REPORT OF THE
JOINT SUBCOMMITTEE STUDYING

ALTERNATIVE STRATEGIES FOR ASSISTING TOBACCO FARMERS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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I. AUTHORIZATION FOR STUDY

The 1994 Session of the General Assembly passed House Joint Resolution 224, establishing a joint subcommittee to study alternative strategies for assisting tobacco farmers (see Appendix A). The resolution contemplates an examination by the joint subcommittee of agricultural diversification programs which have helped farmers identify crops and enter markets that are more dependable and closer to home than foreign markets. In addition to diversification, the resolution suggests that special reinvestment programs represent an alternative which has the potential of revitalizing the tobacco-growing community by financing investments in such areas as agricultural infrastructure, marketing, research, risk reduction, and community development.

II. BACKGROUND

A. Tobacco Trends

Tobacco production is crucial to the economic vitality of many Virginia communities. However, tobacco farmers both in Virginia and nationally face the prospect of a significant decline in tobacco income. According to the United States Department of Agriculture (USDA), the outlook for United States (U.S.) grown tobacco during the 1990s is "pessimistic." U.S. tobacco growers face the prospect of a significant decline in domestic leaf production during the 1990s if the downward trends in cigarette consumption and leaf exports continue. Cigarettes have been the most popular form of tobacco consumption since the 1930s. From 1950 to 1981, U.S. cigarette consumption increased 73 percent, to 640 billion cigarettes. However, since the 1984-1985 crop year, consumption has declined by 20 percent. By 1993, consumption had fallen below 500 billion for the first time since 1960.[1]

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[1] Verner N. Grise, "The Changing, Yet Traditional, Tobacco Industry," Tobacco Situation, TS-222, April 1993, p. 33.

At a time when U.S. consumption is declining, domestic growers also face the pressures of foreign competition. American grown tobacco is being replaced by the less expensive leaf grown in Africa, Asia and Latin America. As a result, U.S. leaf exports are expected to fall over the next decade. "Many countries are improving the quality of leaf they grow and technological developments have reduced leaf quality requirements to produce a good quality cigarette."[2] These facts, together with the worldwide trend toward cheaper cigarettes, hurt the U.S. competitive position that relies strongly on higher quality but higher priced leaf. The erosion of the United State's position in the world market is reflected by two important indicators. In 1959, American growers produced about one-fourth (23 percent) of the world's tobacco; by 1992, this figure had dropped to nine percent. During this same period, American growers' share of world tobacco exports fell from 35 percent to 14 percent.[3]

The decline in domestic consumption and a more competitive global market are significant factors in the build-up of U.S. tobacco inventories. When tobacco stocks held in stabilization warehouses grow too large, they trigger a reduction in the federal tobacco production quotas. Both the flue-cured and burley quotas were reduced by 10 percent for 1994. The cut would have been substantially higher had there not been a legislated cap on the maximum quota decrease. In early October 1994, a surplus of approximately 700 million pounds remained in storage warehouses. A strict enforcement of the quota-setting formula would have resulted in an additional reduction of 40 percent or more for the 1995 crop, which would have put many tobacco growers out of business. In an effort to restore some stability to the system and avoid further cuts in the quota. farmers' cooperatives reached a buyout agreement with five large cigarette makers. The companies agreed to buy, at a discounted rate over the next seven years, virtually all of the tobacco which had been stockpiled. For flue-cured, the discount will be seven percent, but it could be increased to 14.6 percent depending on how much additional leaf manufacturers buy. They will buy burley at a 10 percent discount. The immediate impact will be that farmers may be allowed to grow between 17 to 24 percent more tobacco for the 1995 crop year.

B. Federal Tobacco Policy

USDA is responsible for implementing federal tobacco policy through its production adjustment and price support program. The program guarantees farmers a minimum price for their tobacco in return for strict limits on production. The program was created to support the income and stabilize the price farmers received for producing tobacco. Under the Agricultural Adjustment Act of 1938, the federal government restricts the supply of tobacco so as to keep the average price above the open-market level without using direct government subsidies. All tobacco

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2 Verner N. Grise, "Outlook for U.S. Tobacco," USDA, December 1993, p. 1.

3 U.S.D.A., Tobacco Situation and Outlook Yearbook, TS-221, December 1992, p. 40.

types are eligible for price supports. It is left to the tobacco growers, via a referendum held every three years, to decide whether to accept production adjustment (quotas), price support, and no-net-cost requirements of the program.

If they choose to participate in the program, they become subject to the national marketing quotas established through a formula (for flue-cured and burley tobacco) which considers three factors: (i) the expected foreign demand; (ii) the buying intentions of the U.S. cigarette manufacturers; and (iii) the current tobacco surplus or reserve stock level. The form of the quota is different for the four types of Virginia tobacco. For flue-cured, the quota is based on acreage and poundage; for burley, it is based on poundage; and for fire-cured and sun-cured, the quota is based on acreage.

Marketing quotas are not always effective at supporting market prices, given the many variables that can affect tobacco supply and control. Consequently, federal support prices are guaranteed through loans available on each farmer's marketed crop. The support (loan) price of each type of tobacco is announced each year by the Secretary of Agriculture, who uses the formula specified by law to calculate loan levels. The support price on the 1993 crop of flue-cured tobacco was $1.577 per pound and $1.683 per pound for burley tobacco.

After having been graded for type and quality, most U.S. tobacco is sold at a warehouse auction. If a grower's tobacco fails to bring an auction bid of at least one cent per pound above the support price, the grower qualifies for a government-backed loan. In such cases the farmer is paid the loan price by a price stabilization cooperative, with money borrowed from the Commodity Credit Corporation (CCC). The cooperatives are the foundation of the program, using proceeds from the government loans to buy, process and store the tobacco as collateral for the CCC. Acting as an agent for the CCC, the cooperative later sells the tobacco with the proceeds going to repay the loan.

Until recently, when the proceeds from the sale of the stored tobacco did not cover the loan, the unpaid balance was written off as a federal program cost. In 1982, Congress mandated that tobacco producers guarantee no loss to the government in the operation of the price support program. Under the no-net-loss provision, an assessment is imposed on every pound of tobacco market. Each participating grower must contribute to an escrow fund held by the cooperative to ensure repayment of loans and interest. Beginning in 1986, buyers were required to contribute to the fund and, in 1994, imported tobacco became subject to the assessment. If the cooperative then sells the tobacco at a profit, the revenues generated are placed in the assessment pool to offset subsequent assessments. If the stocks are sold at a loss, the assessments are used to offset the loss and to pay the CCC both the principal and interest.

As a result of the production adjustment and price support program, manufacturers receive a dependable supply of tobacco, growers receive a steadily increasing price for their tobacco crop and the federal government promotes an agricultural economy which provides it with significant tax revenues. The program allows the federal government to support family farms without employing a subsidy. Although growers have particularly benefited from the tobacco program, government and tobacco companies have also received appreciable financial gains. In 1993, for every $10 American consumers spent on tobacco products, manufacturers and distributors received $6.85; $2.89 went to federal, state and local governments through excise taxes; and 26 cents went to growers who produced the raw tobacco.[4]

C. Profile of U. S. Tobacco Production

Most tobacco is grown on America's family farms. Nine of 10 tobacco growers own the farmland they operate. Corporations own less than one percent of all tobacco farms, compared to 3.2 percent for all U.S. farms.[5] In the U.S. tobacco acreage reached a maximum of 1,083,000 in 1975. Acreage declined to 582,000 acres in 1986. By 1992, as export growth boosted total tobacco use, acreage increased to approximately 785,000 acres on which 137,000 farms produced about 1.7 billion pounds of tobacco.[6] The average land parcel size on the nation's tobacco farms has been estimated to be between 94 and 136 acres, making them small when compared to the 1987 national average for farm size of 462 acres.[7]

In the United States, tobacco is produced in 21 states. Over 90 percent of the domestic crop is grown in North Carolina. Kentucky, Tennessee, Virginia, South Carolina, and Georgia.[8] The remaining 10 percent is grown in Alabama, Arkansas, Connecticut, Florida, Indiana, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, Missouri, Ohio, Pennsylvania, West Virginia, and Wisconsin. More than 94 percent of U.S. tobacco production is flue-cured and burley. Flue-cured is the predominant type in North Carolina, and Kentucky produces the greatest amount of burley tobacco. Together the two states produce about 65 percent of the total U.S. tobacco crop.

