The Federal Government has operated programs to support and stabilize tobacco prices since the early 1930's. As a result, risks to growers from seasonal and cyclical price changes have been lessened in the face of weather, production, and use variations.

The Agricultural Adjustment Act of 1933 designated tobacco as a basic (storable) commodity, and cash payments were made to tobacco growers who restricted production (1933-35). After the 1933 legislation was declared unconstitutional, substitute legislation authorized payments for carrying out soil conservation practices (1936-37).

The Agricultural Act of 1938 authorized marketing quotas, with a penalty for growers exceeding them. With two-thirds or more of tobacco growers voting approval of marketing quotas for their kind of tobacco, growers received price support up to 75 percent of parity. Parity price calculations used 1910-14 as the base period for most commodities, but August 1919-July 1929 was designated for tobacco.

Despite many legislative changes since 1938, the authority to provide an adequate and balanced flow of tobacco through the marketing quota continues. The program is available for all kinds of tobacco except shade-grown wrapper and Perique. Excluding the 1939 crop, marketing quotas have been approved and in effect since 1938 for each crop of flue-cured, burley, and dark tobacco. Cigar binder and Ohio filler crops first came under quotas in 1951. Price supports have never applied to Pennsylvania filler and last applied to the Maryland crop in 1963 and the Connecticut-Massachusetts binder crop in 1983.

In October 1942, Congress raised the support level to 90 percent of parity, which continued through 1948. The Agricultural Act of 1949 continued the 90 percent parity level and has been the authority for tobacco price support since 1950.

Because of sharply increasing price supports, an amendment to the 1949 Act set crop support prices for 1960 at the previous year's level. The amendment also provided for subsequent price support changes to be based on the average parity index for the 3 previous calendar years compared with 1949 indexes.

Under the loan program, a support price (loan rate) is established for each grade of tobacco. If the buyers are not willing to bid above the Government loan rate for any lot of tobacco, an eligible grower may receive the lot's designated loan rate less any overhead deduction to cover the loan association's administrative costs. The tobacco is then taken by a cooperative association. Under an agreement with the Commodity Credit Corporation (CCC), the association arranges for receiving, reutrying, packing, storing, and eventually selling the tobacco under loan.

Grade loan rates are based on recent trends in market prices, loan holdings, and the shares of particular grades received under loan. The weighted average of various loan rates must equal the overall support level for each kind of tobacco.

Lease and transfer of flue-cured tobacco was permitted from 1962 to 1986 (leasing was discontinued in 1987, but reinstated only for natural disasters beginning in 1988). Acreage/poundage quotas for flue-cured tobacco were implemented in 1965. Lease and transfer of quotas and poundage quotas became effective for burley in 1971. Producers of flue-cured and burley were allowed to sell an amount up to 110 percent of their quota without penalty (changed to 103 percent in 1986), with marketings the following year to be reduced by the amount of any overmarketings.

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An administrative rule in 1974 provided relief at congested warehouses early in the marketing season by requiring each flue-cured producer, as a condition of eligibility for price support, to designate in advance the warehouse desired for selling. The warehouse had to be within 100 miles of the county seat where the farm was located.

1982 to 1985

Three laws were enacted in 1982 and 1983 that substantially changed the program. Their adoption was impelled by a number of pressing concerns. Health groups and some members of Congress were concerned that the U.S. Treasury made outlays on a commodity statistically associated with various illnesses. Another concern among some growers and others was that many of the owners of tobacco quotas did not grow tobacco. Still another concern was that price supports were so high that U.S. tobacco was losing its competitiveness in world markets.

The first law was termed the "No/Net" Tobacco Program Act of 1982. The law, mandated by the 1981 Agriculture and Food Act, required that to be eligible for price support, producers of all kinds of tobacco, beginning with the 1982 crop, had to contribute to a fund or pay assessments to an account established by the cooperative association that makes Federal support loans available to producers. The funds are collected to cover potential losses in operating the price support program.

The second law froze 1983 tobacco supports at their 1982 levels. The law also permitted the Secretary of Agriculture to reduce burley quotas as much as 10 percent in any year, if necessary, to control overproduction; previously, the maximum reduction permitted was 5 percent.

The third law made further changes in the tobacco program, as follows:

- Flue-cured supports for 1984 wereagain frozen at the 1982 level. In 1984, the support price for burley and other types was set as not to narrow the normal price support differential between them and flue-cured. Procedures were established for calculating supports for each kind of tobacco in the future.

