1998 to 1999, U.S. cigarette sales are expected to decline by more modest annual amounts in the years to come.

"The economic and social impacts on the rural communities from loss of tobacco revenues will be enormous."

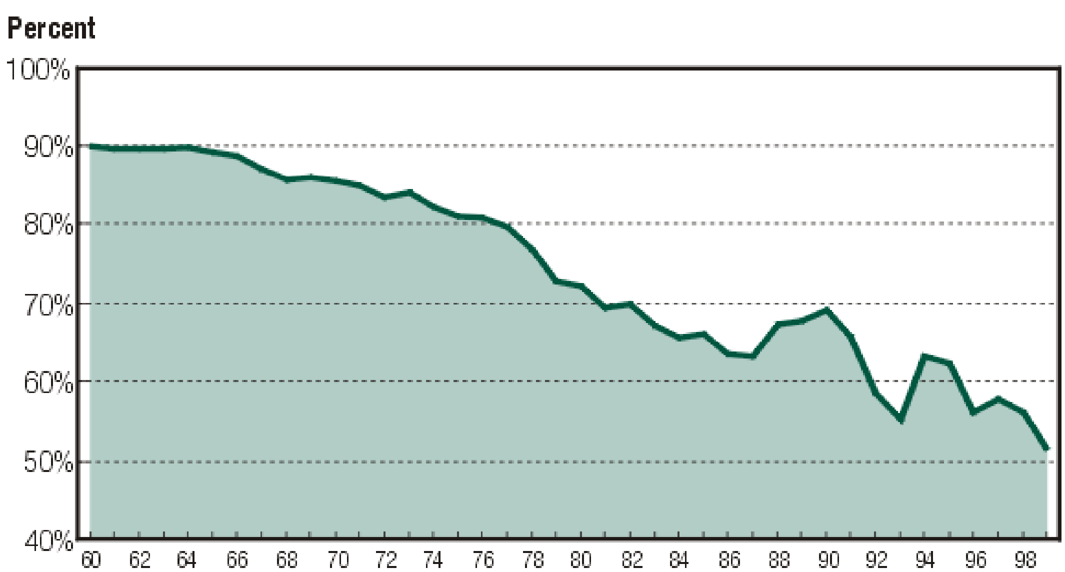
Larry Wooten,
President, NC Farm Bureau

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

The Declining U.S. Demand for Cigarette Tobaccos

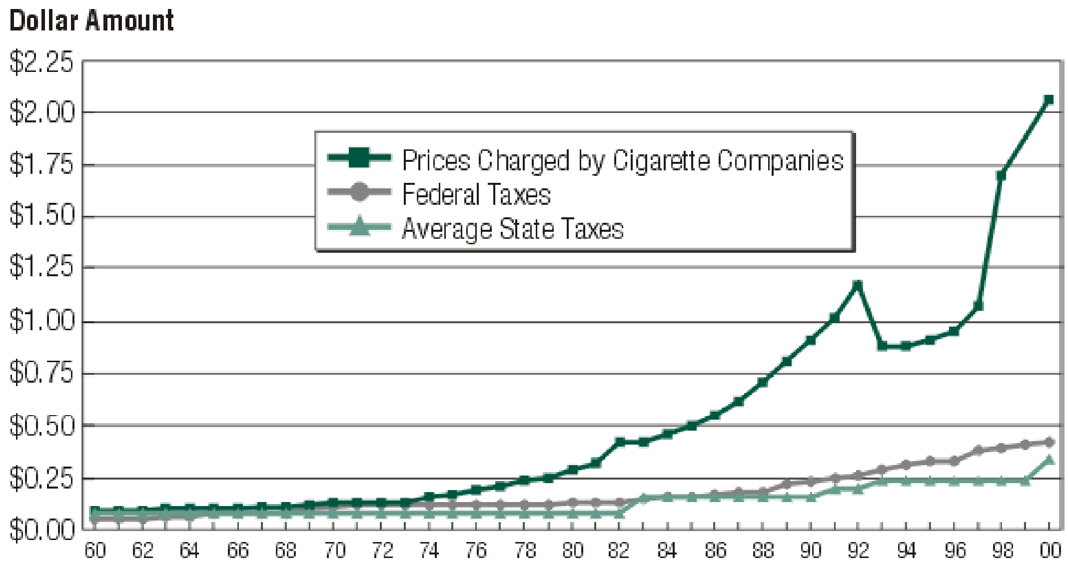
Recent declines in U.S. cigarette consumption were caused, in part, by sharp increases in the price of cigarettes sold in the United States. Since the beginning of 1998, the major U.S. cigarette companies have increased their prices by more than $1.10 per pack, more than doubling the price of an average pack of cigarettes. Roughly half of these price increases were made by the companies in order to cover their costs associated with the settlement of the states' lawsuits against the cigarette companies. While tobacco tax increases have also helped to raise cigarette prices, the Federal cigarette tax was stable at 24 cents per pack from 1993 to January 2000, when it increased by ten cents per pack. State cigarette taxes have increased more rapidly, but the average state cigarette tax increased by only 23 cents per pack from 1993 to 2000.

