyout.

Background Information:

Johnston County Tobacco Production

Year	Acres Planted	Amount Sold	Value	Estimated Total Farm Sales
1997	16,748.43	36,986,361	63,986,405	201.1
1998	12,492	27,906,487	49,394,482	198.4
1999	10,419	21,709,549	38,425,902	175.2
2000	8,650	23,209,703	42,009,562	201.7
2001	7,986	21,442,639	39,380,483	172.0
2002	7,975	20,442,639	37,818,882	170.0
2003	7,883	19,049,630	35,363,561	
2004	8,323	19,751,232		

Cost of Tobacco Production
High Estimate $1.15 per pound
Low Estimate $0.95 per pound

Estimated Selling Price (2003)
Receiving Stations $186.62 cwt.
Auction Sales $180.85 cwt.

Sales Location

	Johnston County Tobacco	Total Sold in Johnston County
Receiving Stations	15,757,485 lbs.	35,022,902 lbs.
Auction Sales	3,292,145 lbs.	5,000,000 lbs

On a macro level the loss of tobacco production impact sales of fertilizer, chemicals, LP gas, farm equipment, service jobs related to production and repair of machinery and equipment, etc.

The loss of the multiplier of tobacco income within the local economy let alone the state is 3 to 5 times the farm sales value. That multiplier could be compared to the multiplier associated with the one time buyout opportunity for comparisons.

Subcommittee on Production and Price Competitiveness
For the U.S. Senate Committee on Agriculture, Nutrition and Forestry
Central Tobacco Marketing Exchange – Smithfield, North Carolina
Title: "The Necessity of a Tobacco Quota Buyout: Why it is Crucial to Rural Communities and the US Tobacco Industry"

TESTIMONY

April 13, 2004

T. Allen Scarborough, Ph.D.
Manager, State Affairs
Bayer CropScience
Raleigh, NC

Bayer CropScience researches, develops, manufactures, and sells a broad range of innovative crop science products for the crop protection, biotechnology, and seed markets; the turf and ornamental and professional pest management markets; and the consumer lawn and garden markets. The U.S. business headquarters for Bayer CropScience is in Research Triangle Park, NC, employing approximately 400 people in the state.

The success of Bayer CropScience is directly linked to the economic health of U.S. agriculture and the producer community. Our business is reliant upon the ultimate users of our products and technology and, beyond our own workforce, is partnered with the distribution and retail businesses that sell, service, and help to steward what we develop and manufacture.

The crop protection/production industry is affected by the crop acreage under production. A drop in acreage represents a reduction in the potential market for that crop. Additionally, the value of the crop to the grower also affects the producers' input purchasing decisions.

In a simple analysis, if a market or other factors reduce crop acreage and/or the value of the crop declines, then our industry experiences reduced sales for that market. The

impact is also felt within the broader agribusiness community. For the agricultural industry, the basic manufacturers of crop protection products, the wholesalers, and the retailers of input products and technology are the components most directly affected.

The long-term economic viability of the producer community will ultimately affect the continued and future markets for agrichemicals and related businesses. For tobacco, acreages have declined over 40% since the late 1990's. According to North Carolina State University, each lost acre no longer receives chemical inputs worth hundreds of dollars per acre. A continued decline in acreage and/or the potential loss of producers would adversely affect crop protection/production sales but could affect the viability of distribution and retail locations in the areas of such losses. The bottom line of national suppliers would also be affected.

For our industry and the economic health of the region, it is important that legislation support agribusiness by supporting the producer community. Without that support, many producers may leave farming altogether. Clearly, the loss of producers would negatively affect the crop protection/production industry.

DOCUMENTS SUBMITTED FOR THE RECORD

April 13, 2004

Statement of AHEAD
Alliance for Health Economic and Agriculture Development
Submitted to the Subcommittee on Production
and Price Competitiveness
Senate Committee on Agriculture, Nutrition and Forestry
Smithfield, NC
April 13,2004

The Alliance for Health Economic and Agriculture Development (AHEAD) appreciates the opportunity to submit this statement for the record. We also want to commend Senator Dole for holding this hearing at a time when tobacco producing communities face unprecedented challenges and hardship.

There has been a great deal of talk and discussion about tobacco in Congress over the last several years, which has focused on issues related to the tobacco buyout and the need for fair and effective regulation of manufactured tobacco products by the FDA. While seemingly separate, these issues are in fact intertwined and are a part of what must be a broader and more comprehensive new national tobacco policy in this country. That policy must protect both public health and ensure the short term and long term viability of the thousands of people living and working in tobacco producing communities, not only in North Carolina but elsewhere as well. The environment under which tobacco and tobacco products are grown, processed, manufactured, distributed and marketed is rapidly changing. There are both challenges and opportunities that need to be addressed. In making decisions about the future of tobacco we need to recognize that:

- Tobacco and tobacco products are produced, processed, manufactured, distributed and market in interstate and foreign commerce.

- Tobacco is a unique agriculture and manufactured product with a unique history. It is different than other commodities like corn, wheat or soybeans. It contains nicotine, an addictive substance and causes a significant number of health risks.

- The current tobacco program no longer serves the interests of those it was designed to protect and needs to be replaced with a new system that brings tobacco production into the 21st century.

- Tobacco manufacturers, who for decades denied the overwhelming scientific evidence, now acknowledge that they "produce a product that has significant and inherent health risks for a number of diseases."

- New technologies, advancements in science and methods of producing, processing and manufacturing tobacco and tobacco products are now available and will continue to be developed. These technologies, if applied properly and with regulatory guidance and oversight, could significantly curtail the disease

caused by tobacco and give US growers and *responsible* manufacturers a competitive edge in both domestic and world markets.

- Many public health organizations support providing fair compensation to tobacco growers as well as continuing to retain controls over the production of tobacco.

- Many organizations representing the interests of tobacco growers support fair and effective regulation of tobacco products by the FDA.

- The American public expects corporations to act responsibly and to be accountable, especially in situations in which a manufacturer produces and sells an inherently dangerous product.