In order to assess the impact of agriculture on the U.S. economy, particularly its impact on rural communities, the USDA has grouped farming interests into 12 "clusters" of American agriculture, with tobacco being one of these clusters. The agency identified 175 tobacco counties, of which 135 are rural, nonmetropolitan, distributed throughout the 21 "tobacco states." The tobacco cluster or culture

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4 Community Farm Alliance, Investing in the Farms and Communities of America's Tobacco Regions. November 1993, p. 25.
5 Alliance. Investing in Farms, p. 2.
6 Womach. "Tobacco," p. 2.
7 Alliance. Investing In the Farms, p. 18.
8 USDA. Tobacco Situation, p. 40.

consists of 7.4 million residents, of which an estimated four million live in the 135 rural, nonmetropolitan counties. Of the nearly four million persons, nearly one in eight, or about 500,000 Americans, are employed as tobacco farmers, farm operators or workers.

Although the entire tobacco culture is small statistically, representing only 6.5 percent of the nation's more than two million farms, the high per-acre value of tobacco (averaging $3,780 in 1992) suggests its importance to the local economy within the tobacco-producing states. A 1991 national survey of farm income generated solely from crop sales offers a gauge of the importance of tobacco dollars for a number of states. The survey ranked states according to the percentage of crop cash receipts that tobacco sales represented. The higher the tobacco percentage, the greater the dependency.

Table I

State	Tobacco as % of 1991 Crop Cash Receipts
Kentucky	57.2
North Carolina	45.6
South Carolina	28.2
Virginia	26.9
Tennessee	22.5
Connecticut	19.2
U.S. Average	3.6

While nationally, tobacco averages only $3.60 of every $100 in farm cash receipts, family farms in Kentucky, North Carolina, South Carolina, Virginia, Tennessee and Connecticut depend heavily on tobacco income.[9]

D. Virginia Tobacco Statutes

Under the federal commodity price support program, the federal government's authority extends to the setting of price levels, the establishment of quotas, the grading of tobacco and the inspection of tobacco warehouses. Virginia's role is limited, by statute, to such activities as (i) authorizing the establishment of boards whose purpose it is to promote and market certain types of tobacco, (ii) regulating specific aspects of the operation of tobacco warehouse operations, including the setting of commission levels, and (iii) levying excise taxes on cigarettes and authorizing local government to impose tobacco taxes.

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[9] Reproduced in part from Investing in the Farms and Communities of America's Tobacco Regions, p. 23.

1. Tobacco Boards

Two citizen boards representing tobacco growers, the Virginia Dark-Fired Tobacco Board and the Bright Flue-Cured Tobacco Board, were established by statute " . . . to plan and conduct campaigns of education, advertising, publicity, sales promotion and research for the purpose of increasing the demand for, and the consumption of . . ." Type 21 dark-fired and bright flue-cured tobacco.[10] The revenue to finance such campaigns is generated through an excise tax of 20 cents per 100 pounds of all poundage sold by the grower. The excise tax is paid by the grower to the warehouse at which the tobacco is sold. The warehouse, for purposes of the collection of the tax, acts as an agent of the board and in that capacity is required to remit the tax to the board on or before the tenth day of the month following the collection. The proceeds from the tax are placed in a special dedicated promotion fund administered by each of the boards. Each board is also authorized to cooperate with other state, regional and national agricultural organizations in research, advertising, publicity, educating and any other means of promoting the sale, use and exportation of their type of tobacco.

2. Tobacco Warehouses

As noted earlier, the federal government oversees much of the marketing of tobacco. Virginia statutes require the proprietor of a tobacco warehouse to:

1. Provide the seller of tobacco with a bill which states the weighing and handling charges, auction fees, and commission charges (§ 61.1-39);
2. Maintain an account of the number of pounds of leaf tobacco sold daily (§ 61-40);
3. Transmit a monthly report to the Commissioner of Agriculture and Consumer Services stating the amount of tobacco sold during the previous month (§ 61-41); and
4. Post a statement showing the amount of insurance held on the warehouse, the name of the insurance company, and the length of time the policy has to run (§ 61.1-46).

To prevent fraud in the sale of legal tobacco, every person who delivers leaf tobacco to a warehouse or cooperative marketing association for sale must provide the name of the owner of the tobacco. The warehouseman or cooperative in turn has to keep a record of the purchase or delivery, showing the owner and quantity of the leaf tobacco delivered (§ 61.1-47). When the tobacco is delivered by a person other than the grower or owner of the land where the tobacco is grown, the person making the delivery has to supply the name of the person from whom he obtained the tobacco, as well as the names of the grower and the landlord.

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[10] Va. Code §§ 3.1-310 and 3.1-325.

The most significant role that the state plays in marketing tobacco is to set the level of fees and commissions that tobacco warehouses may charge. The legislature, by statute, has established caps on warehouse commissions on the sale of flue-cured and burley tobacco. Since 1970, the maximum allowable warehouse charges for flue-cured tobacco has been 10 cents per 100 pounds or fraction thereof, and the maximum auction fee has been 25 cents per basket and a commission of 2½ percent of the gross amount of each sale (§ 61.1-46.1). The commission on the sale of burley tobacco is capped at three percent of the sale price or 25 cents per basket (§ 61.1-55). However, a warehouse operator has the option to establish a seasonal commission of up to 75 cents per 100 pounds of burley tobacco, so long as the charge has been set on or before the opening day of the market. The commissions for burley tobacco have remained unchanged since they were enacted by the 1946 General Assembly.

3. Tobacco/Cigarette Taxes

All 50 states and the District of Columbia, the federal government, and many local governments levy an excise tax on cigarettes. Nationally, cigarette excise taxes average 51 cents per pack, of which 24 cents is federal tax. The tax imposed by states on cigarettes ranges from 2.5 cents in Virginia to a high of 65 cents per pack in the District of Columbia. Excise tax collections during FY 1992 totaled $11.52 billion (federal, $5.19 billion; state, $6.13 billion; and local, $194 million). [11]

Virginia first imposed a state cigarette tax on October 1, 1960, at a rate of three cents per pack. The tax rate on cigarettes remained at three cents per pack until 1966, when Virginia imposed a sales and use tax and simultaneously lowered the cigarette tax to 2.5 cents per pack, where it remains today (§ 58.1-1001). The tobacco tax is levied on cigarettes only and does not cover cigars or chewing tobacco. State cigarette tax revenues have declined from $16,994,671 in FY 1983 to $14,789,000 in FY 1992. This tax comprises less than one-quarter of one percent of the general fund.

In addition to state cigarette taxes, Virginia is one of six states where selected localities are permitted to impose local cigarette taxes. Section 58.1-3830 provides that "no provision of Chapter 10 (§ 58.1-1000 et seq.) of this title shall be construed to deprive counties, cities and towns of the right to levy taxes upon the sale or use of cigarettes, provided such county, city or town had such power prior to January 1, 1977." In the Commonwealth, the local cigarette tax is added to the price of each pack prior to purchase. As of 1992, 28 Virginia localities levied a local cigarette tax which generated $28 million in revenue. The rates of local cigarette taxes range from four cents to 25 cents. In 1992, Virginia Beach collected $5.5 million from its local cigarette tax, while Norfolk collected $4.1 million. These two localities

[11] Jasper Womach, "Farm Commodity Program: Tobacco," Congressional Research Service, p. 3.

collected the equivalent of two-thirds of the entire amount received by the state from the cigarette tax that year.

E. Virginia Tobacco Profile

Virginia is the fourth largest tobacco-producing state and the second largest tobacco-manufacturing state. Only three states (North Carolina, Kentucky, and Tennessee) produce more tobacco than Virginia. The ports of Hampton Roads export the largest amount of U.S. tobacco. Tobacco is Virginia's leading cash crop, accounting for 25 percent of the state's total crop income and nine percent of the state's total agricultural income. Tobacco is fourth among Virginia's agricultural commodities in cash receipts, behind only broilers, cattle and calves, and dairy products.

