Legislative Staff Report

TOBACCO FARMERS

COMPENSATION STUDY

Florida House of Representatives
Committee on Agriculture
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EXECUTIVE SUMMARY

Tobacco is a commodity that has contributed to the nation's economy since colonization and has been produced by Florida growers under a federal quota system since the late 1930s. This annual national quota regulates the volume of production so prices remain stable and production of the crop provides a reliable income for those who invest capital into tobacco allotments, land, specialized equipment, and structures.

Florida produces flue-cured tobacco, primarily utilized in cigarettes. With the twentieth century discoveries of health-related problems associated with tobacco use, many campaigns have been waged against tobacco production, marketing, use, and the industry as a whole. Twenty of Florida's 67 counties are currently producing this crop. Tobacco has historically provided a reliable income until the last two growing seasons when the federal government decreased the production quota by a total of approximately 35 percent. The previous two growing season decreases in quota dictates that tobacco producers have lost the ability to market approximately 35 percent of their tobacco. Although several factors may have contributed to this decrease, such as health concerns and negative publicity campaigns, a widely-held theory is that the dramatic decrease in quota is a result of litigation settlements by the major tobacco companies and the 50 states. In effect, proponents theorize that companies have increased the price of tobacco products in order to have funds with which to pay states, causing consumption to decline and lowering the companies' buying intentions, thereby resulting in decreased quotas.

Phase I Florida was the first state to reach an agreement, through litigation, with the American Tobacco Company, et al., asserting claims for financial and injunctive relief on behalf of the state against tobacco manufacturers. The final settlement totaled $13 billion. Subsequently, three other states - Texas, Mississippi, and Minnesota - separately sued tobacco manufacturers and settled. The remaining 46 states joined together in a suit which resulted in a Master Settlement Agreement (MSA) with the tobacco industry in July 1998.

Phase II As a part of the Master Settlement Agreement, the tobacco industry agreed to create the National Tobacco Grower Settlement Trust out of which, over a 12-year period, qualified tobacco growers and tobacco quota holders directly receive monetary aid to reduce the impact of adverse consequences that will potentially arise out of the Master Settlement Agreement. Although Florida was not a part of the MSA, the state qualifies for 1.13 percent of $5.15 billion. This figure is based on Florida's percentage of tobacco produced in the nation and will amount to approximately $58.5 million over 12 years.

Legislation filed by Representative Dwight Stansel in 1999 directed the state to create the Florida Tobacco Producers Compensation Trust Fund, into which would be appropriated two percent ($260 million) of the total tobacco litigation settlement for Florida ($13 billion). This fund would be used to compensate tobacco producers and quota holders for asset loss, stranded investment, and margin capabilities due to current and future tobacco quota reduction. The intent was to supplement Phase II money provided directly to farmers. The House Committee on Agriculture workshopped this legislation on April 28, 1999, to allow the issue to be reviewed and discussed by legislators and affected parties in tobacco-growing communities.

As part of this study, many different sources, including the United States Department of Agriculture, the Florida Department of Agriculture & Consumer Affairs, the Florida Attorney General's Office, and the Florida Farm Bureau Federation, were contacted and interviewed to gather data and background information on the issue. A site visit was conducted to a tobacco-producing community where tobacco was observed being harvested, cured, baled, and sold.

This study identified several options to compensate tobacco-producing communities for the negative effects of the national quota decreases. Should the decision be made to compensate these communities, such options include

- providing direct compensation to tobacco growers to assist them in recouping losses or gaining solvency through debt reduction,
- providing funding to assist farmers transitioning into production of alternative crops, and

C providing funding for workforce development courses to train tobacco farmers in alternative crop production or other vocations.

For more detailed information on potential options, please see pages 8-16.