- There has been an increase in the distribution of illegally manufactured and bootlegged cigarettes which impact on federal and state revenues, negatively impact on growers and responsible manufacturers, threaten public health and even promote criminal and terrorist activities.

- There needs to be better inter-agency communication and coordination at the federal, state and local levels, including better cooperation between USDA, HHS (FDA, CDC, NIH), EPA, FTC, DOJ and the USTR. This also means greater direct and indirect engagement between health organizations, growers, manufacturers, distributors, consumers, and researchers in the private sector.

Bringing Tobacco Production and Manufacturing into the 21st Century

Tobacco will continue to be grown and manufactured in the foreseeable future and there are few if any who suggest that it be banned. That being said, the question that must be addressed is what kind of new production, manufacturing, and marketing structure and system should be established that will be able to adapt to what is a rapidly changing environment?

Today, issues relating to the health and safety and integrity of both the tobacco leaf and the manufactured product are becoming increasingly important and will continue to be so both domestically and globally. Last May the World Health Organization (WHO) approved the Framework Convention on Tobacco Control (FCTC) which will have significant ramifications on not only manufactured products but the production of tobacco leaf as well. US tobacco growers should be thinking about how they will be a part of those changes and how they can be a part of the solution rather than being perceived as part of the problem.

New technologies are being developed and implemented that can both improve the health and safety of the tobacco leaf as well as reduce risks associated with the use of tobacco. Technologies exist to significantly reduce cancer causing agents in the tobacco leaf. GMO tobacco research is being done that not only will allow for lower risk leaf and

products to be developed but also holds the promise of developing new medicines, industrial enzymes, and other products.

Therefore, good reasons exist for making sure that an focused discussion regarding the future of domestic tobacco production, which may include ending the tobacco program, includes where production, manufacturing and marketing is head over the next five to ten years. There is a real opportunity for change – change that is a win- win situation for growers, public health and responsible manufacturers.

The tobacco 'buyout' is a prerequisite to reform of tobacco agriculture system

Few would disagree that the tobacco program established by Congress in 1938 no longer serves the interests of those who produce tobacco in this country. Tobacco farmers and quota owners need to be fairly compensated for the 'equity' that Congress has provided them.

Providing fair compensation to growers and quota owners is an essential first step in moving towards reforming an antiquated system that no longer serves the interests of growers.

Because we know that tobacco and tobacco products carry inherent risks in their use, and that they have been used in illegal activities, what takes the place of the old program becomes critical. The purpose of a new production system is not to perpetuate the old program but rather a establish a system for the future --- one that ensures the integrity of the crop by tracking and monitoring the production, processing, distribution and eventual use in the manufactured cigarette. The new system which becomes *complementary* to the regulatory oversight of manufactured tobacco products (by the FDA) as well as to efforts aimed at curtailing the illegal trafficking of tobacco and tobacco products and should include:

- The monitoring and tracking of all aspects of production and distribution, including the licensing and registration of producers, distributors and others handling the tobacco.
- Assurances that all imported tobacco meets the same standards for domestic tobacco and is monitored and tracked in a similar fashion as domestic leaf.
- Identifying and implementing technologies at the production level that can reduce risks associated with the tobacco, as well as ensuring that pesticides and other chemicals used in the production meet strict US standards.
- Ensuring that tobacco production is restricted to areas already producing tobacco, making it easier to monitor, test and certify the quality of the tobacco.

Keeping Jobs in America

In looking at the future production and manufacturing of tobacco and tobacco products, it should be the goal of the US Congress to work towards ensuring that jobs are kept at home. Tobacco is going to be grown somewhere in the world and it makes sense from a public health perspective, an agricultural perspective and even a responsible manufacturing perspective for it be grown and processed in the US where the highest quality, health and safety standards can be maintained. But some of the tobacco companies, whose goal is to maximize profits no matter what the consequences have increasingly bought more and more cheap unregulated tobacco from overseas and in some cases have moved their operations overseas. In one case a manufacturers who has over 20% of the US cigarette sales market is said to purchase less than 5% of its tobacco from US producers. These actions not only hurt US growers but also harm public health. We believe that with the establishment of a new national tobacco policy we can establish a coherent system that ultimately benefits growers, public health, and responsible manufacturers.

Need for More Research and Development

Tobacco is a complex commodity and the products that are produced from tobacco carry diverse health risks. Because scientific research and the development of new technologies hold promise for both growers and public health we encourage the US Congress to include research funding in any national legislation – whether as part of tobacco agriculture legislation or as part of FDA tobacco legislation.

"Free Market" Should also be "Fair Market"

There has been a great deal of discussion about what happens once the tobacco program is eliminated. Some argue that a completely 'free market' system that once again puts growers at the mercy of manufacturers is best. Others argue that there will need to be standards and other production controls in place. We concur with the latter. We noted above, that tobacco is an inherently dangerous product. It would make no sense for such a commodity to be produced with no controls over it. Technology changes, and the need for effective but fair regulation over the product will also require that there be controls in place.

Consumers of tobacco (both in the US and abroad) have a right to know where the tobacco was grown and under what conditions. They are also entitled to information about the risks and relative risk of the products they are using based on sound scientific evidence (under FDA). Failing to provide information prevents true competition both in the production of the tobacco leaf and in the manufacture and sale of the tobacco

products. Eliminating the program with few to no safeguards or effective oversight can only hurt tobacco producing communities, public health and *responsible* manufacturers.

Bootlegging and the illegal manufacture and trafficking will continue to be a serious problem in the US and abroad. It hurts growers, it hurts public health and it hurts responsible manufacturers. The ability to monitor and track tobacco leaf (both domestic and imported) and manufactured tobacco products including assuring its quality is essential.

Growers can compete but they can only do so if there is a fair and level playing field and they have the appropriate tools to do so. Currently they do not have those tools and it is essential that Congress give them tools, resources, and assurances that they will be supported as they compete in the 21st century.