According to the Census of Agriculture, the number of tobacco farms in Virginia has steadily declined. In 1982, there were 13,485 farms growing tobacco; by 1992 the number had fallen to 8,440. Similarly tobacco acreage has dropped from a peak of 86,780 acres in 1976 to 49,200 acres in 1993. Four types of tobacco (flue-cured, burley, fire-cured and sun-cured) are grown in 47 Virginia counties. Table II, compiled from statistics presented to the subcommittee, provides a breakdown of the number of growers (estimated), the number of allotments or quotas, and the acreage for each type of tobacco produced in Virginia.

Table II

Type	Number of Growers (Estimated)	Number of Quota Allotments in 1993	Acreage (1,000 Acres)
Flue-cured	2700 3000	5,224	36,000
Burley	5000 - 5500	15,315	11,800
Fire-cured	600 - 650	2,020	1,300
Sun-cured	30 - 40	123	100

There are between 8300 and 9200 tobacco growers in Virginia. Fewer than one-third (2,700) grow flue-cured tobacco, which represents about 75 percent of Virginia's total tobacco crop. Conversely, approximately 5,000 burley growers are responsible for 23 percent of the total tobacco production.

As Table III indicates, the gross value (cash receipts) of Virginia's 1993 tobacco crop was approximately $179 million. This total was calculated by multiplying the pounds sold/marketings by the average price per pound for each type of tobacco. The Tobacco Growers Information Committee, using VDACS 1993 crop year market

reports, has estimated the impact of the 1993 crop on Virginia's economy to be approximately $715 million.[12]

Table III

Type	Acreage	Marketings (Mill. Lbs)	Average Price Per Lb. (Dollars)	Cash Receipts Mill/$
Flue-cured	36,000	78.1	1.70	132.8
Burley	11,800	24.0	1.77	42.5
Va. Fire-cured	1,300	1.9	1.72	3.2
Va. Sun-cured	100	.1	1.52	.2
Total - State	49,200	104.1		178.7

1. Flue-Cured

Flue-cured tobacco constitutes about 75 percent of the tobacco produced in Virginia. Its production is concentrated in south-central Virginia. Leaves are harvested several times a year and cured by artificial heat in bulk curing barns. Flue-cured's principal use is in cigarettes, with approximately 40 percent exported as unmanufactured leaf. The top three producing counties, in terms of pounds sold, are Pittsylvania, Halifax and Mecklenburg (Table IV). Statewide, the gross value of the 1993 flue-cured crop totaled $132 million. Sixty percent of the flue-cured cash receipts were generated by the growers in these three counties.

Table IV

County	Gross Value (Cash Receipts)	Pounds Sold
Pittsylvania	$36,041,382	21,200,813
Halifax	$24,526,616	14,427,421
Mecklenburg	$19,030,699	11,194,529

2. Burley

Burley tobacco account for approximately twenty-three percent of the tobacco produced in Virginia. It is grown primarily in the southwestern portion of the

[12] To calculate the economic impact of tobacco the Committee multiplied the gross value of Virginia tobacco by four. The application of a multiplier of four had been previously used by Price Waterhouse in its analysis of the contributions of Virginia agriculture to Virginia's economy. See Appendix B matrix entitled "The Economic Importance of Tobacco Production to Virginia, By County."

state. When it is harvested the entire stalk is cut and subsequently hung in well-ventilated barns where it is air-cured under natural weather conditions. Like flue-cured, its principal use is in cigarettes, with small amounts used in the manufacture of pipe and chewing tobacco. Approximately 30 percent of the crop is exported as unmanufactured leaf. Statewide the burley crop generated approximately $43 million in cash receipts. The three counties which produce the most burley tobacco are Washington, Scott, and Lee. The level of cash receipts indicated in Table V reflects the importance of this crop to these localities.

Table V

County	Gross Value (Cash Receipts)	Pounds Sold
Washington	$11,338,632	6,370,018
Scott	$9,703,926	5,451,644
Lee	$8,682,687	4,877,914

3. Fire-Cured

Fire-cured tobacco (Type 21) makes up two to three percent of the total amount of tobacco produced in Virginia. It is grown primarily in south-central Virginia. When harvested the entire stalk is cut and hung in ventilated barns where it is cured by a combination of air-curing and open wood fires. The majority of the crop is exported and used for smoking and chewing tobacco, and cigars. Its primary domestic use is as dry snuff. Almost 80 percent is exported to the Scandinavian countries for use as roll-your-own mixtures, smoking tobacco, and cigars. Nineteen counties produced fire-cured tobacco in 1993. By far, the largest amount was produced in Charlotte County. Statewide, the crop brought in cash receipts of $3.2 million.

4. Sun-Cured

In 1993, approximately 101,000 pounds of sun-cured tobacco were produced on about 100 acres in 11 counties in Virginia. It is primarily grown in central Virginia on small amounts of acreage. The entire stalk is cut and hung in well-ventilated barns, where its air-cured under natural weather conditions. Its primary domestic use is in plug chewing tobacco, with the remainder exported and used in smoking and chewing tobacco. The largest crop, valued at $74,979, was harvested in Louisa County. The value of the state crop was $154,631.

F. Agricultural Diversification and Reinvestment Initiatives

Agricultural diversification is emerging as a key element in state governments' efforts to bolster the farm economy. The goal of diversification is to match a state's agricultural resources with the market for agricultural products. States have sought to attain this goal by assisting farmers in identifying and entering markets which are more dependable and closer to home than foreign markets. Such diversification programs also respond to the need for economic development by emphasizing "value-added" activities such as food processing, packaging, storage, and distribution.

Since 1982, when international markets for U.S. corn, soybeans, and grains were severely reduced, a number of state legislatures conducted studies of their agricultural resources to determine what state government could do to increase farm earnings. These studies included evaluations of the benefits of state self-sufficiency in food production (Utah), farmers' markets (Alabama and Virginia), new crop inspections standards (Louisiana), crop alternatives to export grain (Iowa), financial incentives to attract food processing facilities (South Carolina, South Dakota, and Washington), private financing of diversification through loan guarantees or agricultural linked-deposits (Illinois, Iowa, and Virginia), perishable food marketing (North Carolina), developing new industries based on shrimp and catfish farming (Texas), and aquaculture (Washington). In Georgia, Indiana, Iowa, Maine, Massachusetts, Nebraska, New Mexico, Oregon, Pennsylvania, Texas and Utah, the state departments of agriculture have established special agricultural diversification programs.[13]

While this list of initiatives is extensive, none of the diversification programs specifically examined alternatives which might be available to tobacco farmers. However, the recent prospect of higher federal excise taxes, combined with increased foreign competition and the steady decline in the number of smokers, has resulted in some states' examining both the alternatives available to the tobacco farmer and possible alternative uses of the tobacco plant. In 1993, a Kentucky-based organization, the Community Farm Alliance (CFA), recognizing the threat to America's tobacco-growing family farms and the communities that depend on this crop, began to consider ways to preserve its tobacco communities. An organization that grew out of the financial crises of the mid-1980's, CFA has more than 1,200 members throughout Kentucky, most of whom are tobacco farmers. In April 1993, CFA convened a meeting to begin to develop a reinvestment and diversification strategy. The meeting included farmers and leaders of the Burley Tobacco Growers Cooperative Association, the Farm Bureau, and the Rural Advancement Foundation International; faculty from the Universities of Kentucky, Missouri and North Carolina, and from Virginia Polytechnic Institute and State University; and

[13] Michael J. Green, "Agricultural Diversification Initiatives: State Government Roles in Rural Revitalization," Council of State Governments, Technical Assistance Bulletin No. 2, 1988, p. 3.

representatives from the Heart, Lung and Cancer Coalition, the Institute for Alternative Agriculture, the Federation of Southern Cooperatives, and the Agriculture Committee of the Kentucky General Assembly. They produced a report which (i) proposed a Tobacco Regions Reinvestment Fund (TRRF), (ii) suggested investment opportunities and strategies, and (iii) presented a rationale for investing in the tobacco regions. The study found that farm families searching for alternative high-value crops have been hampered by the lack of (i) marketing outlets for nontraditional crops, (ii) access to capital, (iii) technical expertise, and (iv) state and federal policies that support and encourage the adoption of alternative practices.