Figure 5. Declining Percentage of U.S. Tobacco Leaf in American-Made Cigarettes, 1960-1999



Source: USDA, Economic Research Service, Tobacco Situation & Outlook. 2000 data not yet available.

Figure 6. Cigarette Company Prices and Federal and State Cigarette Taxes, 1960-2000



Source: USDA Economic Research Service. Cigarette company prices do not include any taxes.

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

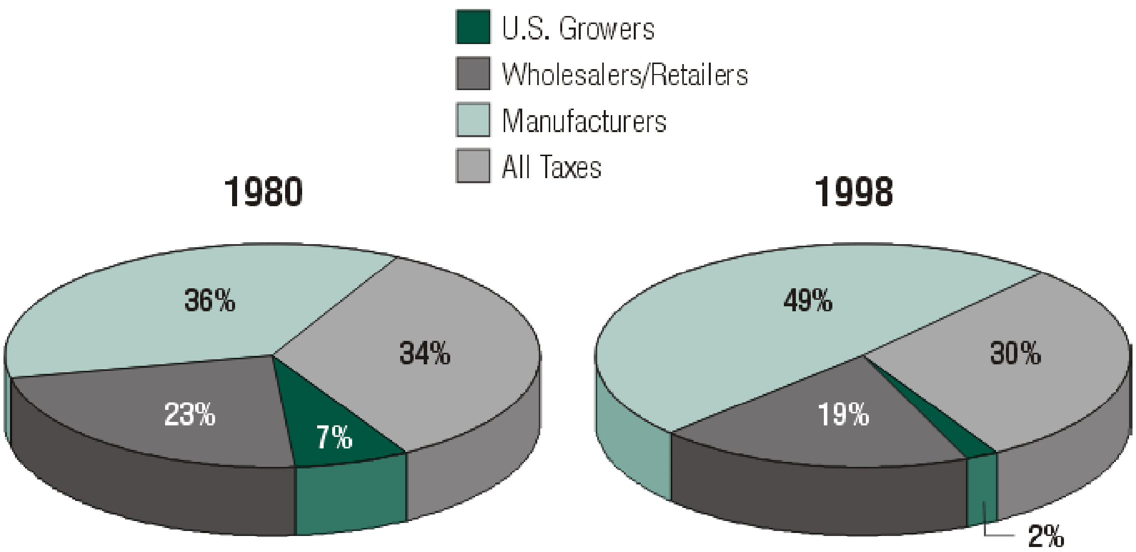
Economic Impacts on U.S. Tobacco Farmers

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

"The reasons behind my accomplishments are the work ethic and values that the family tobacco farm instilled in me."

Brooks Wood,
High School student and son of a tobacco farmer
Martin, NC

Figure 7. Where the Tobacco Dollar Went in 1980 and 1998



Source: V. Grise and T. Capehart, "The Changing Tobacco User's Dollar." USDA Economic Resource Service, Tobacco Situation and Outlook.

Impact on Tobacco-Farming Communities

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

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