Conclusion

The United States Congress has an opportunity and a responsibility to establish a new national tobacco policy for this country --- one that will serve the interests of growers and their communities, public health, and responsible manufacturers. Preserving the "status quo", whether it's on the part of manufacturers, tobacco growers or even public health is in the best interests of no one. Short term quick- fixes can only perpetuate the underlying problems. The Alliance hopes that you, Senator Dole, will take an active leadership role and reach out to your colleagues in the Senate as well as in the House. This should include both democrats and republicans, from both tobacco and non-tobacco states. Partisan politics and special interests must be set aside if we are to truly and effectively look out for the interests of the people of this country. The health and welfare of millions of Americans depend upon it.

Respectfully Submitted,

Steering Committee

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CAMPAIGN for TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

Statement of Matthew Myers

President

National Center for Tobacco-Free Kids

U.S. Senate Committee on Agriculture,
Nutrition and Forestry
Subcommittee on Production and
Price Competitiveness

April 13, 2004

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My name is Matthew Myers. I am the President of the National Center for Tobacco-Free Kids, a national organization created to protect children from tobacco by raising awareness that tobacco use is a pediatric disease, by changing public policies and by actively countering the special interest influence of the tobacco industry.

Thank you for allowing us to submit our testimony on the question of a tobacco quota buyout and surrounding issues. I was privileged to serve as the Co-Chair of the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health. Two critical factors led to the formation of the Commission. The first factor was the unprecedented economic hardship that faced, and continues to face, tobacco farmers and their communities. The second factor was the recognition that more needs to be done to reduce the harms to public health that are caused by use of tobacco products.

I want to quote from the opening page of the Commission's Final Report that described the situation at the time of the report in May 2001. Sadly, almost three years later, nothing has changed.

> Tobacco farmers and their communities are in the midst of an unprecedented economic crisis. At the same time, public concern over the health hazards of using tobacco products is at an all-time high. Resolving these two crises will require new, visionary tobacco policy in this country. Can we help tobacco farmers, strengthen their communities and at the same time protect the public from the health hazards of smoking? The answer of this Commission is a definite ***"yes."***

Madam Chairwoman, it may surprise some that representatives of the public health community are concerned about the plight of tobacco farmers and their communities, but we are. Tobacco farmers are not the problem. We understand that they are the mainstay of numerous rural communities. Some are the great or great-great grandchildren of farmers who raised a crop that goes back to the founding of this country. They are hardworking, and tobacco is their livelihood. The crisis facing tobacco farmers and their communities requires decisive federal action to reduce economic dependence on tobacco, to assist tobacco farmers in diversifying farming operations and local economies, and to create a new system that allows farmers who wish to continue to grow tobacco to compete fairly. At the same time, the crisis facing our nation's public health requires decisive federal action to regulate manufactured tobacco products.

We support good buyout legislation being married to good legislation providing the Food and Drug Administration (FDA) with effective authority over manufactured tobacco products. We oppose any effort to move buyout legislation, including legislation that we otherwise support, absent an agreement that prevents it from serving as a vehicle for weak FDA legislation.

Our position on these two complex, intertwined issues has a long history and a complicated context. The Commission on which I served found that huge drops in demand for U.S. tobacco here and abroad are squeezing tobacco farmers. The cause is less the gradual drop in tobacco use in the United States because of public health concerns than the increasing use of foreign-grown tobacco by U.S. manufacturers in the cigarettes they make here and overseas, the increasing costs facing tobacco growers, and the payments many active growers have to make to quota holders for the right to grow tobacco.

While the farmers have suffered, the tobacco manufacturers have continued to make a substantial profit on the sale of their products. The tobacco farmer's portion of the retail tobacco dollar has fallen from seven cents in 1980 to two cents in 1998. As their income drops, many tobacco farmers are simply going out of business. More than half of the tobacco farms existing 25 years ago are gone. The future for tens of thousands of tobacco farmers and their communities across more than 20 states is bleak.

At the same time, many people in this country suffer every day and ultimately die from tobacco-caused diseases. Smoking is the leading preventable cause of death in the United States, killing more than 400,000 Americans every year. Tobacco-caused diseases are also a major factor in the skyrocketing costs of health care, especially in the tobacco-growing states themselves where the risk of tobacco-caused diseases and deaths is higher than the national average.

As surprising as it may seem, we believe that the health and safety of the American people and that of tobacco farming communities are linked. A stable tobacco-growing industry that operates through price and quality controls and under health and safety standards is in the best economic and health interests of this country. The current tobacco program needs to be significantly restructured, but not eliminated. Its elimination would in the opinion of the farmers and economists who testified before the President's Commission make it impossible for small family farms that are the backbone of so many communities to survive, and with the demise of these farms would come the economic strangulation of the communities in which they live.

Without meaningful price and production controls and continued restrictions on where tobacco can be grown, the price of tobacco would drop over the long run and thousands of family farms would be replaced by a few very large farms. Jobs, communities and a way of life would be lost; poverty in current tobacco growing regions would increase; and with an increase in poverty comes a decrease in health status. The elimination rather than the restructuring of the tobacco program could also impact quality standards, such as keeping U.S.-grown tobacco free of unapproved pesticides. It would also violate a cardinal principle adopted by the Commission: any changes in the tobacco program

should focus on long-term solutions to the problems facing tobacco farmers, not on short-term quick fixes.

As a result of these findings, we have joined with tobacco farmers in urging Congress to:

- provide tobacco growers and quota holders with fair and equitable compensation for their quota funded through a user fee on the tobacco companies or other source of new revenue
- replace the current program with a new system of licensing that controls supply, maintains price, protects family farmers and gives farmers and their communities both short term and long term stability
- provide economic development assistance to tobacco communities

Tobacco quotas should be replaced with a new system of productions permits. Only active tobacco growers should hold these permits so that they will not become marketable assets that add to the production costs of tobacco. Quota is part of the retirement arrangements of some quota owners. It is the inheritance of others. It is only fair that these individuals be adequately compensated.

We also support, as part of the buyout, providing to farmers who decide to use the buyout as an opportunity to stop growing tobacco a payment larger than the payment made to farmers who elect to continue to grow tobacco. While we support a payment to both categories of growers, many of these farmers have poured all of their available funds into their farms and have not been able to save either for retirement or to make a transition into growing other crops or another profession. To enable those who wish either to retire or to make a transition into earning their income without growing tobacco, they should receive enough of a buyout to enable them to do so.