TRRF would be the mechanism for agricultural reinvestment in the tobacco regions of the U.S. by providing loans, grants and tobacco-quota retirement credits to individual farmers, groups of farmers, local businesses, cooperatives, and community development organizations. It would be financed using a portion of the anticipated increase in the federal tobacco excise tax. Depending on the size of any proposed tax increase, tobacco localities could receive up to one billion dollars per year. Under the Alliance's plan, the money in TRRF would go into a community trust fund, and an investment authority, working with existing co-ops, would decide how to distribute the money. Most funds would be distributed as loans. Grants would be used for demonstration projects and technical assistance.

An overriding assumption of the Alliance's work was that no specific crops were sufficient to replace the income from tobacco. Therefore, what was needed was the flexibility to meet consumer preferences, especially for high-quality and high-value products. The Alliance's report outlines opportunities in the following areas:

- Crops and livestock products for which shifting demand creates advantages in the tobacco regions;
- Fruits and vegetables for which tobacco regions are suited and for which demand is increasing;
- Farm-raised fish; and
- Specialty and niche products.[14]

The report suggests specific investment strategies which build upon the small scale but high-quality production practices of tobacco farmers. On-farm investments might include irrigation equipment, specialized tools and buildings, and pre-processing facilities. Off the farm, the existing tobacco infrastructure of warehouses and cooperative marketing represented a valuable resource. It was felt that this infrastructure could continue to handle tobacco but could also be retrofitted to handle a variety of other enterprises. Investments could include the conversion of existing facilities as well as construction of new facilities for the collection, packaging, cooking, processing, brokering and distribution of a variety of

[14] Alliance, Investing in the Farms, p. 2.

products. To ensure that on-farm and off-farm potentials are maximized, the report recommended a comprehensive support system of technical assistance, including feasibility analyses, market studies, business planning, a showcase of successful enterprises, monitoring and evaluation.

Because of burley tobacco's importance to Kentucky's economy, the Kentucky legislature, almost 10 years prior the CFAC initiative, established the Task Force on the No-Net-Cost Tobacco Program, subsequently renamed the Tobacco Task Force. The task force is charged with examining matters pertaining to the tobacco price support program, the no-net-cost assessment, the tobacco "pool," tobacco imports and exports, and any other matter related to the well-being of the tobacco industry. The task force commissioned a major study, titled The Impact of Tobacco on the Kentucky Economy, which concluded that tobacco production provided the foundation of Kentucky's small-farm economy. Income attributable to tobacco was estimated at almost two billion dollars. The study also found that tobacco, and the enhanced land values due to the quota system, provided critical revenues for state and local programs. Were the program eliminated, the unemployment, income tax, and credit effects would be devastating for the state. Throughout its existence, the task force has closely monitored federal tobacco legislation and served as a forum for the examination of tobacco-related issues.

Although not a diversification strategy, the search for extended uses of tobacco does represent a potential source of new income for the tobacco farmer. "Extended uses of tobacco" means creating and using varieties of field-grown plants to produce marketable products that are not found in or recovered from the tobacco currently being grown. The most likely approach for creating new varieties is to introduce new genetic material into tobacco in order to cause the plant to form new products.

Tobacco possesses a number of biological characteristics that make it very desirable in genetic engineering. First, the plant is among the best genetic copycats in the plant world, as its genes are easily manipulated. Second, it can produce large volumes of a desired material, particularly proteins, from the genetic instructions contained in a single cell of another organism. Finally, because tobacco plans are predominantly leave and because most genetically engineered material is produced in the leaves, tobacco can produce large quantities of proteins.

Genetically altering tobacco to produce new products began approximately 20 years ago when a small company, Wilson Leaf Protein, Inc., developed a process to extract food grade protein from tobacco plants. A variety of uses, such as a fortifying agent for soft drinks, were suggested for this protein, which was found to be purer than available alternatives derived from animal tissue. Although there was some initial success, the effort was abandoned after a couple of years due to a lack of funding. Several years later, researchers at Biosource Genetics in California developed a cost-effective process for genetically manipulating tobacco plants to grow a variety of useful proteins and other materials. It involved infecting the

tobacco leaf with a common virus. That virus carried with it the genetic coding for the desired material. The researchers found that the tobacco plant would begin mass producing the material at the cell level, where it could be extracted from the plant.[15]

Much of the work using biotechnology to manipulate the tobacco plant's genetic make-up to create key ingredients in a variety of products has been carried on by researchers at North Carolina State University. They are currently producing Fraction 1, a tasteless, odorless protein found in green vegetables but produced in higher concentrations in tobacco. The research team is studying the utility of this substance in cosmetics, as a nonallergic infant formula, as food for kidney patients enabling them to avoid dialysis, or as natural insecticides and pesticides.[16] While most researchers caution that this new biotechnology is not a panacea for tobacco farmers, it is promising.

III. JOINT SUBCOMMITTEE DELIBERATIONS

The five-member joint subcommittee devoted the first year of its deliberations to (i) examining those factors/trends which affect tobacco production; (ii) developing a profile of Virginia's tobacco industry and the role the industry plays in the state's economy; and (iii) reviewing possible alternatives to tobacco. The subcommittee sought testimony from a broad range of individuals representing the various sectors of Virginia tobacco industry, including state tobacco program officials, tobacco producers of the four major crops grown in Virginia (flue-cured, burley, fire-cured and sun-dried), a warehouse owner/operator, a financial analyst, and university researchers.

A. Grower's Perspective

Tobacco is more than a crop for the nearly 9,000 Virginia tobacco growers; it is a way of life. Many farm families have been growing tobacco for generations. The subcommittee sought the Virginia tobacco farmers' perspective on the current state of the industry and what their expectations are for the future. Don Anderson, a flue-cured tobacco farmer and member of the Flue-cured Advisory Committee of the Virginia Farm Bureau, and Jerry Jenkins, chairman of the Bright Flue-cured Tobacco Board, testified on behalf of Virginia's flue-cured growers. They view their industry as being "under siege" from "anti-tobacco crusaders" who want to ultimately prohibit the sale of tobacco and tobacco products. Industry opponents see diversification into alternative crops as a viable option for tobacco growers. Growers such as Mr. Anderson and Mr. Jenkins countered that (i) many tobacco farmers are already engaged in diversification and (ii) no crop of comparable cash value exists, especially when taking into account the limited productive acreage

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[15] Bob Williams, "Celling the Golden Leaf," The News and Observer, June 13, 1993, p. F1.
[16] Ibid.

available in the tobacco regions of the state. Currently, in addition to tobacco, farmers are growing wheat, soybeans, hay, berries, and broccoli, as well as providing pasture for cattle. But the crop most relied upon is tobacco. Mr. Anderson called attention to the fact that tobacco is the state's number one cash crop. Tobacco's gross cash value is approximately $4,000 per acre compared to other crops such as wheat which generates $200-$300 per acre, corn $150-$200 per acre, soybeans $140-$150 per acre, or broccoli at $1,000-$1,800 per acre. According to him, farmers would have to farm approximately 700,000 acres of wheat or corn in order to generate the gross income that 50,000 acres of tobacco currently generates, assuming that much acreage would be available for planting. On many farms, tobacco occupies about 25 percent of the acreage but generates approximately 90 percent of the farmer's net income.

Although the gross value of the tobacco crop appears to be significant, the actual net income received from the sale of the crop reflects the tobacco farmer's extensive investment of time, effort and financial resources. Mr. Jenkins provided the subcommittee with statistics illustrating the extent of the flue-cured grower's investment. In 1992, according to USDA, in order to produce 100,000 pounds, or approximately 44 acres of flue-cured tobacco, a grower would have had to invest almost $150,000 just to produce the crop. That translates into an expenditure of $3,397 per acre, or $1.50 per pound in production costs before the first pound was sold. In 1992, flue-cured tobacco sold for an average of $1.73, leaving the grower with a margin of only 23 cents per pound.