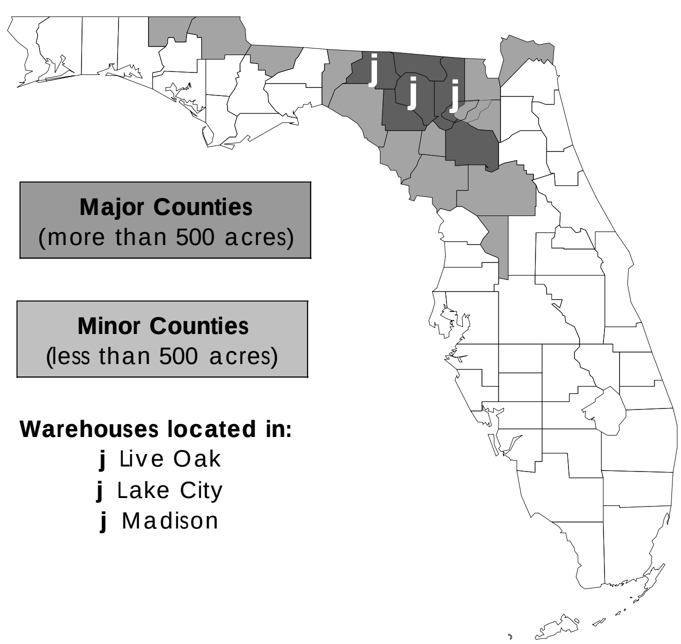
If the Legislature determines it is appropriate to allocate relief funds to tobacco producers, it would be prudent to review all options for use of tobacco producer compensation monies. In addition, it is essential that when reviewing this issue, the Legislature examine possible economic ramifications of allowing commodity production in 20 of Florida’s counties to continue to decrease without substantial relief or alternatives for producers, as well as for affected communities and counties.

INTRODUCTION / BACKGROUND

Tobacco is a commodity that has contributed to the nation's economy since colonization. Since the late 1930s, tobacco has been produced by growers in the State of Florida under a federally-controlled quota system that regulates volume of production. This production has provided a stable income for farmers who have been able to invest capital into tobacco allotments, land, and specialized equipment. Tobacco production in the United States has also provided well for the economy. In 1992, tobacco generated about $130 billion of the Gross National Product (GNP).

The production of tobacco is labor intensive and requires a farmer to apply a hands-on approach with regard to pest elimination and crop vitality. While there are several types of tobacco produced in the United States, only six states produce flue-cured tobacco: Florida, Georgia, Alabama, North Carolina, South Carolina, and Virginia. There are 20 counties in Florida which currently produce tobacco: Alachua, Baker, Bradford, Columbia, Dixie, Gadsden, Gilchrist, Hamilton, Holmes, Jackson, Jefferson, Lafayette, Levy, Madison, Marion, Nassau, Sumter, Suwannee, Taylor, and Union.

Counties Producing Tobacco



With the twentieth century discoveries of health-related problems associated with tobacco use, many campaigns have been waged against tobacco production, marketing, use, and the industry as a whole. Florida's tobacco producers and allotment holders have suffered significant adverse economic effects from an approximate 35 percent reduction in tobacco quota for the last two growing seasons (17 percent in 1998 and 18 percent in 1999). Although several factors may have contributed to this decrease, such as health concerns and negative publicity campaigns, a widely-held theory is that the dramatic decrease in quota is a result of litigation settlements by the major tobacco companies and the 50 states. In effect, proponents theorize that companies have increased the price of tobacco products in order to have funds with which to pay states, causing consumption to decline and lowering the companies' buying intentions, thereby resulting in decreased quotas.

The growing season quota for the Year 2000 will not be revealed until December 15, 1999, when the United States Department of Agriculture (USDA) will announce the national quota that should meet the needs for the coming year. This percentage is established by the USDA, utilizing a formula based on information gathered from three sources:

- the tobacco companies, which provide estimates on how much tobacco will be purchased by the companies from tobacco warehouses,
- the prior three-year national export average on tobacco, and
- the amount of tobacco currently stored by the Flue-Cured Tobacco Cooperative Stabilization Corporation.

The Flue-Cured Tobacco Cooperative Stabilization Corporation guarantees farmers a minimum price for their tobacco in return for strict limits on production, thus keeping supply in line with demand. The program provides farmers with a stabilized and orderly marketing system which eliminates drastic fluctuations in market prices. The previous two growing season decreases in quota dictates that tobacco producers have lost the ability to market approximately 35 percent of their tobacco.

METHODOLOGY

Information gathering began at the House Agriculture Committee meeting on April 28, 1999, where the issue of reduced tobacco quota effects was reviewed. Testimony was given by 22 affected parties from tobacco-growing communities.