The testimony before the Commission indicated that the buyout and new production permit system will lead to a more stable, economically viable situation for those farmers who remain and will be able to operate free of federal financial support. We were informed that many farmers would stop growing tobacco, resulting in fewer people growing tobacco, and that the elimination of quotas will lower the cost of production. The proposed changes will cut the financial cord between the federal government and tobacco growing.

Tobacco growing communities are already in transition. It is a transition caused by the dramatic drop in recent years in tobacco quota. The issue is not whether tobacco communities are facing a transition, it is what help they will receive during this transition. Any buyout should take into account the need to help farmers and communities make an orderly transition. Economic development assistance is critical for both individual farmers and tobacco growing communities. It is also important that small family farmers receive their pay out more quickly – we recommend over one year – if they are to have the funds needed either to retire or make a transition.

Finally, at a time of fierce competition for federal dollars, no one seriously thinks that the funds for a tobacco buyout can come from the general revenue where every dollar for a tobacco buyout must compete with other agricultural needs and other pressing national priorities. The Commission recognized this problem and recommended that the buyout be funded through an increase in the tax on manufactured tobacco products. Reflecting our desire to be flexible, those of us in the public health community who support the farmers' cause have indicated that we would support a proposal that was financed through a user fee.

The Commission proposal could be fully funded and paid out over five years from a 17-cent excise tax or user fee based on a 1998 quota year according to economists from various academic institutions and the Department of Agriculture. We would hope that any program that is adopted would be funded at this level and would not be based on a later quota year when tobacco quotas had already dropped because of the buying patterns of the major cigarette manufacturers. Many farmers went into debt based on false expectations that were generated by pre-1998 tobacco manufacturer buying decisions and protections that they thought the federal program offered them. The additional user fee needed to pay out farmers based on 1998 quota is only a few pennies per pack – too small an amount to impact consumption – but the impact of a far smaller payment to farmers and their communities would be significant.

The farm leaders and the public health leaders on the Commission also reached a consensus on a number of public health measures. Most prominently, this included Congressional authorization for the Food and Drug Administration (FDA) to establish fair and effective regulatory mechanisms for the manufacture, sale, marketing, distribution and labeling of manufactured tobacco products, comparable to regulations established for other products that the FDA regulates. We agreed that the regulations should aim to protect public health. In addition, the U.S. Department of Agriculture (USDA) and the Environmental Protection Agency (EPA) should retain authority to set safety standards governing tobacco farms and tobacco growing. Our proposal will not put FDA on the farm. In the long run, both the framers and the public health community agreed that effective FDA regulation of tobacco products benefits everyone.

Granting FDA authority over manufactured tobacco products will save lives and protect the public health. It also will directly benefit U.S. tobacco farmers, who are better able and better equipped than tobacco growers in other countries to respond positively to both domestic and international actions designed to address health concerns. In addition, FDA rules provide tobacco farmers an opportunity to be heard as part of the regulatory process. This will prevent farmers from having to change what they are doing on short notice when manufacturers demand new production techniques or leaf characteristics based on corporate decisions with no public or farmer input.

The Commission included leaders from the tobacco growing community, public health community and economic development experts. Its recommendations are the continuation of a remarkable dialogue that began when approximately 80 public health and agricultural organizations, including major tobacco grower associations, first gathered in the mid-1980s for face-to-face discussions about the plight of tobacco farming communities and the need to protect public health.

The consensus reflected by the Commission report has been widely accepted. It has been endorsed by the Burley Tobacco Growers Cooperative Association, the Flue-Cured Tobacco Cooperative Stabilization Corporation, the Kentucky Growers Association, Concerned Friends of Tobacco from Virginia, the North Carolina Growers Association, the National Tobacco Growers Association, the South Carolina Tobacco Growers Association, the Florida Growers Association, the Tobacco Growers Association of Georgia, the Virginia Tobacco Growers Association, the National Farm Union, the American Heart Association, the American Cancer Society, the National Center for Tobacco-Free Kids, Kentucky Action, Tobacco Free Ohio, and many others.

For years members of Congress from tobacco growing states have said to tobacco farmers – if you all could only agree on a single fair proposal, we will move it forward. The endorsement of the principles and plan laid out in the Commission report reflects just such a consensus. We heard not a single voice of opposition to the principles laid out above from any tobacco growers or any organization representing tobacco growers.

Madam Chairwoman, there is a strong linkage between all the recommendations adopted by consensus of the farming community and the public health community. All are essential to forming sound public policy that can make a real difference in the economic crisis facing tobacco farmers and in the public health crisis stemming from tobacco use. We have been flexible in evaluating how different proposals accomplish these goals, but remain firm in our commitment to the principles we all agreed upon. These principles will guide our evaluation of any proposals for a tobacco buyout and for FDA regulation of manufactured tobacco products. We have attached the Guiding Principles adopted by the Commission as an Appendix to our testimony.

Madam Chairwoman, The National Center for Tobacco-Free Kids has endorsed tobacco quota buyout legislation, introduced last year in the House of Representatives by then Representative and now Governor Fletcher, that would provide growers with compensation and a continuing tobacco program. Two years ago, we endorsed legislation introduced by Senator Hollings that also was consistent with the needs of tobacco growers and the principles adopted by the Commission. Other members of Congress, including Senators Edward Kennedy, Tom Harkin, and Richard Durbin, have endorsed the goals of the public health community on buyout legislation in a letter last year to the Flue-Cured Tobacco

Cooperative Stabilization Corporation and the Burley Growers Cooperative Association.

Some cigarette manufacturers and some in Congress say that Congressman Fletcher's proposal is unrealistic. We disagree. It is not the public health community, or its allies in Congress, that are standing in the way of a fair buyout supported by growers. Only the tobacco manufacturers have voiced their opposition. If the public health community is standing with tobacco growers, it is hard to understand why so few members of Congress from tobacco growing states have endorsed bills consistent with these principles. If there is a surprise in what has happened since the Commission issued its report more than two years ago with broad public health community support, it is that so little has been done by those who traditionally support tobacco growers to address their needs. The choice for this Committee and the Congress is between those family farmers and the tobacco manufacturers.