Looking toward the future, Mr. Jenkins acknowledged that while the "sentiment of conversion" is noble, tobacco producers were not going to convert to alternative crops until they can no longer grow tobacco. He suggested there are policies and programs from which all farmers benefit, including tobacco farmers, that should be emphasized. Among them are:

- Funding of research and extension programs;
- Streamlining of regulatory processes that affect farmers;
- Increasing cost-share funding for water quality best management practices (BMPs);
- Retention of land use taxation at the local level;
- Protection of riparian rights that allow farmers the use of water;
- Maintaining the exemption from the sales tax on production equipment used by farmers;
- Introduction of Virginia products into more world markets;
- Maintenance of a dependable labor supply; and
- Maintenance of a sound transportation system.

As previously noted more than 5,000 farmers grow burley tobacco on 12,000 acres. Because allotments are very small, people lease their allotments (poundage) so others may accumulate enough acreage to ensure that their tobacco operation is economically viable. Mr. Archie Bailey, a Washington County farmer who grows burley tobacco, spoke of the essential role tobacco plays in the economy of Southwest Virginia. He characterized this region as an economically depressed one which has received a significant amount of economic development funds from state government. He suggested that instead of attempting to develop new industries in the region, more attention should be given to the existing tobacco industry. Tobacco production, according to Mr. Bailey, benefits all the citizens in Southwest Virginia, contributing during 1993 about $45 million in tobacco sales to an otherwise struggling regional economy.

Haywood Hamlet, a grower of fire-cured tobacco, discussed the production trends for fire-cured and sun-cured tobacco. Both types represent a small portion of Virginia's tobacco crop. Fire-cured is grown by approximately 600 farmers in 20 counties. During the 1990s the production of this type of tobacco steadily declined. For the 1991 crop year the total allotted acreage for Type 21 was 39,000 acres, but only 24,050 acres were planted. By the close of the year, after all sales were final, 1,260,500 pounds of unsold tobacco were being stored under loan. As a result, in 1992 the quota was cut by 40 percent which reduced the allotments to 24,047 acres. An additional 355,890 pounds were taken under loan in 1992. In 1993 there was a 30 percent reduction, resulting in a two-year quota reduction of 70 percent. The allotted acreage tumbled that year to 1,472, with 1,280 acres being planted. The 1,280 acres produced 1,882,600 pounds at a record average price of $1.717 per pound. The drastic quota reduction had been successful in decreasing the loan stock inventory to 816,750 pounds. One consequence of the reduced stocks has been the willingness of growers to begin to plant a higher percentage of their allotments. Prior to 1991, farmers were using only 60 percent of their allotted acreage. Currently, they are producing on about 90 percent of their 1994 allotted acreage. Growers anticipate approximately 2.2 million pounds will be produced, with production levels only slightly below demand. Over the next five years, growers expect a slight increase in their production but do not expect the level to exceed five million pounds.

Sun-cured tobacco (Type 37) is produced by 55 growers. Its production has declined to 100,000 pounds. There are 32,000 pounds in loan stocks. In 1994, the allotted acreage was 102 acres. Because of the lack of producer interest, Mr. Hamlet does not anticipate an increase in the production in this type of tobacco. Much of this lack of interest is due to the lack of nearby markets, making selling difficult and expensive.

B. Warehouse Operations

The foundation of the tobacco marketing system is the warehouse auction sale. The grower, when he receives his allotment quota in January, can designate the warehouse in which he will sell his crop. Statutes and their related regulations ensure uniformity for such operating practices as lighting, spacing between poles, weight, packaging, and commissions. In exchange for their payment of warehouse commissions, growers receive a range of services, including:

- Floor space for the display and sale of tobacco;
- Unloading and ticketing of tobacco;
- Storage space before and after the sale;
- Orderly selling schedule for growers and buyers;
- Conducting of the auction;
- Employment of the auctioneer and ticket markers;
- Floor purchases by warehouse for stock not purchased by buyer;
- Immediate payment upon sale to grower;
- Record keeping of sale for buyers, sellers, and regulatory agencies;
- Collection of a range of fees including grading fees, tobacco association fees, non-net-cost fees, chemical testing fees, and sheet fees; and
- Insurance for warehouse contents.

Harry Lea, owner/operator of the Piedmont Big Sale auction warehouse in Danville, discussed the operation of auction warehouses. Mr. Lea, a member of USDA's Flue-cured Advisory Committee and President of the Flue-cured Buyers Association, expressed his concern over the extreme fluctuations in the flue-cured market over the last decade. While the manufacturers have enjoyed record profits, the grower and warehouse operator have faced stagnating volume, lower prices, higher costs, and a maze of state and federal regulations. He expressed great concern that the current warehouse system stifles innovation by requiring uniformity among operators.

Mr. Lea predicted a surprisingly rapid consolidation of the warehouse auction system. Over the last two decades warehouse operators have fought to survive. In the flue-cured areas few new warehouses have been built because of the lack of money available for capital reinvestments. Many of the better facilities are being leased for more profitable ventures. The number of warehouses which have been operating in the five state flue-cured region during the last 20 years has declined from 415 to 260. In addition, the number of buying companies represented on the Danville market dropped by 50 percent. Danville still enjoys the purchasing power of seven buying companies; however, other Virginia markets are served by as few as four. Though the auction system does not play the preeminent role it once did, it does serve as a receiving, display and staging area for tobacco as well as the location for the auction.

C. Lending Institutions

During the period of the subcommittee's deliberations in 1994, Congress was considering a possible increase in the excise tax on tobacco as a source of financing health care. Chip Saufley, a loan officer with Roanoke Farm Credit, discussed how farm credit and particularly tobacco farmers would be affected by any proposed tax hike. He suggested that such an increase brings uncertainty into the farm credit system. In the past, Farm Credit as well as other agricultural lenders has benefited from the stability of the tobacco industry. The assumption has been that if the farmer applied his resources (labor and capital) in a reasonable manner, he could expect a reasonable return on his investment. A farmer, with some degree of predictability, could discuss with lending institutions his investment and lending strategy for expansion, the availability of capital for replacement of equipment, and the feasibility of incorporating new production technologies into his farming practices. Today, the declining demand for tobacco, fueled by the fear of tax increases and anti-tobacco sentiment, has forced growers and lenders to make more conservative investment and operating decisions. The economic assumption that heightened risk increases the opportunity for profits is now being questioned. The value of the farmer's specialized capital assets depends on his ability to produce one crop--tobacco. These specialized assets (e.g., equipment) have little value for another farming enterprise. Mr. Saufley pointed out that for a majority of the tobacco growers using his institution, the devaluation of their tobacco assets has outpaced their profits.

He recommended a two-phase assistance program for tobacco farmers. Phase one would include compensating tobacco farmers for the lost capital associated with their investment in improving their tobacco trade. A portion of the proposed increased excise tax would be used to compensate individual producers for the decreased value of their allotment and such specialized equipment as tobacco barns. The second phase would provide farmers with both alternative agriculture and nonagricultural opportunities. Financial and technical assistance would be offered for farmers willing to engage in such enterprises as the production of livestock, poultry, vegetable crops, or ornamentals. He noted that there must also be an expansion of off-farm opportunities as a supplemental source of income.

D. Agribusiness

The future of the tobacco industry greatly interests the agribusiness sector and especially Southern States Cooperative, whose stores are within five miles of 70 percent of the tobacco grown in the U.S. Joseph Coffey, an agricultural economist with Southern States, provided the subcommittee with his company's perspective on the tobacco industry. The Cooperative's stores annually sell $950 million in agricultural products in six states. In 1993, Virginia tobacco producers bought $153 million worth of supplies from the Cooperative. An indication of the crop's significance is that tobacco accounts for 92 percent of the crop income in those

Virginia counties in which 50 or more tobacco farms are located. He stressed that tobacco is and will remain significant.