Other data and background information were gathered through written correspondence, interviews, and meetings conducted with staff of the Florida Department of Agriculture and Consumer Affairs, Florida Attorney General's Office, United States Department of Agriculture, Florida Farm Bureau Federation, Representative Dwight Stansel's Office, Senator Richard Mitchell's Office, National Conference of State Legislatures, Governor's Office, Flue-Cured Tobacco Cooperative Stabilization Corporation, Florida Tobacco Growers Association, Joint Committee on Economic & Demographic Research, and Senate Committee on Agriculture and Consumer Services.

Settlement documents, tobacco grower compensation laws, and filed legislation in other tobacco-producing states were reviewed. A tobacco warehouse was visited on opening day of the tobacco marketing season so the following could be observed: actual harvesting of the crop, transportation of fresh leaves and flue-curing of leaves, baling, the tobacco auction system, and collection of tobacco sale checks by farmers from a warehouse fiscal office in Live Oak, Florida.

SETTLEMENTS

Phase 1

In February, 1995, the State of Florida began litigation against the American Tobacco Company, et al., asserting claims for financial and injunctive relief on behalf of the state against tobacco manufacturers. This unprecedented, globally-observed lawsuit forged the way for other states to similarly resolve some of the controversies associated with the manufacturing, marketing, and sale of tobacco products. The defendants agreed to eliminate tobacco marketing billboards and transit advertisements, cooperate in expediting reviews of any decisions made prior to the settlement, and provide support of legislation and rules intended to achieve the following:

- the prohibition of the sale of cigarettes in vending machines, except in adult-only locations and facilities;
- the strengthening of civil penalties for sales of tobacco products to children under the age of 18, including the suspension or revocation of retail licenses; and
- the strengthening of civil penalties for possession of tobacco products by children under the age of 18.

Stated in the settlement of the State of Florida, et al. v . The American Tobacco Company, et al., dated August 25, 1997, are uses of settlement funds which “constitute not only reimbursement for Medicaid expenses incurred by the State of Florida, but also settlement of all of Florida’s other claims...” The final settlement directed the American Tobacco Company, et al., to pay the State of Florida $11.3 billion over a 25-year period. A most favored nation clause in the settlement increased the amount by $1.7 billion, bringing the total amount to $13 billion. The States of Florida, Texas, Mississippi, and Minnesota each separately sued and settled with the tobacco companies. The remaining 46 states joined together in a suit resulting in a Master Settlement Agreement (MSA) with the tobacco industry in July 1998.

Phase II

As a part of the Master Settlement Agreement, the tobacco industry agreed to create the National Tobacco Grower Settlement Trust out of which, over a 12-year period, qualified tobacco growers and tobacco quota holders will directly receive monetary aid to reduce the impact of adverse consequences that will potentially arise out of the Master Settlement Agreement. Although Florida was not a part of this agreement, the state qualifies for 1.13 percent of $5.15 billion. This figure is based on Florida’s percentage of tobacco produced in the nation and will amount to approximately $58.5 million over 12 years.

The Atlanta Constitution reports that Georgia farmers will be receiving money from the trust fund when checks are mailed in December of this year. Georgia's portion of the trust fund will equal approximately $340 million over 12 years, and Georgia's share of the MSA totals $4.8 billion over 25 years. Georgia Governor Roy Barnes has stated that one-third (approximately $65 million a year) will benefit tobacco growers, and the remaining two-thirds will pay for health care programs (Atlanta Constitution, Sept. 22,1999).

1999 LEGISLATIVE ACTION

Legislation (HB 2255 and HB 2257) filed by Representative Dwight Stansel in 1999 proposed that the state create the Florida Tobacco Producers Compensation Trust Fund, into which would be appropriated two percent ($260 million) of the total tobacco litigation settlement for Florida ($13 billion). This fund would be used to compensate tobacco producers and quota holders for asset loss, stranded investment, and margin capabilities due to current and future tobacco quota reduction.   The intent was to supplement the Phase II money discussed previously. The bill directed that trust fund monies be distributed by the Florida Department of Agriculture and Consumer Services, in consultation with the Florida Tobacco Advisory Council and based on information provided by the United States Department of Agriculture's Farm Service Agency. The House Committee on Agriculture workshopped this legislation on April 28, 1999, to allow the issue to be reviewed and have testimony given by tobacco growers, quota holders, and other affected parties in tobacco-growing communities. No vote was taken, and the legislation died in committee when the 1999 Session adjourned.

