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

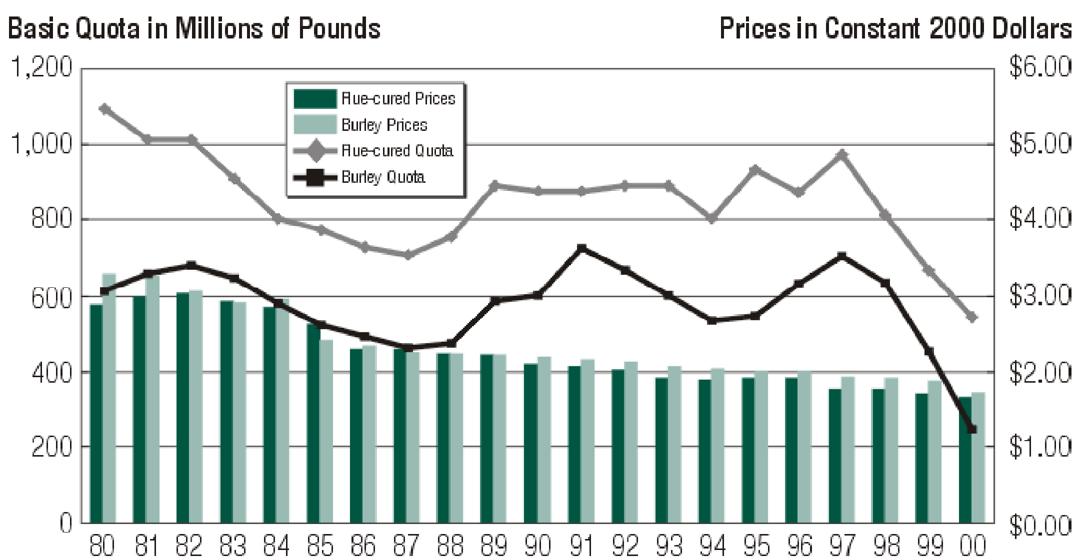
The problems facing tobacco farmers and their communities have reached an urgent stage that requires a comprehensive solution. While the demand for the two predominant kinds of American-grown tobacco leaf, flue-cured and burley, has fluctuated in the past, it has recently experienced sharp, unprecedented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

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

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

Unless strong steps are taken, this threat to family farms will likely accelerate as tobacco manufacturers continue to move away from purchasing tobacco leaf through the traditional auction system in favor of direct contracting

Figure 1. Flue-cured & Burley Quota and Prices



Source: USDA, Economic Research Service, Tobacco Situation & Outlook.

with farmers. The move to contracting also puts renewed pressure on the survival of the existing Federal tobacco program that has been critical to the protection of small farmers and their way of life.

"Three years ago, twenty-four hours before our home and farm were to be sold on the courthouse steps, we finally found a lender willing to take us on. I believe the Lord was just sick of hearing from us everyday and gave himself some relief."

Amy DeLoach,
Tobacco farmer's wife
Metter, GA

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

The Causes of the Current Tobacco Farming Crisis

Flue-cured and burley tobacco leaf, which accounts for more than 94 percent of all the tobacco leaf grown in the United States, is used primarily for American-blend cigarettes. For decades, world production and consumption of American-blend cigarettes has been expanding rapidly as increasing numbers of foreign smokers switch to American-blend brands. The global demand for American-blend cigarettes is expected to increase steadily for years to come. As we have seen however, the demand for U.S. flue-cured and burley has not only failed to increase along with the rise in global American-blend cigarette sales, but has recently declined sharply.

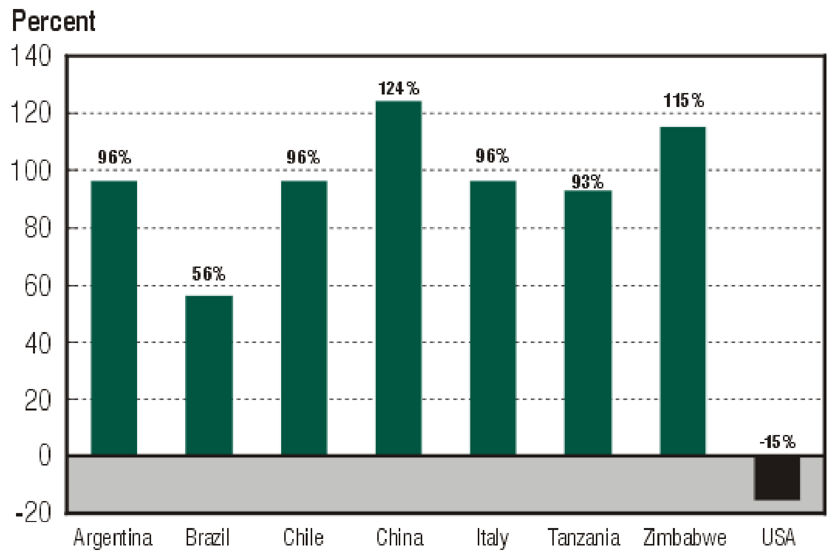
The U.S. Farmers Shrinking Share of The Global Market for Tobacco Leaf