While decision-makers and those involved in agriculture must always be concerned with improving farm income, the concern should be more urgent than ever, in light of the shrinking domestic market. He called for the industry to broaden its perspective to include the world tobacco market. In a survey conducted by Mr. Coffey, 280 tobacco farmers in Virginia, North Carolina and Kentucky were asked what would they do if tobacco quotas were reduced 40 percent, as had been anticipated before the manufacturers' buyout agreement. They responded in the following manner:

10% - Leave farming
11% - Seek additional off-farm income
13% - Expand their current crops
18% - Purchase more quotas
21% - Make no changes
27% - Expand into livestock operations

Although acknowledging that there is no "magic bullet" solution for the tobacco farmer, Mr. Coffey recommended that policy-makers consider a number of alternatives:

- Expand livestock operations. There is ample pasture for more beef cattle. Opportunities for increasing swine and poultry production, and expanding aquaculture should be examined.

- Find new uses for tobacco. Tobacco is suitable for genetic engineering and experimentation. Tobacco contains medicinal properties which could provide new uses for the tobacco plant.

- Develop niche markets. Commodities which could satisfy niche markets include broccoli, mushrooms, strawberries, peppers, tomatoes, ornamentals, turf, Christmas trees, sorghum, and milo.

- Create off-farm job opportunities. More support should be provided for rural development activities such as Virginia Polytechnical Institute and State University's REAP initiative and the Virginia Department of Agriculture and Consumer Services' rural programs. Current programs such as rural enterprise zones, Farmers Home Administration, and job training should be promoted and more extensively utilized.

- Exploit underutilized resources. There are large areas of less productive, idle land in the tobacco region which could be used for pasture, tree farming and hunting preserves.

- Adopt proven farm practices. Such practices as pasture improvement, strip grazing, minimum tillage and intensive management techniques should be emphasized.

- Improve tobacco competitiveness by 15-20 percent. Currently, Virginia tobacco sells for $1.70-$1.80 per pound compared to foreign-produced tobacco that sells for $.80-$1.20 per pound. Virginia tobacco could become more competitive with the assistance of continued research and extension programs. The marketing process must be streamlined, and labor efficiency has to be improved through greater mechanization of production. Virginia tobacco's place in the global market could further be enhanced by not placing unreasonable restraints on the producer or the product.

E. University Researchers

Dr. Wayne Purcell of the Department of Agricultural Economics at VPI-SU and Dr. Jim Jones, director of the Southern Piedmont Research and Extension Center, presented the results of their tobacco-related research. Dr. Purcell emphasized that adjustments have to be made in the tobacco industry. Even as acreage has decreased along with production, tobacco prices have continued to drop. The inflation-adjusted prices received by farmers in 1993 were approximately 35 percent below tobacco prices of the early 1980s. The extent of the decline, combined with the continuing increase in labor costs, will result in individuals being forced out of the market place, according to Dr. Purcell. Calling this situation a "mandate for change," he recommended that an adjustment program be undertaken. The process of developing alternative adjustment policies would be the responsibility of an action group or a coalition of interested parties who would be charged with presenting a program which featured:

- Local energy, initiatives, and leadership;
- Identification of competitive crop and livestock enterprises specific to each county or community;
- Adult education opportunities, technical skill training and retraining;
- Community development programs which emphasize revitalization of infrastructure (e.g. education, roads, and community services); and
- A long-range economic development program featuring small business and entrepreneurial activity.

Dr. Purcell emphasized that the most effective programs will be those generated by local initiatives and leadership. The action group would help talents surface and

provide the analytical expertise and technical assistance the community might need.[17]

Because of tobacco's importance to the south central region of Virginia, the Research and Extension Center at Blackstone devotes about 75 percent of its efforts to tobacco research. The research projects range from very basic studies of physiological mechanisms, gene action, plant response to nutrients, biological control of pests, plant chemistry, and effects of pesticides, to the very practical applications conducted on growers' farms. Typically about 65 tests are conducted throughout the year analyzing the use of various growth production practices. Under Dr. Jim Jones's leadership, most of the work done by the research station has focused on improving production efficiency and maintaining the quality of Virginia tobacco. In 1940, producing one acre of flue-cured tobacco required 600 man-hours of labor; by 1960, it required 450 man-hours. Today, the more efficient farmer can produce an acre of tobacco with fewer than 100 man-hours of labor. Agricultural engineers predict that an acre of tobacco could be produced in the future using only 35 man-hours of labor. This achievable target means that two people working six months of the year could produce a 60-acre crop of tobacco. While labor requirements are being reduced, efficiency is improving, as illustrated by the fact that the yield per acre has nearly doubled since 1940. In 1940, the yield of flue-cured tobacco was less than 1,000 pounds per acre. Today, yields average more than 2,200 pounds per acre, and it is not uncommon for a farmer to produce 4,000 pounds per acre.

The latest trend in tobacco production and mechanization is in plant production. Growers are gradually moving away from outdoor seed beds to greenhouse transplant production. This change requires a significant capital investment, with greenhouses and plant production equipment costing more than $30,000. To assist tobacco growers in recouping some of this investment, the research station is examining the feasibility of using these greenhouses for other types of bedding plants, cut flowers, broccoli and cauliflower.

It is no accident that tobacco has been the mainstay of agriculture in the southern piedmont region for over 300 years. The region is characterized by rolling hills and relatively infertile soils. In most years, the region experiences periods of drought which make it virtually impossible to profitably grow field crops. Recognizing the limitations of soil and climate, the research station continues to examine the economic feasibility of producing a variety of commodities in the region. Dr. Jones suggested that several commodities have a competitive advantage or show some potential for profitability. Other than timber, the most abundant resources found in this region are pasture and hay. Twenty-seven percent of Virginia's beef cattle are raised in the region. Between 1970 and 1990 the region

[17] Dr. Wayne Purcell, Data, Perception, Suggestions for Strategic Programs and Strategies: Virginia Tobacco Industry, prepared for the joint subcommittee, July 12, 1994, Section A, p.1.

experienced a 62 percent increase in the number of beef cattle. This increase reflected the region's potential to produce forage crops which could provide year-round grazing. The sale of high quality hay to other areas, including Northern Virginia with its horse industry, is also promising. If the prices become more attractive, wheat and small grains crops could become more profitable. Because wheat is a winter crop, farmers would not have to be concerned with summer droughts. The yield potential of wheat has increased in recent years due to the availability of several varieties and the development of intense management programs. It could be grown as a rotational crop for tobacco. Cotton is another possible alternative crop. Small quantities of cotton were grown in the 1970s and 1980s. This past season approximately 46,000 acres were planted. Cotton is more adaptive to the soil and climate of the region than many of the grain crops and is more profitable than corn or soybeans. Research has shown that 2 ½ bales of cotton can be produced per acre; but there is one significant limiting factor in its production. Typically, a grower will need at least 200 acres to justify the purchase of the necessary picking machinery; however, tobacco farmers in this region typically own small acreage fields. Other supplemental crops under study include fruits, berries, and vegetables (cauliflower, asparagus, and broccoli). Dr. Jones cautioned the subcommittee that (i) none of these crops will replace the cash value of tobacco which generates $200 million using less than 50,000 acres and (ii) no other crop can generate the type of high paying "spin-off" jobs found in the tobacco-manufacturing sector.

An area of research holding great promise is in extending the uses of tobacco beyond smoking. Recent advances in biotechnology indicate that it is possible to produce high value, genetically engineered protein such as interluken, industrial enzymes, and antibodies in plants at a fraction of the costs of other systems. One type of protein produced from tobacco, Fraction-1, has been rated by researchers as among the highest quality protein, better than soybean and animal protein. The advances in biotechnology have allowed researchers to insert foreign genes into the tobacco plant. Dr. Jones characterized the tobacco plant as the "white mouse" of the plant kingdom because it is very easy to genetically manipulate. It is also a good "converter," producing large quantities of biomass. For instance, every 100 pounds of tobacco leaf generates about two pounds of the desired material. Biotechnology and genetic engineering of the tobacco plant present opportunities to improve resistance to disease, produce new pharmaceuticals, and develop new products. However, if such technological advances prove to be effective, the current tobacco production system would be altered. The new system would be characterized by high density planting, somewhere between a plant bed and field culture. The tobacco would be continually retuned, cutting the plant each time when it reaches knee length. Dr. Jones cautioned the subcommittee that once tobacco is genetically altered, Virginia tobacco would lose its competitive advantage in flavor, quality and smoking properties.