- The lease and transfer of flue-cured tobacco quota was abolished beginning in 1987.

- Imported tobacco, except for Oriental and cigar tobacco, must be inspected for grade and quality to the extent feasible. An amendment to the Food Security Act of 1985 required that imported tobacco be tested for pesticide residues similar to testing required for domestically grown leaf.

- Beginning in 1986, the law required forfeiture of any flue-cured quotas assigned to a farm on which tobacco had not been planted (or considered planted) during at least 2 of the 3 previous years.

- The last permitted announcement date for flue-cured tobacco quota was changed from December 1 to December 15.
Although three significant pieces of legislation were enacted in 1982 and 1983, major problems still existed in the tobacco program. These problems were addressed by the Consolidated Omnibus Budget Reconciliation Act of 1985. The Act, enacted in April 1986, affected the tobacco control programs as follows:

- Beginning in 1987, after being lowered in 1985 for burley and 1986 for flue/cured, the annual flue/cured and burley price support was the level for the preceding year adjusted by changes in the 5-year moving average of prices (two-thirds weight) and in the cost of production index (one-third weight). Costs include general variable costs, but exclude costs of land, quota, risk, overhead, management, marketing contributions or assessments, and other costs not directly related to tobacco production. The Secretary can set the price support between 65 and 100 percent of the calculated adjusted change from the previous year. The procedure for setting price supports for any kind of tobacco other than flue/cured and burley was unchanged.

- Flue/cured and burley quotas are now based on 1) intended purchases by cigarette manufacturers, 2) average annual exports for the 3 preceding years, and 3) the amount of tobacco needed to attain a specified reserve stock level (15 percent of the effective quota or a minimum of 100 million pounds of flue/cured and 50 million pounds of burley). Quota reductions were limited from 1986 to 1993. (The limit was extended to 1996 in subsequent legislation.)

- USDA's discretion for setting flue/cured and burley quotas is limited to not more than 103 percent or less than 97 percent of the amount determined by manufacturers' needs and exports, and the reserve stock level.

- The amount of flue/cured and burley tobacco that can be marketed without penalty was reduced from 110 to 103 percent of the farm marketing quota.

- The latest announcement date for marketing quotas for any kind of tobacco, other than flue/cured and burley, was changed from February 1 to March 1.

- Cigarette manufacturers are required to submit estimates to USDA of their flue/cured and burley purchases for the upcoming marketing year 15 days before the quota announcements are due. Any manufacturer that fails to purchase at least 90 percent of the tobacco it said it would purchase is subject to penalties.

- Purchasers of flue/cured and burley tobacco pay the same amount to the associations as producers, to the extent practicable.

- Loan stocks of 1976/78 crops were sold at discount prices over a 5-year period for burley and 8 years for flue/cured.

The Agricultural Reconciliation Act of 1987 made further changes in the tobacco program. The most important change permitted limited lease and transfer of flue/cured tobacco quotas under disaster conditions. The law also reduced effective price support levels in 1988 and 1989.

1988 to 1995

The Drought Assistance Act of 1988 provided assistance to tobacco producers if their crop was lowered more than 35 percent by drought, hail, excessive moisture, or related conditions. The Disaster Assistance Act of 1989 provided payments if tobacco production was reduced more than 40 percent because of damaging weather or related conditions. For producers who obtained crop insurance in 1989 under the Federal Crop Insurance Act, disaster payments were available for losses exceeding 35 percent of expected production with average yields.

Three pieces of legislation affecting tobacco were enacted in November 1990. Under the Omnibus Budget Reconciliation Act of 1990 for 1991/95 crop years, tobacco growers and purchasers of tobacco under marketing quota will annually be assessed 1 percent of the national loan rate on all marketings (0.5 percent each for growers and purchasers). The assessment is targeted to reduce the budget deficit. The marketing assessment has been extended through 1998.

The Food, Agriculture, Conservation, and Trade Act of 1990 included the following provisions:

- The Act authorizes the Secretary of Agriculture to invest trust fund reserves from the imported/tobacco inspection account in insured, or fully collateralized, interest bearing accounts, or authorize the Secretary of the Treasury to invest these funds in U.S. Government debt instruments. Fees, charges, and interest earned from the investment of such funds is added to the applicable appropriation account and available without fiscal year limitation. Interest earned is used to offset imported tobacco inspection fees.

