Chapter 4.
Summary of Recommendations

Based on the findings from our work, this Commission concludes that strong action is necessary 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 will not make it. The consequences of inaction are serious and involve whole communities.

At the same time, the Commission concludes that help for tobacco farmers and their communities should be linked with equally strong action to protect public health and reduce the number of people who are hurt by use of tobacco products.

We propose a far-reaching solution to reduce the economic dependence of farmers on tobacco, improve economic opportunities in tobacco-dependent communities and protect public health. We emphasize that our recommendations are intricately linked and taken together are all essential to sound public policy concerning U.S. tobacco production into the future.

This chapter summarizes the recommendations adopted by the Commission, which are presented in full in Chapter 5.

Tobacco Equity Reduction Program

The Commission recommends a two-pronged approach to equally address the problems facing tobacco farmers and their communities. The current quota system contributes to the plight of tobacco farmers that has been caused by declining demand and rising costs. At the same time, many quota owners and growers have invested heavily in and are highly dependent on the value and income tied to their quota. Therefore, we recommend:

(1) the adoption of a Tobacco Equity Reduction Program (TERP) to fairly compensate quota owners and growers for the loss in value of their quota assets and

(2) a major restructuring of the federal tobacco program to address changing economic and public health realities.

It is the Commission's expectation that our proposals will restructure the tobacco-growing system in a way that will remove the need for future federal intervention and allow the remaining tobacco growers to provide for their families and contribute to their communities. By eliminating quotas, which are tied to the land, we eliminate an artificial cost that has made tobacco farming economically difficult for many small farmers and encouraged quota owners to rely on their quotas as a major source of income.

The Commission expects many farmers to take this opportunity to get out of the tobacco business. As a result of these actions, the Commission's proposals will reduce the number of people dependent on growing tobacco for their livelihood.

TERP replaces the marketing quota system with a production permit system to get tobacco production into the hands of active growers. Quotas would be eliminated and quota owners and growers compensated appropriately for the loss of their quota assets. Growers who choose to continue farming tobacco would receive compensation to help offset the costs imposed by the current system and allow them to make the transition to the production permit system.

Parameters for growing tobacco under TERP's production permit system include:

- The permits will be issued annually under government oversight only to active tobacco growers, including new growers who meet requirements related to experience and adequate means of production *(labor, equipment and so forth)*.
- Unlike tobacco quotas, the permits will not constitute a marketable asset because they cannot be bought, sold, leased or rented. This provision should help ensure that the permits do not foster the same economic dependence on tobacco that arose from the quota system.
- The amount of tobacco grown under the production permits will be based on demand for tobacco.
- Price supports for tobacco, which since 1982 operate at no net cost to the taxpayer except for administrative costs, will continue.

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

Center for Tobacco-Dependent Communities

To help communities address the economic development challenges they face, the Commission recommends that Congress establish a Center for Tobacco-Dependent Communities. The Center would be responsible for technical assistance and education on topics such as supplemental crops, economic diversification in rural communities, new technologies, alternative uses for tobacco that do not harm public health and similar themes.

The Center would coordinate with existing federal and state economic development entities to leverage existing and potential funding for planning and other essential elements of economic development. The Center would also administer its own small-grants program for activities that can best leverage other available resources.

The Center's geographic focus would be the 568 counties where tobacco is produced, with emphasis on counties that the Center determines are the most dependent on tobacco for revenue.

To further assist tobacco-dependent communities improve their economic opportunities, the Commission recommends that the federal government establish an interagency working group to increase federal agency awareness of transitioning tobacco-dependent communities and foster coordination of federal economic and business development programs *(including grants and loans)* that may assist those communities. The group should consult regularly with the Center for Tobacco-Dependent Communities.

The Commission also recommends creation of investment incentives for the tobacco farmers, tobacco quota owners and others receiving Phase II and other compensation or indemnification payments. The purpose is to encourage use of those funds as capital for new on-farm or off-farm business ventures that have the potential to create new economic activity and community revenues in tobacco-dependent communities.

Public Health Proposals

A number of actions are needed to protect public health and improve public health programs related to consumption of tobacco products.

First, the Commission recommends that states do more to fund comprehensive tobacco prevention and cessation programs such as those suggested in the August 2000 Report of the Surgeon General to reduce tobacco use and the harms caused by tobacco. Therefore, we propose that states that have allocated state funds for tobacco prevention and cessation programs at levels meeting or exceeding the minimum standards *(adjusted for inflation)* set by the Centers for Disease Control and Prevention (CDC) would be eligible for funding to enhance their tobacco prevention and cessation efforts or, if they choose, to fund other state public health initiatives.