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

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

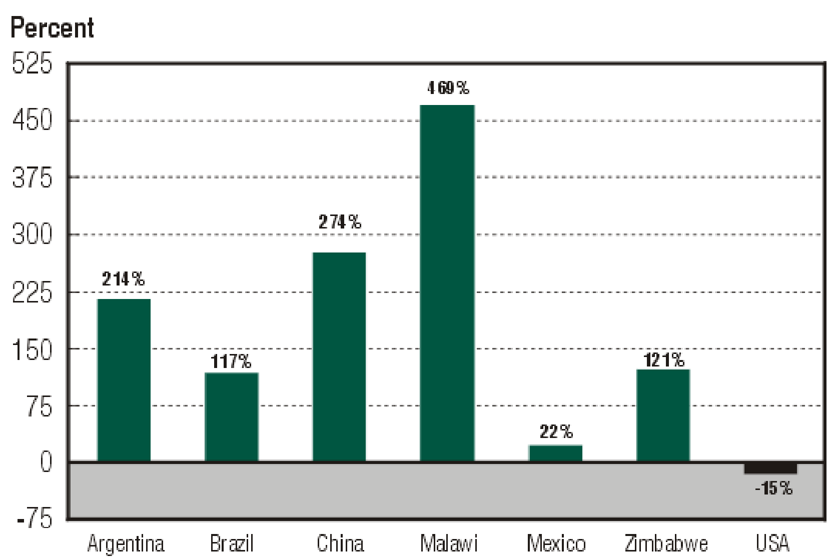
During the 1950's and 1960's, U.S. tobacco farmers produced about 40 percent of the world's total flue-cured crop and 55 percent of all flue-cured leaf traded in the world market. For burley, U.S. tobacco farmers accounted for 77 percent of total global production and 51 percent of total trade shipments.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

Figure 2. Changes in Flue-cured Leaf Production in USA and in Selected Countries, 1980-82 to 1996-98



Source: USDA Foreign Agricultural Service

Figure 3. Changes in Burley Leaf Production in USA and in Selected Countries, 1980-82 to 1996-98



Source: USDA Foreign Agricultural Service

States. Ten years earlier, over 400 million pounds of flue-cured and about 200 million pounds of burley were exported.

U.S. Farmers Shrinking Share of the U.S. Market for Tobacco Leaf

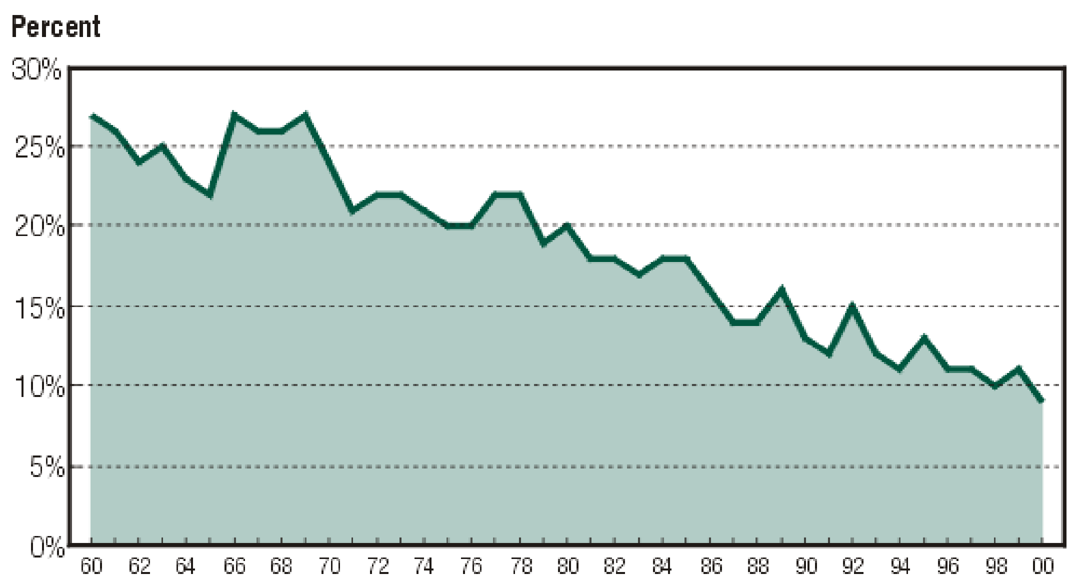
The increasing availability of cheaper but adequate foreign-grown leaf has also reduced U.S. farmers' share of the domestic market for tobacco. Although U.S. farmers supplied virtually all flue-cured and burley leaf used in American-made cigarettes in the 1960's, since then the amount of foreign tobacco in U.S. cigarettes has increased by more than 325 percent.[2] Just from 1996 to 1999 the amount of American-grown tobacco in American-made cigarettes dropped by 9.5 percent. Because of the U.S. cigarette companies' increasing use of foreign cigarette tobacco in their American-made cigarettes, during the last twenty years imports of foreign-grown flue-cured and burley tobacco increased by about 220 and 106 percent, respectively. Today 48 percent of the tobacco leaf in cigarettes manufactured in the United States is foreign grown.

Reduced U.S. Demand for Flue-Cured and Burley Leaf

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

Part of this decline comes from reduced U.S. smoking levels. Since peaking in 1981, the number of cigarettes smoked in the United States gradually but steadily declined at a rate of about 1.5 percent per year until 1998. Although there was a drop of almost 6.5 percent from

Figure 4. U.S. Share of World Tobacco Leaf Exports, 1960-2000



Source: Foreign Agricultural Service. Percentage for 2000 is based on estimates.

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