IV. FINDINGS AND RECOMMENDATIONS

In carrying out its charge of examining alternative strategies for assisting tobacco farmers, the joint subcommittee devoted much of its time to an analysis of the current status of tobacco production in Virginia and a review of those factors which will help shape the industry's future. The subcommittee sought the testimony from representatives of the various sectors of the tobacco industry. It is clear from their testimony that tobacco plays a significant role in the economy of communities throughout Virginia. Not only does it provide income for those who grow it and employment to those in the manufacturing, sales and distribution sectors of the economy, but it generates significant tax revenue for state and local government. While Virginia tobacco is the best quality tobacco in the world, Virginia's growers face an uncertain future. They will have to become more competitive in an expanding world tobacco market. Because no other commodity can generate the gross receipts that tobacco does, there is an understandable reluctance among growers to convert to other commodities. Despite their preference for tobacco as their primary crop, tobacco farmers have nevertheless demonstrated a willingness to diversify their crop production. As several of those who testified pointed out, the revenue generated by tobacco has both supported and, in many cases, even subsidized the production of other commodities. The joint subcommittee believes that a number of the proposals for generating additional income through the adoption of alternative on- and off-enterprises merit additional consideration. The adoption of policies which encourage the development of such enterprises will better enable Virginia's tobacco farmers to meet the economic challenges they will confront over the next decade .

Therefore, the joint subcommittee recommends:

That the General Assembly continue the work of the Joint Subcommittee Studying Alternative Strategies for Assisting Tobacco Farmers (see Appendix C).

Respectively submitted,

Delegate Mitchell Van Yahres, Chairman
Senator Charles R. Hawkins, Vice Chairman
Delegate William W. Bennett, Jr.
Senator Richard J. Holland
Delegate Terry G. Kilgore

1994 SESSION

LD4951480

HOUSE JOINT RESOLUTION NO. 224

Offered January 25, 1994

Establishing a joint subcommittee to study alternative strategies for assisting tobacco farmers.

Patrons—Van Yahres, Armstrong, Barlow, Bennett, Bloxom, Cooper, Councill, Davies, Deeds, Howell, Hull, Jackson, Johnson, Kidd, Kilgore, Moore, Morgan, Putney, Ruff, Van Landingham, Wardrup and Watkins

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Referred to Committee on Rules

WHEREAS, over 90 percent of the $2.9 billion that American growers earned from tobacco in 1991 came from only six states: Virginia, North Carolina, Kentucky, Tennessee, South Carolina, and Georgia; and

WHEREAS, tobacco is a high-value crop, and is Virginia's number one cash crop; and

WHEREAS, in recent years tobacco production and marketing have been relatively stable in Virginia, giving producers little reason to examine other income producing alternatives as crop diversification, or agricultural-related enterprises; and

WHEREAS, changing market conditions, which are driven in many instances by state and federal policies, will affect the nation's tobacco regions throughout the next decade; and

WHEREAS, over the last 30 years, the role of American-grown tobacco in world markets has greatly diminished; and

WHEREAS, in 1959, American growers produced about one-fourth of the world's tobacco supply, but by 1991, this figure had dropped to 10 percent; and

WHEREAS, within the United States' increased health concerns regarding the use of tobacco products have had a significant impact on domestic consumption of these products; and

WHEREAS, because of the large amount of tobacco in the national reserves, under new quotas adopted by the United States Department of Agriculture, Virginia's production of flue-cured tobacco will be reduced by 10 percent next year; and

WHEREAS, the prospect of the possible imposition of additional taxes on tobacco, and the decreasing use of burley tobacco in cigarettes, raise additional concerns regarding the future stability of the tobacco market; and

WHEREAS, emerging technologies offer new opportunities to diversify the state's agricultural base and to seek other uses for tobacco; and

WHEREAS, agricultural diversification programs currently operating in many states have been able to respond to the needs of the farm sector by helping farmers identify alternative crops and enter markets that are more dependable and closer to home than foreign markets; and

WHEREAS, apart from diversification, the establishment of special reinvestment programs represents an alternative which potentially could help revitalize the tobacco growing community by financing investments on former tobacco farms, in the agricultural infrastructure, as well as marketing, research, risk reduction, and community development; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee be established to study alternative strategies for assisting tobacco farmers. The joint subcommittee shall consists of five members who shall be appointed in the following manner: three members of the House of Delegates to be appointed by the Speaker of the House; and two members of the Senate to be appointed by the Senate Committee on Privileges and Elections.

The direct costs of this study shall not exceed $ 4,500.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon

request.

The joint subcommittee shall complete its work in time to submit its findings and recommendations to the Governor and the 1995 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for processing legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

Official Use By Clerks

Agreed to By The House of Delegates		Agreed to By The Senate	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐
Date: _____		Date: _____	
Clerk of the House of Delegates		Clerk of the Senate	