OPTIONS FOR USE OF TOBACCO PRODUCTION COMPENSATION

Should the Legislature determine it is appropriate to allocate funds to tobacco producers and allotment holders to compensate them for significant adverse economic effects resulting from decreased quotas, there are several options. Possible uses include

- providing direct compensation to tobacco farmers to assist them in recouping losses due to quota reduction or gaining solvency through debt reduction,
- providing funding to assist farmers transitioning into production of alternative crops, and
- providing funding for workforce development courses to train tobacco farmers in alternative crop production or other vocations.

Providing direct compensation to tobacco farmers

The first option is to give direct compensation to tobacco farmers to assist them in recouping losses due to quota reduction or gaining solvency through debt reduction. Of the six flue-cured tobacco-producing states, five have already passed or filed legislation to compensate tobacco growers and allotment holders out of tobacco litigation settlement funds. Both North Carolina and Virginia have passed legislation mandating that 25 to 50 percent of the funds go to benefit tobacco producers and tobacco-growing communities.

The following charts indicate projected (for the 1999 growing season) and actual declines of pounds of tobacco sold, resulting profits, and community impact in Florida during the last three growing seasons.

PROJECTED IMPACTS OF 1999 TOBACCO GROWING SEASON

	Direct Impacts	**Indirect & Induced Impacts**	**Total Impacts**
Output	$25.6 million	$14.0 million	$39.6 million
Employment	445 full-time jobs	156 full-time jobs	601 full-time jobs
Earnings	$4.8 million	$4.7 million	$9.8 million

Joint Committee on Economic & Demographic Research

POUNDS OF TOBACCO SOLD IN FLORIDA BY COUNTY

COUNTY IN FLORIDA	**1996 POUNDS OF TOBACCO SOLD**	**1997 POUNDS OF TOBACCO SOLD**	**1998 POUNDS OF TOBACCO SOLD**
Alachua	2,385,927	2,217,458	2,108,107
Baker	270,301	249,670	90,661
Bradford	258,478	208,606	215,674
Columbia	2,004,941	2,001,702	1,831,364
Dixie	146,600	158,611	134,814
Gadsden	228,982	226,548	198,096
Gilchrist	437,828	447,701	395,959
Hamilton	3,150,527	3,002,100	2,691,824
Holmes	59,291	66,160	55,068
Jackson	178,123	54,639	103,182
Jefferson	419,879	399,727	310,227
Lafayette	1,970,295	1,881,274	1,847,793
Levy	145,719	141,298	141,298
Madison	2,376,854	1,981,987	1,500,839
Marion	16,617	20,802	20,802
Nassau	68,423	76,917	62,097
Sumter	0	0	49,233
Suwannee	5,065,667	4,783,442	4,686,682
Taylor	273,406	263,078	155,980
Union	548,448	488,606	485,412
TOTAL	**20,006,306**	**18,670,326**	**17,085,112**

Florida Farm Bureau Federation

FARM GATE VALUE OF TOBACCO SOLD IN FLORIDA BY COUNTY

COUNTY IN FLORIDA	**1996 FARM GATE VALUE**	**1997 FARM GATE VALUE**	**1998 FARM GATE VALUE**
Alachua	$4,311,370	$3,816,245	$3,547,944
Baker	$488,434	$429,682	$152,582
Bradford	$467,070	$359,011	$362,979
Columbia	$3,622,928	$3,617,029	$3,082,186
Dixie	$264,906	$272,970	$226,892
Gadsden	$413,770	$389,889	$333,396
Gilchrist	$791,155	$770,493	$666,399
Hamilton	$5,693,002	$5,166,614	$4,530,340
Holmes	$107,139	$113,861	$92,679
Jackson	$321,868	$94,033	$173,655
Jefferson	$758,721	$687,930	$522,112
Lafayette	$3,560,323	$3,237,673	$3,109,836
Levy	$263,314	$243,174	$237,805
Madison	$4,294,975	$3,411,000	$2,525,912
Marion	$30,027	$35,800	$35,010
Nassau	$123,640	$132,374	$104,509
Sumter	$0	$0	$82,859
Suwannee	$9,153,660	$8,232,304	$7,887,686
Taylor	$494,045	$452,757	$262,514
Union	$991,046	$840,891	$816,948
TOTAL	**$36,151,393**	**$32,303,730**	**$28,754,243**