To receive this new funding, a state must reach its CDC minimum tobacco-prevention funding level prior to receiving any grant, must maintain the minimum level throughout the grant period and may not use any grant funds to satisfy the CDC minimum.

Funding would be administered by CDC through cooperative agreements between CDC and appropriate state health agencies.

Second, the Commission recommends that Congress authorize FDA to establish fair and equitable regulatory mechanisms over the manufacture, sale, marketing, distribution and labeling of tobacco products.

This authority should be comparable to FDA's authority over other products. In granting FDA this new authority, it is not the intention of this Commission or public health advocates to prohibit the use of tobacco products by adults. And under this proposal, USDA and EPA would retain authority to set safety standards governing tobacco farms and tobacco growing.

In the long run, effective FDA regulation benefits everyone. It will save lives. And tobacco farmers should benefit directly. We believe that U.S. tobacco farmers are better able and better equipped than tobacco growers in other countries to respond positively as changes are needed to address the health concerns posed by current tobacco products.

In addition, FDA's rules provide tobacco farmers an opportunity to be heard before any rule is adopted. 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.

Third, we recommend that funding for smoking cessation be included in basic Medicaid and Medicare coverage. The goal is to help clients of these health care programs stop smoking or consuming other tobacco products. Medicaid coverage is an especially effective way to reduce smoking among young pregnant women and new mothers, and studies indicate that comprehensive cessation assistance through Medicaid will reduce overall state health care costs and state Medicaid costs.

Funding

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

- During the first five years, all of the funds would be used for the benefit of tobacco farmers and their communities. The funds would compensate quota owners and growers for the loss in value of their quota and related assets. The compensation would be spread over the five years in equal payments, except that people owning 1,000 pounds or less of quota and who elect to stop growing tobacco may choose to receive their payment in one lump sum during the first year of the program.

- Assist remaining tobacco growers in moving to the production permit system during the first five-year period.

- Fund the Center for Tobacco-Dependent Communities at $5 million annually throughout the 10-year period.

- During the second five-year period, support state tobacco prevention and cessation programs and other public health efforts, following the guidelines for grants and funds explained above and in Chapter 5. This funding should also include coverage for tobacco prevention and cessation programs under Medicaid and Medicare.

Based on projected average U.S. cigarette sales of about 20.2 billion packs a year over the next five years, which takes into account that cigarette sales will likely continue to decline, we estimate that the excise tax will raise an average of about $3.4 billion annually. *(See Appendix C for projected impacts of various excise tax increases.)*

Compensation under TERP

The Commission recommends that all quota owners be compensated at $8 per pound. Growers would receive $4 per pound for every pound of tobacco they agree to stop producing and $2 per pound for every pound they elect to continue producing.

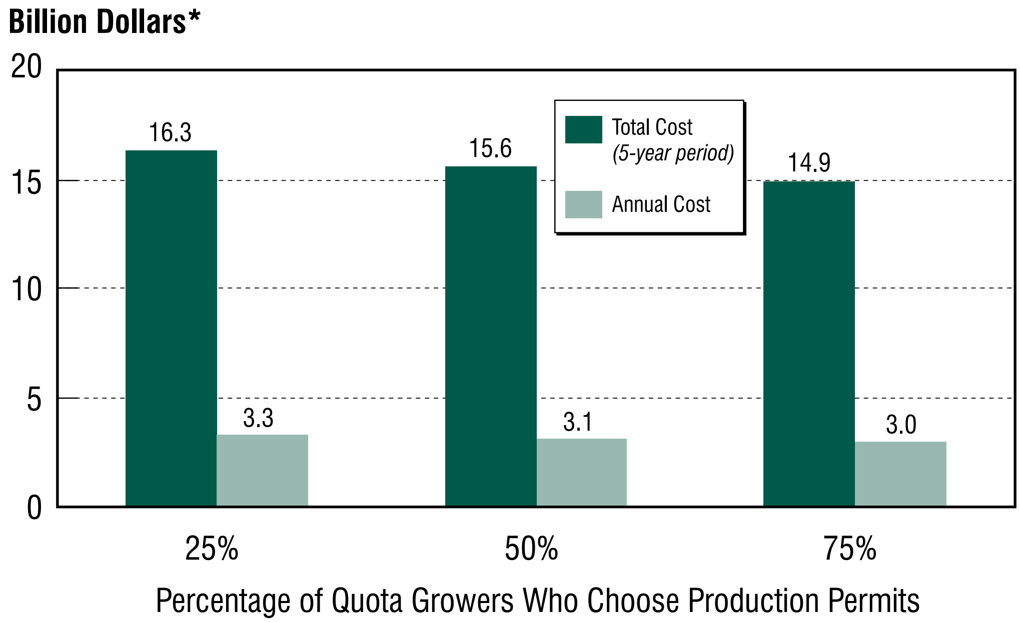
Estimates of the total cost of compensation to quota owners and growers vary *(Figure 6)*, depending on how many decide either to stop farming tobacco or continue growing the crop.