The dialogue between tobacco growers and the public health community has indeed become a partnership to prevent long-term suffering in tobacco-growing communities and to protect the public health. In the three years since the report was issued we have done everything we can to demonstrate our support. We continue to support that partnership and the policies it has produced.

However, candor, and the trust built by this partnership, require me to say today, as I have many times before to my tobacco grower friends, that while we are prepared to support legislation that is consistent with the principles laid out by the Commission, we will oppose any legislation or any legislative process which serves as a vehicle or potential vehicle for enactment of weak FDA legislation that in our view does more to protect tobacco manufacturers than the public health.

The public health community would prefer no FDA legislation to weak, ineffective legislation. Ineffective FDA legislation would likely close the door for years to efforts to fashion appropriate FDA regulations and would usher in a new generation of tobacco products for which unproven health claims could mislead consumers worried about their health into switching rather than quitting. We cannot allow that to happen. Over the last three years we have supported a number of proposals in both houses of Congress to grant the FDA jurisdiction over manufactured tobacco products and have opposed several that fell below the minimum standards upon which we have agreed. Two years ago, the leading tobacco grower organizations voiced their support as well for a bill that we also support - the bill introduced in the Senate by Senators Kennedy and DeWine.

Madam Chairwoman, there are not many legislative days left this year. It is still possible to reach the kind of agreement that will be necessary to bring together the broad coalition that will be needed to pass legislation consistent with the goals we have set forth, but it will only happen if members of Congress

concerned about the buyout and members of Congress who have traditionally urged the enactment of legislation granting FDA authority over manufactured tobacco products come together to attempt to reach agreement on both the substance of legislation and a process to assure each other that any agreement will be reflected in the ultimate legislation. This needs to happen before any legislation moves through either the House or the Senate and before any attempt to link buyout legislation with legislation granting FDA authority over manufactured tobacco products. That is a tall order, but in the absence of an agreement, the regular legislative process will not provide any of the parties involved with sufficient assurances of an acceptable outcome given the traditional disagreements concerning these controversial issues.

We are prepared to work full time to accomplish our mutually agreed upon goals but we want our position to be clear: 1) we support good buyout legislation being married to legislation we support that provides FDA with authority over manufactured tobacco products; 2) we oppose any effort to move grower legislation, including grower legislation that we otherwise support, through the House absent an agreement that prevents it from serving as a vehicle for weak FDA legislation. With very few exceptions the necessary dialogue between members of Congress to make all of this happen has not even begun although we are four full months into this legislative session. We urge Members of Congress to begin those conversations today.

Madam Chairwoman, strong action is urgently required to prevent long-term economic suffering for tobacco farmers and their communities. Unless action is taken, tens of thousands of farmers will struggle to survive and many, including whole communities, will not make it. Equally strong action is needed to protect the public health from the harms caused by tobacco products. Inaction and posturing should not be options. We stand ready to do whatever is necessary to be a good partner in this undertaking, and to make sure it does not fail because of a lack of effort or sincerity on the part of the public health community.

Appendix

Guiding Principles of the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health

- The Commission's recommendations should both protect 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) past federal policies that have led many tobacco farmers to a heavy, if not total, dependence on this crop and way of life and (2) 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.
- The preservation of a tobacco program that controls supply, maintains price, moves production permits 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 members of minority groups.
- 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 changes in the tobacco program should focus on long-term solutions to the problems facing tobacco farmers, not on short-term quick fixes.
- Tobacco farmers should be fairly and equitably compensated for their quota to address their current crisis and reduce their dependency on tobacco, an action which is in the best interests of tobacco growers and the public health.
- Economic development assistance to tobacco-growing communities is in the best interests of tobacco farmers, their communities and public health. 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 transition...
- The U.S. 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 public health.
- More must be done to prevent the harm caused by tobacco products, as acknowledged even 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 products should be adopted by the public and private sectors, with a special emphasis on the problems facing tobacco-growing states.
- Tobacco products 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 that the FDA regulates. The regulations should aim to protect public health. In addition, the U.S. Department of Agriculture (USDA) and the Environmental Protection Agency (EPA) should retain authority to set safety standards governing tobacco farms and tobacco growing.

- Measures to fund the Commission's recommendations must be reliable, long-term and consistent with the best interests of tobacco farming communities and the public health.

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Statement for the Subcommittee on Production and Price Competitiveness of the US Senate Committee on Agriculture, Nutrition and Forestry

April 13, 2004

The Burley Tobacco Growers Cooperative Association would like to commend Senator Dole for holding a hearing on such an important issue for the more than 200,000 tobacco growers and quota holders that the Burley Cooperative represents in Kentucky, Indiana, Ohio, West Virginia and Missouri. We appreciate the attention of the U.S. Congress to the most important issue facing tobacco dependent communities and farm families today.

Tobacco communities and the farmers that support them are in desperate need of action by this Congress. We have suffered tremendous loss in recent years, especially since the Master Settlement Agreement between the states' Attorneys General and the major manufacturers. The decreased demand for our commodity as a result of the settlement, the substitution of cheaper imports for our commodity and the movement of major manufacturers to direct contracting have placed tremendous pressure on the Federal Tobacco Program.

The topography and geography of most tobacco-dependent communities allows the numerous small farms few alternative options for providing the necessary income to support them. Because much of our farmland is on hillsides and valleys, no crop other than tobacco can be raised on this kind of land while providing the same level of financial income. It has been our staple and our livelihood.

The single largest cost in producing a pound of tobacco is the price paid for leasing the quota, or the right to grow. The amount of tobacco we can produce has been cut by more than half over the last 5 years, while over this same period lease prices for tobacco quota have more than doubled.

There is no question that there is a dire need for assistance to tobacco-dependent farmers and their communities. While other economic sectors in this country have been affected by factors such as reduced demand for products, increased foreign competition and the loss of share in global markets, few compare to the hardships tobacco communities have suffered.