THE ECONOMIC IMPORTANCE OF TOBACCO PRODUCTION TO THE COMMONWEALTH OF VIRGINIA, BY COUNTY: AMENDED 4-11-94

	FLUE-CURED TOBACCO: '93 MARKET AVERAGE $1.70				BURLEY TOBACCO: '93 MARKET AVERAGE $1.78				SUN CURED TOBACCO: '93 MARKET AVERAGE $1.53				FIRE CURED TOBACCO: '93 MARKET AVERAGE $1.72				COUNTY TOTALS - ALL TOBACCO TYPES			
COUNTY	QUOTAS	POUNDS SOLD	GROSS VALUE	ECONOMIC IMPACT	QUOTAS	POUNDS SOLD	GROSS VALUE	ECONOMIC IMPACT	QUOTAS	POUNDS SOLD	GROSS VALUE	ECONOMIC IMPACT	QUOTAS	POUNDS SOLD	GROSS VALUE	ECONOMIC IMPACT	QUOTAS	POUNDS SOLD	GROSS VALUE	ECONOMIC IMPACT
Amelia	54	921,460	$1,569,882	$6,279,528	1	511	$910	$3,636	20	22,160	$33,905	$135,619	91	68,451	$117,738	$470,943	156	1,014,582	$1,722,432	$6,889,728
Amherst													37	1,869	$3,215	$12,859	37	1,869	$3,215	$12,859
Appomattox	15	161,206	$292,550	$1,130,201	46	32,351	$57,585	$230,339					175	98,101	$151,534	$606,135	236	286,658	$491,869	$1,968,675
Bedford	9	141,157	$253,567	$1,014,268	51	43,475	$77,386	$309,542					64	4,706	$8,094	$32,377	124	197,338	$339,047	$1,356,187
Bland					72	85,481	$152,156	$608,625									72	85,481	$152,156	$608,625
Brunswick	415	5,811,923	$9,545,369	$38,181,176	8	9,557	$17,011	$68,046	1	0	$0	$0	154	204,314	$351,420	$1,405,680	578	5,828,794	$9,913,601	$39,655,203
Buchanan					228	228,436	$406,616	$1,626,464									228	228,436	$406,616	$1,626,464
Buckingham					52	99,181	$176,542	$706,169	2	0	$0	$0	38	71,638	$123,217	$492,869	122	170,819	$299,760	$1,199,038
Campbell	103	1,741,426	$2,963,424	$11,841,697	24	25,331	$45,089	$180,357	2	1,152	$1,763	$7,050	288	245,899	$422,929	$1,691,718	417	2,013,798	$3,430,205	$13,720,820
Caroline									19	12,976	$19,853	$79,413					19	12,976	$19,853	$79,413
Carroll	2	21,686	$46,405	$182,425	3	0	$0	$0									5	23,886	$40,908	$182,425
Charlotte	297	3,647,207	$6,200,252	$24,801,008	29	32,530	$57,903	$231,614	5	1,838	$2,812	$11,249	370	307,780	$529,347	$2,403,389	701	4,189,335	$7,134,315	$28,537,259
Chesterfield	12	371,832	$645,714	$2,582,856					1	0	$0	$0					13	379,832	$645,714	$2,582,856
Cumberland	13	271,867	$488,974	$1,875,896	38	47,798	$85,080	$340,322					33	49,582	$85,247	$340,987	84	373,227	$639,301	$2,557,204
Dickenson					113	117,302	$208,798	$835,190									113	117,302	$208,798	$835,190
Dinwiddie	236	3,321,238	$5,646,106	$22,584,425					1	0	$0	$0	90	25,056	$43,100	$172,369	327	3,346,287	$5,689,206	$22,756,824
Essex									3	0	$0	$0					3	0	$0	$0
Floyd					59	29,773	$52,998	$211,984									59	29,773	$52,998	$211,984
Fluvanna									9	1,878	$2,873	$11,493					9	1,878	$2,873	$11,493
Franklin	181	3,096,770	$5,264,109	$21,044,436	5	1,944	$3,888	$7,433	1	0	$0	$0	25	23,939	$41,003	$164,012	192	3,119,653	$5,309,970	$21,215,882
Giles					4	3,032	$5,397	$21,588									4	3,032	$5,397	$21,588
Grayson					803	949,139	$1,678,787	$6,715,150									803	949,139	$1,678,787	$6,715,150
Goochland									4	0	$0	$0					4	0	$0	$0
Greensville	19	681,385	$1,464,355	$5,857,418									2	0	$0	$0	61	681,385	$1,464,355	$5,857,418
Halifax	1,428	14,487,421	$24,528,819	$98,109,482	3	3,090	$5,500	$22,001	2	2,921	$4,469	$17,877	79	160,392	$275,874	$1,103,497	1,506	14,983,824	$24,812,459	$99,249,837
Hanover									4	0	$0	$0					3	0	$0	$0
Henry	45	1,139,799	$1,969,958	$7,879,833						2,388	$3,620	$14,480	1	1,939	$2,819	$11,276	46	1,182,804	$1,976,397	$7,905,589
Lee					2,838	4,877,914	$8,682,687	$34,730,748									2,838	4,877,914	$8,682,687	$34,730,748
Louisa									34	49,009	$74,979	$299,917					34	49,009	$74,979	$299,917
Lunenburg	278	4,764,074	$8,098,926	$32,395,703					3	3,702	$5,664	$22,658	126	79,921	$137,464	$549,856	407	4,847,697	$8,242,054	$32,968,219
Madison					1	0	$0	$0									1	0	$0	$0
Mecklenburg	623	11,196,529	$19,030,699	$76,122,797	3	3,643	$6,485	$25,938					23	22,768	$39,186	$156,623	649	11,220,937	$19,076,340	$76,305,358
Montgomery					29	24,583	$43,781	$175,045									29	24,583	$43,781	$175,045
Nelson													17	1,293	$2,224	$8,896	17	1,293	$2,224	$8,896
Nottoway	70	1,210,870	$2,058,139	$8,232,556	1	1,787	$3,181	$12,723					81	74,930	$128,880	$515,518	152	1,287,587	$2,190,199	$8,760,798
Patrick	156	2,277,448	$3,871,663	$15,488,653													156	2,277,448	$3,871,663	$15,488,653
Pittsylvania	1,127	21,209,813	$36,041,382	$144,165,528	3	1,839	$3,017	$11,870					108	151,388	$260,374	$1,041,494	1,238	21,363,032	$36,304,673	$145,218,892
Powhatan	3	15,071	$30,221	$158,883	3	1,845	$3,028	$11,712	4	2,884	$4,382	$17,528	2	0	$0	$0	12	27,800	$46,931	$188,123
Pr Edward	78	868,140	$1,030,438	$4,121,752	102	117,434	$209,033	$836,130	4	203	$311	$1,242	220	94,593	$162,703	$650,814	497	818,378	$1,402,485	$5,609,938
Pr George	4	48,322	$163,747	$654,990													4	96,322	$163,747	$654,990
Pulaski					8	3,128	$5,588	$22,271									8	3,128	$5,588	$22,271
Rockbridge													2	0	$0	$0	2	0	$0	$0
Russell					1,939	3,473,388	$6,188,691	$24,730,923									1,939	3,473,388	$6,188,691	$24,730,923
Scott					3,560	5,451,844	$9,703,928	$38,815,705									3,560	5,451,844	$9,703,928	$38,815,705
Smyth					1,302	1,829,734	$3,258,927	$13,027,708									1,302	1,829,734	$3,258,927	$13,027,708
Southampton	1	69,171	$110,791	$443,193													1	69,171	$110,791	$443,193
Sussex	17	510,856	$868,455	$3,473,821													17	510,856	$868,455	$3,473,821
Suffolk	5	120,711	$205,209	$820,836													5	120,711	$205,209	$820,836
Surry									1	0	$0	$0					1	0	$0	$0
Tazewell					163	186,392	$335,338	$1,341,351									163	186,392	$335,338	$1,341,351
Washington					3,658	6,370,018	$11,338,632	$45,354,528									3,658	6,370,018	$11,338,632	$45,354,528
Westmoreland									2	0	$0	$0					2	0	$0	$0
Wise					105	70,699	$125,844	$503,377									105	70,699	$125,844	$503,377
Wythe					23	14,488	$25,789	$103,155									23	14,488	$25,789	$103,155
TOTAL	5,224	77,855,384	$132,354,153	$529,416,611	15,315	24,132,168	$42,955,261	$171,821,043	123	101,066	$154,631	$618,524	2,020	1,679,102	$3,230,335	$12,921,342	22,682	103,666,721	$178,694,380	$714,777,520

Compiled by Tobacco Growers' Information Committee, Inc. • PO Box 10584 • Raleigh, NC 27605 • Office: (919) 821-0990 • FAX (919) 821-4564
Marketing figures provided by the Virginia Department of Agriculture and Consumer Services using 1993 crop year market reports

Appendix B

Appendix C

1995 SESSION

LD0034480

HOUSE JOINT RESOLUTION NO. 431

Offered January 13, 1995

Continuing the Joint Subcommittee Studying Alternative Strategies for Assisting Tobacco Farmers.

Patrons—Van Yahres, Bennett and Kilgore; Senator: Holland, R.J.

Referred to Committee on Rules

WHEREAS, during the past year, the Joint Subcommittee Studying Alternative Strategies for Assisting Tobacco Farmers received testimony from individuals representing the various sectors of the tobacco industry including growers, tobacco warehouses, processors, researchers and lending institutions; and

WHEREAS, these individuals described domestic and international trends in the production, manufacture and sale of Virginia's flue-cured, burley, sun-dried, and fire-cured tobacco; and

WHEREAS, the increased competitiveness of other tobacco-producing countries combined with domestic health concerns will affect the stability of Virginia's tobacco markets; and

WHEREAS, testimony received by the joint subcommittee documented the significant contribution that tobacco makes to Virginia's economy, especially in the tobacco growing regions of south central and southwest Virginia; and

WHEREAS, several tobacco-producing states and a number of private organizations have begun to examine ways to supplement tobacco farmers' on-and off-farm income; and

WHEREAS, the joint subcommittee can play a role not only in coordinating these efforts, but also in providing a forum for the discussion and development of policies promoting Virginia's tobacco farmers; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Subcommittee Studying Alternative Strategic for Assisting Tobacco Farmers be continued. The membership of the Joint Subcommittee shall continue as originally constituted. Any vacancies shall be filled in the same manner as the original appointment.

The direct costs of this study shall not exceed $4,500.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the Joint Subcommittee, upon request.

The Joint Subcommittee shall complete its work in time to submit its findings and recommendations to the Governor and the 1996 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for processing legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

Official Use By Clerks

Passed By The House of Delegates		Passed By The Senate	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐

Date: _____ Date: _____

Clerk of the House of Delegates

Clerk of the Senate