Most quotas are relatively small; for example, nearly 74 percent of all burley tobacco quotas were between one and 1,000 pounds in 2000. A quota may be owned by more than one person, which is often the case particularly with larger quotas where several family members have inherited portions of the same quota or have formed family corporations. Under our recommendations, the average per-year compensation per quota owner would be $5,400 over the five-year compensation period *(Table 4)*.

Data are not available to estimate the average compensation per tobacco grower because the same grower may be involved in more than one farming operation. For tobacco farms *(as counted in USDA's 1997 Census of Agriculture)*, the average annual compensation would be $10,500 over the five-year compensation period, assuming that 50 percent of these farms with a similar proportion of production continue to produce tobacco under the production permit system *(Table 5)*.

Based on testimony at our public hearings, on comments received on our preliminary report and on other analyses,* we believe the recommended levels of compensation are appropriate for the loss in value of quotas and related assets. And unlike certain other U.S. agricultural programs such as Agricultural Market Transition Act Payments, this compensation would be a one-time only occurrence, not a recurring expenditure.

Figure 6. Estimated Cost to Compensate Quota Owners and Growers of Tobacco



** Based on average 1997-99 basic quota for owners and growers. Compensation set at $8 per pound for quota owners, $4 per pound for growers who stop growing tobacco and $2 per pound for growers who continue to grow tobacco under a production permit.*

* Agricultural economists have estimated quota values of $8 per pound based on 40 cents per pound net return for quota at a five-percent discount rate into perpetuity.

Table 4.   TERP Payment for Tobacco Quota Owners

	Number of Quota Owners	Average 1997-99 Basic Quota *(est.)* *(Million Pounds)*	Total Payment *(Million Dollars)*	Total Payment/Owner Over 5 Years *(Thousand Dollars)*	Annual Payment/Owner Over 5 Years *(Thousand Dollars)*
Alabama	67	0.9	7.2	108.1	21.6
Arkansas	1	0.0	0.0	2.9	0.6
Florida	496	20.3	162.3	325.9	65.2
Georgia	6,182	104.1	833.1	134.8	27.0
Indiana	9,809	12.1	97.1	9.9	2.0
Kansas	36	0.1	0.4	12.1	2.4
Kentucky	163,206	307.3	2,458.8	15.1	3.0
Missouri	1,551	4.3	34.8	22.1	4.5
North Carolina	92,651	662.3	5,298.7	57.2	11.4
Ohio	11,313	13.9	111.6	9.9	2.0
South Carolina	16,826	122.8	982.4	58.4	11.7
Tennessee	80,964	77.0	615.8	7.6	1.5
Virginia	29,261	87.8	702.7	24.0	4.8
West Virginia	3,385	2.9	23.2	6.8	1.4
U.S.	**415,750**	**1,416.0**	**11,328.0**	**27.2**	**5.4**

Based on USDA Farm Service Agency data.

Table 5. TERP Payment to Tobacco Farms
(assuming 50% choose production permit option)

	Number of Tobacco Farms	Average 1997-99 Basic Quota *(est.)* *(Million Pounds)*	Total Payment *(Million Dollars)*	Total Payment/Owner Over 5 Years *(Thousand Dollars)*	Annual Payment/Owner Over 5 Years *(Thousand Dollars)*
Alabama	17	0.9	2.7	159.8	32.0
Arkansas	1	0.0	0.0	1.1	0.2
Florida	186	20.3	60.9	327.2	65.4
Georgia	1,180	104.1	312.4	264.8	53.0
Indiana	2,017	12.1	36.4	18.0	3.6
Kansas	13	0.1	0.2	12.5	2.5
Kentucky	41,819	307.3	922.0	22.0	4.4
Missouri	481	4.3	13.0	27.1	5.4
North Carolina	12,095	662.3	1,987.0	164.3	32.9
Ohio	2,811	13.9	41.8	14.9	3.0
South Carolina	1,275	122.8	368.4	288.9	57.8
Tennessee	12,746	77.0	230.9	18.1	3.6
Virginia	5,694	87.8	263.5	46.3	9.3
West Virginia	839	2.9	8.7	10.4	2.1
U.S.	81,174	1,416.0	4,248.0	52.3	10.5

Kentucky, Tennessee and Virginia adjusted to include only burley and flue-cured. Based on 1997 Census of Agriculture data.