Many tobacco farmers have few avenues of escape because they are economically dependent on their quota rights for both current and future income. Quota owners who actively produce tobacco often use their quotas as collateral for loans to improve or diversify their operations, and because of the assurances of the tobacco program, many have acquired more debt than they otherwise would have done. Those quota owners who do not actively produce tobacco rent their quotas to growers. When quota levels fall, as has occurred in recent years, lease prices go up, which further squeezes tenant farmers and increases their costs of production. Many older quota owners, who are not fortunate enough to have retirement benefits, use quotas as their primary source of retirement income instead of the employee retirement benefits that many workers in their country enjoy. Strong dependence on income generated from tobacco production is a fact of life for farmers and their communities in rural pockets of tobacco-growing states.

Squeezed by huge drops in demand for U.S. tobacco here and abroad, by aggressive competition from cheaper foreign-grown tobacco, by high costs to modernize

their facilities and by modest price increases for their crops, tobacco farmers and their communities face a difficult and grim future. Even as prices for cigarettes rise, the tobacco farmer's portion of the retail tobacco dollar falls – from seven cents in 1980 to less than two cents today. As our income drops, many growers are simply going out of business. More than half of the tobacco farms that existed 25 years ago are gone.

The reduction in the number of tobacco farmers and reduction in production has directly resulted in millions of dollars of lost economic activity and tax revenues in tobacco communities. An effective tobacco buyout would allow producers to reduce their dependency on tobacco and infuse much needed capital into tobacco-dependent communities that will provide for revived economic activity. An effective tobacco buyout is not only a farm-level solution; it is an economic development solution for our rural communities.

The crisis facing these farmers and their communities requires decisive action to address the complex set of problems and needs associated with reducing economic dependence on tobacco and diversifying farming operations and local economies.

The only solution is a buyout of the current Federal Tobacco Program that will allow those who wish to exit the system to do so, while those who wish to continue their farming operations can do so under a new modernized tobacco production system.

Once again, thank you for your leadership and commitment to tobacco farm communities. We stand ready to support you in achieving historic tobacco legislation.

Star Scientific, Inc. is a small, relatively young public company (NASDAQ: STSI) that has been built on the platform of a belief that it is technologically possible to lessen the harm associated with tobacco use, and particularly smoking. Tobacco toxin reduction is the goal that drives all of Star's initiatives, and for that reason, the patented StarCured™ tobacco curing technology represents the essence of the company's corporate identity.

The StarCured™ process virtually prevents the formation of one of the most powerful and abundant cancer-causing toxins in tobacco leaf and smoke – tobacco specific nitrosamines, or TSNAs - that occurs during traditional tobacco curing. Star has made three fundamental corporate commitments regarding its proprietary process and tobacco products which flow from this process. Those commitments are as follows:

- To stimulate fundamental change in the tobacco industry by curing tobacco so as to reduce tobacco toxins, particularly tobacco specific nitrosamines, or TSNAs.

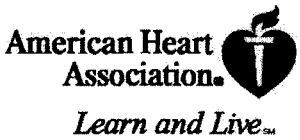
- To communicate with adult tobacco users with complete candor.

- To change the tobacco marketplace by developing low-TSNA tobacco and smokeless tobacco products, like Ariva® and Stonewall™, aimed at both smokers and moist snuff users.

Star Scientific, Inc. has been on record since 1999 in support of comprehensive, rational and even-handed regulation of all tobacco products under the aegis of the Food and Drug Administration, and of the production of tobacco leaf and products with the lowest toxin levels possible. In that same year, the company initiated a contractual partnership with flue-cured tobacco growers in five states to produce high-quality tobacco with what we believe are the lowest TSNA levels anywhere in the world. Star Scientific was the only tobacco company to provide testimony to the Presidential Commission on tobacco, and then to endorse the recommendations contained in the Commission's report, *Tobacco At A Crossroad.* We have taken these positions because we believe that tobacco use in the 21st century must be built on cultivation practices, and on the manufacturing and marketing of tobacco products, that are based on:

- all available objective science
- the sharing of honest, fulsome and balanced information with adults who continue to use tobacco products

Tobacco growers have been perceived for too long as "part of the problem" of public health and tobacco use, instead of an important part of the solution for the future. We believe that a robust marketplace for this commodity can be reshaped by global awareness of both the need to produce tobacco with drastically reduced TNSA levels, and the ability of U.S. growers to consistently achieve this. Star Scientific supports a tobacco quota buyout program that is funded through the existing tax structure, to give U.S. growers the opportunity to move forward quickly and re-establish their competitive position in the global tobacco marketplace.



Statement of
M. Cass Wheeler
Chief Executive Officer

on behalf of the
American Heart Association

to the
Committee on Agriculture, Nutrition and Forestry
Production and Price Competitiveness Subcommittee
United States Senate

on proposed tobacco buyout legislation
and
related public health issues

April 16, 2004

I am pleased to submit comments on behalf of the American Heart Association, representing its 22.5 million volunteers and supporters. In this statement for the record, I will share our association's position on the tobacco buyout and will offer some insight into our relationship with tobacco growers.

The American Heart Association's mission is to reduce disability and death from cardiovascular diseases - diseases like coronary heart disease and stroke. Cardiovascular diseases are the No. 1 killer in the United States, resulting in more deaths than the next five causes of death combined. In addition to being a leading risk factor for these cardiovascular diseases, tobacco use is the world's number one preventable cause of premature death. Because of this, we have joined with other public health and tobacco control organizations to do all that is in our power to reduce tobacco use and the illness and premature death associated with that use.

For these reasons, it would seem unlikely that the American Heart Association, along with many other public health organizations, would join together with tobacco growers in the pursuit of our mission. Indeed, several years ago, few people in either the public health community or on the tobacco farm would have recognized that this was possible. Only through years of intense and frank discussions, beginning more than a decade ago, did both sides gradually come to see that while some of our immediate objectives are different, in the end we all want safe, healthy and secure families.