Florida Farm Bureau Federation

COMMUNITY IMPACT OF TOBACCO SOLD IN FLORIDA BY COUNTY

COUNTY	1996 COMMUNITY IMPACT	1997 COMMUNITY IMPACT	1998 COMMUNITY IMPACT
Alachua	$12,934,110	$11,448,735	$10,643,832
Baker	$1,465,302	$1,289,046	$457,747
Bradford	$1,401,209	$1,077,033	$1,088,938
Columbia	$10,868,784	$10,851,087	$9,246,557
Dixie	$794,719$	$818,909	$680,676
Gadsden	$1,241,311	$1,169,667	$1,000,187
Gilchrist	$2,373,466	$2,311,480	$1,999,197
Hamilton	$17,079,006	$15,499,842	$13,591,019
Holmes	$321,416	$341,584	$278,038
Jackson	$965,605	$282,101	$520,966
Jefferson	$2,276,164	$2,063,790	$1,566,336
Lafayette	$10,680,969	$9,713,018	$9,329,507
Levy	$789,943	$729,522	$713,414
Madison	$12,884,925	$10,239,998	$7,577,736
Marion	$90,081	$107,400	$105,029
Nassau	$370,921	$397,122	$313,528
Sumter	$0	$0	$248,577
Suwannee	$27,460,980	$24,696,910	$23,663,057
Taylor	$1,482,134	$1,358,272	$787,543
Union	$2,973,137	$2,522,673	$2,450,845
TOTAL	**$108,454,182**	**$96,918,189**	**$86,262,729**

Florida Farm Bureau Federation

As indicated in previous charts, tobacco farmers are getting lower returns on their crops. As stated previously, a widely-held theory is that consumption has gone down because the tobacco companies have raised cigarette prices in order to pay off the settlements to the states. The Tobacco Industry Information Service in Princeton, New Jersey, reports the following information about the export and consumption of cigarettes in the U.S.

YEAR	**EXPORTS**	**U.S. CONSUMPTION**
1996	243.9 billion pieces	487.0 billion pieces
1997	217.0 billion pieces	480.0 billion pieces
1998	201.3 billion pieces	470.0 billion pieces

(The Tobacco Industry Information Service, Aug. 5, 1999)

Due to a decline in consumption, the tobacco industry is projecting smaller amounts of tobacco being bought from warehouses. These projections have resulted in the federal government mandating that tobacco farmers produce less, since less will be purchased by tobacco companies.

Concerns expressed throughout the tobacco communities are that, over the 12-year period outlined in the Phase II agreement, the trust may not be fully funded due to the costs of litigation and declines in tobacco product consumption. A recent development which could possibly affect payment of Phase II money is the federal lawsuit filed on September 22, 1999, against the major tobacco companies. The lawsuit charges that the tobacco industry furnishes a product that costs taxpayers billions of dollars for health-related problems each year. The federal government will request reimbursement for money spent to cover smoking-related health care costs for veterans, military personnel, federal employees, and the elderly through Medicare payments (CNN homepage, September 22, 1999).

Providing funding to assist farmers transitioning into alternative crop production

The second option is to provide funding to assist farmers transitioning into alternative crop production. The Institute of Food and Agricultural Sciences at the University of Florida (IFAS) discovered that, based on Florida Agricultural Statistics Service estimates in 1998, tobacco sold from each acre in Florida was valued at about $4,386. The cost of producing an acre of tobacco in 1998 was estimated at $3,086; therefore there was a potential profit of $1,300 an acre. IFAS estimates that if quota costs over the years are considered, potential profits of producing an acre of tobacco may decline $300-$800 an acre (IFAS, June 29, 1999).