Over time, we began to see the clear delineation between the interests of America's tobacco growers and those of the tobacco companies. We understand that most of America's tobacco farms are small, family-run businesses. Most of these small farms are facing declining profits as American tobacco companies increasingly turn to foreign

growers for their supplies. Tobacco farmers aren't the ones getting rich off their products, and the majority clearly understand the dangers posed by manufactured tobacco products, and most certainly do not want to see kids smoking. They have families and are concerned about public health, just like the rest of us. But, they are locked into the so-called "Tobacco Trap" – financially bound to growing tobacco and unable to afford switching to another crop – while they do all in their declining power to maintain their family incomes and help keep their communities sustainable. While both parties are unified in their commitment to sustain growers' incomes, it is imperative that any proposed buyout legislation ultimately seeks the goal of reducing tobacco farmers' and their communities' dependence on tobacco as a crop.

As discussions between the American Heart Association, our coalition partners, and tobacco growers, began in earnest some years ago, both sides came to realize the importance of working together to achieve our goals. By working as allies, we could help preserve family farms and communities in tobacco-producing areas, and work for the goals of the public health community by controlling the spread of tobacco farming to other states and controlling the quantity of tobacco produced domestically. Only in this way could we deny the stranglehold the tobacco industry wields, from stalk to carton, over cigarettes. Without this cooperation, tobacco companies would control tobacco farms by manipulating pricing – further impoverishing small-time farmers – and allowing tobacco to spread to other states.

The problem posed by tobacco is not a new one. Since 1964, when the first U.S. Surgeon General's report on smoking and health linked smoking to chronic diseases, our country has known of the many dangers associated with smoking and other forms of

tobacco use. As the leading preventable cause of death, smoking-related illnesses are responsible for more than 400,000 deaths each year, nearly half from cardiovascular diseases, such as heart attacks and stroke. Smoking costs our country more than $157 billion each year in medical care. Most alarming, however, are the numbers of children still smoking. 80 percent of adult smokers begin this deadly addiction before age 18, so we must find ways to keep tobacco from getting to our youth.

And, just as the health of our children, and the nation as a whole, is precious, for these farm communities, the livelihood of tobacco farmers is also crucial. Over the past 50 years the number of tobacco farmers has dropped dramatically, from over 500,000 in 1954 to well under 90,000 in 2003. And as these numbers have declined, so too has the revenue farmers earn on the tobacco they grow, as well as the percentage of domestic tobacco U.S. tobacco companies purchase. Today's tobacco farmers are being driven out, driven into debt, and forced into contractual buying – completely relinquishing control of the price of their crops. Families and whole communities that depend on tobacco are disappearing – without the actual disappearance of tobacco as a crop.

Based on our shared goals, and even some that seemed far apart, tobacco growers and public health organizations worked together, and in 1998, developed the *Core Principles Between the Public Health Community and the Tobacco Producers (Growers) Community*. Among the principles was the concept of production registration/limitation, insuring that both more tobacco isn't grown, which would further drive down the price by creating more surplus tobacco, and that its growth cannot spread to other areas of the country where tobacco has not typically been grown. Expansion of tobacco into other

states does not benefit the current farmers, their families or their communities, and certainly does not help the overall health of the nation.

The argument against production controls is that the growing and subsequent selling of the product should take place in a free-market system. Typically, the aim of a free market is to benefit the consumer and the efficient producer. The only winner of a free market system for tobacco is the tobacco industry. To give these corporate giants free reign over the price set for tobacco would only result in declining tobacco prices and more farmers switching to contractual growing – selling straight to tobacco manufacturers rather than at an open market – where they lose the ability to negotiate price.

As for the general parameters of the legislative proposals under consideration, from our perspective a few important principles must be addressed. Overall, the American Heart Association supports legislation to implement the recommendations of the President's "Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production while Protecting Public Health" – including the adoption of a system replacing the current quota system with registration for active growers. It would be ludicrous to completely deregulate the growth of tobacco at a time when consideration of the regulation of the manufactured products is under consideration. In addition, any such legislation should include financial incentives for farmers to stop growing tobacco. Legislation should also provide for a system of technical, education and economic development assistance. Further, proposals should also ensure that imported foreign-grown tobacco is subject to the same standards as U.S. grown tobacco.

The basic agreements established between the public health community and tobacco growers address the need for fair compensation and assistance to small tobacco farmers. Buyout legislation that growers and public health advocates can agree on is a critical and necessary first step to advancing both parties' interests, but not the only step. In addition to limiting the expansion of tobacco and denying the industry even more excessive profits, the Food and Drug Administration (FDA) must be given the authority to regulate the manufacture, sale, labeling, distribution and advertising of all tobacco products.

Unlike food products or prescription and over-the-counter medications, tobacco products have escaped significant government regulation. Virtually anything can be added to tobacco products. And, it remains the only legal product sold in the United States that, when used exactly according to the manufacturers' instructions, can cause death and disability. More information and safeguards are provided on the manufacture and labeling of orange juice than on this addictive and deadly product. This simply must change.

In addition, the public health community and tobacco growers are united in support of meaningful legislation that gives the FDA full authority and oversight of tobacco manufacture, sale, labeling, distribution and advertising. The marketing and promotion of tobacco are of special concern, as the continuing covert marketing to children must be stopped. In this, both parties unanimously agree. Farmers do not want children smoking. They care about their children, and about other parents' children too.

Tobacco growers can rest assured that our organization, like many others in the field of public health, stand beside them in support of a fair and equitable buyout for

farmers. However, we must insist that this process not become the vehicle for weak FDA legislation or a conference process that is not committed to accurately representing both the public health concerns and those of tobacco growers. In this we remain steadfast – we will do what is necessary to minimize the risk of unacceptable FDA legislation.

On behalf of the American Heart Association, I appreciate the subcommittee taking time to study this issue in depth, and allowing me to provide some insight into the very positive relationship between the tobacco growers and the public health community. I sincerely hope the members of the subcommittee support both an equitable buyout plan for the sake of tobacco farmers and America's health, as well as future efforts on granting FDA meaningful authority over tobacco.