Tobacco has traditionally been a crop with high and stable net returns. IFAS states that "there is no one agronomic crop that can be considered as a 'replacement' for tobacco. All other agronomic crops, with developed markets and adaptation to the North Florida area, return less per acre, requiring larger production areas for equivalent returns, and are subject to widely varying commodity prices." IFAS further finds that "it would be unwise to suggest that the returns from the traditional agronomic crops produced in the North Florida region could in the foreseeable future provide the stable returns that have been provided over the years from tobacco" (IFAS, June 29, 1999).

C **Short-term possibilities for North Florida:**

Recently, on acreage where tobacco has been traditionally grown, the following crops/commodities have been produced: vegetable crops, cotton (ultra narrow row), pine trees, various forages (hay for beef cattle, etc.), and corn silage.

C **Long-term possibilities for North Florida:**

IFAS notes the following crops may have some potential as long-term alternatives to tobacco, but stresses that currently the markets for such crops are not in place and that development of both production and marketing strategies would be required before this consideration. These crops include: canola, vegetable soybean (possibly organically-grown), biomass crops, fiber crops (kenaf, etc.), specialty chemical-producing plants, medicinal plants, improved forage crops, turf, specialty crops for wildlife feed, and value-added traits for traditional crops (hulless oats, etc.).

The Horticultural Sciences Department at IFAS has published a report noting that during the past decade, blueberries have provided a high-value alternative crop for Florida farmers due to the early-season market and positive potential for expansion of this industry. Peaches, nectarines, and plums also may provide high profitable returns because Florida's varieties traditionally ripen before other states'.

Florida Agricultural & Mechanical University (FAMU) echoes the IFAS statement that there is no one crop that can be considered an alternative to tobacco. Dr. C. S. Gardner and C. H. McGowan, who have studied this issue for FAMU do, however, suggest other production systems that one day may be utilized as alternative "niche" enterprises.

C Hot pepper production - Researchers at FAMU discovered that small farms on which the production of Scotch Bonnet or Habanero peppers was tested had up to $16,000 in gross returns, with input costs of less than $2,000. The production, however, is dependent on the importation of raw materials from other countries. This commodity also has the potential for value-added product development.

C Amaranth - Amaranth, a green collard-like vegetable, has been produced up to 7,000 pounds per acre (which can be marketed from $1.00-$2.00 a pound) on a FAMU research farm.

C Other crops or commodities not previously mentioned include pigeon peas, sorrel or roselle, *Luffa aegyptica*, muscadine grapes, ornamental plants, meat goats, and pastured poultry.

Providing funding for workforce development courses

The third option is to provide funding for workforce development courses to train tobacco farmers in alternative crop production or other vocations. Local community colleges in tobacco-producing counties are available to provide classes for farmers wishing to learn new vocations, or to provide education and training in the production of alternative crops and value-added commodities. As with the Lake Apopka Restoration Act (section 373.461, Florida Statutes), which provided for the retraining of displaced farm workers after the state acquired certain agricultural lands around the lake, a specific percentage of funding could be expended for labor-force training.

In addition to community colleges, IFAS at the University of Florida and FAMU are valuable state resources for training in agronomic fields. Gardner and McGowan assert that FAMU "will be most willing to provide tobacco farmers with the necessary training so that they can effectively assess and implement ... alternative agricultural opportunities." Training could include total resource management, marketing and sustained profit when new venture possibilities are evaluated. Also offered in FAMU training courses would be development of risk management strategies and other farm management practices such as farm cooperatives and record keeping.

CONCLUSIONS

The options discussed in this study - providing direct compensation to tobacco growers to assist them in recouping losses due to quota reduction or gaining solvency through debt reduction, providing funding to assist farmers transitioning into alternative crop production, and providing funding for workforce development courses to train tobacco farmers in alternative crop production or other vocations - might provide viable alternatives to the current situation of down-spiraling quotas for tobacco growers and allotment holders.

It is essential that when reviewing and making decisions on this issue, the Legislature closely examine possible economic ramifications of allowing commodity production in 20 of Florida's counties to continue to decrease without substantial relief or alternatives for the producers, as well as for surrounding communities and counties.

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