STATEMEMT OF
John R. Seffrin, Ph.D.
Chief Executive Officer
American Cancer Society
Submitted to the Senate Committee on Agriculture
Subcommittee on Production and Price Competitiveness
Field Hearing, April 13, 2004

On behalf of the millions of volunteers and supporters of the American Cancer Society, I thank you, Senator Dole, and your Committee colleagues for allowing me to submit a statement for the record regarding a federal tobacco quota buyout. In July of last year, I was honored to testify before the House Agriculture Committee as it also examined this issue. Since July, there have been continuing legislative efforts to provide tobacco farmers with economic relief. At the same time, discussions between Congress and the public health community are ongoing regarding the imperative need to provide the Food and Drug Administration (FDA) with meaningful regulatory authority over manufactured tobacco products.

We feel strongly, as do our public health partners, that tobacco buyout legislation and FDA legislation should be paired to ensure that the two key goals of relief for tobacco farmers and protection of the public health are both met. While the Society is supportive of buyout legislation that meets the needs of the growers and their communities, we urge the Congress not to pass such legislation without also providing meaningful regulatory authority for FDA.

The livelihood of tobacco producers is inexorably linked to the public health. Tobacco is highly addictive and causes more than 440,000 deaths each year in the United States, including approximately 150,000 cancer deaths. Put another way, we know that one out of every three cancer deaths in this country is caused by tobacco use.

These are unacceptable statistics, and the American Cancer Society has long been at the forefront of efforts to educate the public about the dangers of smoking, and to

advocate on behalf of policies, including regulation, to reduce the disease, suffering and death caused by tobacco use. Recognizing that tobacco growing communities are among those hardest hit by the public health consequences of tobacco use, the Society has worked closely with our public health partners, tobacco growers and tobacco growing organizations to develop a common agenda for protecting the public health and addressing the economic survival of tobacco growing communities. We believe these are both achievable outcomes.

During the last Administration, I was honored to serve as a member of the President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting Public Health alongside leaders in the public health and tobacco growing communities. The Commission's report is a milestone in our efforts to protect public health and it serves as a roadmap to move forward in the fight against cancer. Simply by sitting down and listening to each other, we have been able to find common ground, most notably in our joint call for meaningful regulation of tobacco products.

The consensus recommendations found in the report establish a plan to ensure that tobacco growers and their communities can continue to function in an era of reduced tobacco production. As a member of the Commission, I truly believe that we have successfully identified the steps necessary to do this while also protecting the public health.

The Society and its public health partners recognize the significant contribution that tobacco farmers and their communities make and we support a buyout plan that

assures a fair level of compensation to all tobacco farmers. As you know, 1998 is the last year that growers did not experience substantial reductions in their tobacco quota allocations. While there have been several proposals that would use post-1998 quota levels as the basis for payments to growers, supporting payments based on any year after 1998 will greatly reduce the amount of compensation to which tobacco growers would and should be entitled. Therefore, we support a buyout proposal that would be based on the 1998 production year or another similar year.

While the cost of this type of buyout package — estimated at $15 to $17 billion over five years — sounds like a lot of money, it is small in comparison to what the federal government and private industry pay to treat tobacco-related diseases annually. Direct medical expenditures and lost productivity related to smoking costs an estimated $155 billion per year[1] — about 75 times the cost of the buyout proposal most recently introduced, H.R. 4033, the Fair and Equitable Tobacco Reform Act of 2004.

The current tobacco program should be replaced with a safety net that provides short and long-term stability. From a public health perspective, providing a support program after a buyout makes good sense. A support program not only guarantees a fair price for producers after a buyout, but also could insure that tobacco production is limited and closely regulated. Economic development initiatives as well as a restructured federal tobacco program must serve as the cornerstone in efforts to help growers raise other crops and launch new enterprises.

[1] U. S. Department of Heath and Human Services. Centers for Disease Control. *Preventing Chronic Diseases: Investing Wisely in Health.* April 2003.

The Commission's report also recommends enhanced federal support for tobacco prevention and smoking cessation efforts. Tobacco growing communities suffer higher rates of tobacco-related diseases and incur higher health care expenses. The inclusion of smoking cessation programs as a basic Medicare and Medicaid benefit, as suggested in the report, would not only help more people quit smoking, but also would ultimately reduce long-term costs associated with tobacco-related illnesses. In addition, the report proposes the creation of a grant system providing financial incentives for states that meet minimum standards for prevention and cessation set by the Centers of Disease Control and Prevention. We support these proposals.

The Commission's report also made specific proposals to provide FDA regulation of tobacco products. Incredibly, despite their deadly properties, tobacco products are not subject to even the most basic health and safety oversight. The tobacco companies are not required to tell consumers what is in their products, to remove harmful ingredients, or to take *any* action to make their products less harmful or less addictive. No other industry enjoys this degree of special protection. To address this serious problem, the Commission recommended granting the Food and Drug Administration regulatory authority to address these issues.

There are subtle but critical differences between a good FDA bill and a bill that offers only the illusion of change. Over the years, the American Cancer Society and our partners in the public health community have worked hard with legislators on both sides of the aisle to develop compromises and negotiate meaningful, responsible and workable proposals. Compromise legislation introduced in the 107th Congress by Senators

Kennedy and DeWine met our criteria. We are hopeful that similar legislation can be introduced and passed this year.

In conclusion, scientific evidence shows us what steps can and should be taken to protect the public's health and to reduce preventable deaths from cancer and other diseases. The Commission has shown us what should be done and the Supreme Court has spoken about what needs to be done. It is time for Congress to take action to provide strong and meaningful regulation of tobacco products. Every other consumable is regulated by the federal government while the nation's deadliest consumer product remains free of any governmental oversight. We must not continue to accept the status quo and let more than 440,000 Americans die each year from tobacco use and exposure. We should give the FDA the authority to regulate all tobacco products and to do it now.

Madam Chairwoman and Members of the Committee, the American Cancer Society looks forward to working with you and your colleagues to address a tobacco buyout for tobacco producers while providing the Food and Drug Administration with meaningful regulatory authority over tobacco products. We stand ready to join with you to assist tobacco farmers and tobacco-dependent communities while protecting our children from tobacco use and helping those who are currently addicted to quit.

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