- The Farm Poundsage Quota Revisions Act of 1990 was designed to increase utilization of burley quota. Major features of the law are:
  - The sales of burley tobacco quota within counties was permitted beginning with the 1991 crop year. The buyer must be an active burley grower and the purchase is annually limited to no more than 30 percent of the existing quota of the buyer's farm, or 20,000 pounds, whichever is greater. Sales of poundage quotas have been permitted for flue/cured tobacco since 1982.
  - A farm that purchases quota is not permitted to sell any quota within 3 years of the last year of purchase. The total tobacco acreage permitted on a receiving farm cannot exceed 50 percent of the cropland in the farm.
  - Quota holders are required to lease, or attempt to grow, their quota 2 out of 3 years or forfeit the quota. This replaces the 1 out of 5-year plan.
  - Divisions of farm quota cannot be less than 1,000 pounds (except when the division is among family members or pursuant to probate proceedings).
  - The amount that could be leased to a receiving farm was increased from 15,000 to 30,000 pounds, thereby permitting individual farms to lease in the larger amount.
  - Lease and transfer across county lines was authorized in Tennessee. Tennessee burley producers approved such transfer in a Statewide referendum in January 1991.

In December 1991, legislation was enacted to correct technical errors and clarify various provisions of the 1990 Food, Agriculture, Conservation, and Trade Act. It contained a number of provisions, including the repeal of the Tobacco Seed and Plant Exportation Act. This repeal lifted constraints on U.S. export of tobacco seeds and plants. Another provision permits lease and transfer of burley quota across county lines in Virginia. However, growers did not approve State lease and transfer in a Statewide referendum. Finally, the Tobacco Adjustment Act of 1983 was amended to exempt reporting requirements for tobacco used in cigars, pipes, and chewing tobacco and snuff in retail packages.

In October 1992, an amendment to the Agricultural Adjustment Act of 1938 required that sale or lease of allotments between farms by producers of fire-cured, dark air-cured, and Virginia sun/cured tobacco be approved on an acre-for-acre basis. Previously, the law required a reduction in the allotment transferred when the normal yield for the farm getting the allotment exceeded by more than 10 percent the normal yield of the farm releasing the allotment.

The Omnibus Budget Reconciliation Act (OBRA) of 1993 (P.L. 103-66) contained a provision that required U.S. manufactured cigarettes to contain at least 75 percent domestically grown sun-cured tobacco be approved on an acre-for-acre basis. Previously, the law required a reduction in the allotment transferred when the normal yield for the farm getting the allotment exceeded 65 to 100 percent of the calculated adjusted change from the previous year. The procedure for setting price supports for any kind of tobacco other than flue/cured and burley was unchanged.

In addition to the minimum content requirement, the OBRA of 1993 legislation imposes budget/deficit and no/net/cost assessments on importers. The rate for the budget deficit assessment is the same as for purchasers of domestic leaf, and the rate for the no/net/cost assessment is equal to the combined rates of fees collected from producers and purchasers of U.S.-grown flue/cured and burley leaf. Also, fees for inspecting all imported tobacco will be comparable to fees and charges fixed and collected for services provided in connection with tobacco produced in the United States.

U.S. growers and purchasers of domestic leaf have paid special assessments equal to 1 percent of the average price support since 1991 to help reduce the Federal budget deficit. The new budget deficit assessment on importers applies to the 1994/95 crops and applies to all tobacco imported, including Oriental. Failure to remit the budget deficit fee will result in a penalty equal to 37.5 percent of the sum of the average price of flue/cured and burley tobacco for the immediately preceding year on the quantity of tobacco on which the failure occurs.

The no/net/cost assessments cover projected losses in operating the tobacco price/support program. U.S. flue-cured and burley growers have paid no/net/cost fees since 1982, while purchasers...
have paid fees on U.S.-grown tobacco since 1986. Beginning in 1994, no-net-cost assessments are being levied on importers of flue-cured and burley tobacco. Noncompliance by importers to no-net-cost assessments results in a penalty equal to the average price of the tobacco involved for the preceding year times the quantity of tobacco which the failure occurs.

The new act extended to 1996 a provision in previous law that limited the reduction in the national marketing quota for flue-cured and burley tobacco to no more than 10 percent of the amount of each quota in the preceding year. When determining the marketing quota for the 1995 and 1996 crop years, the Secretary of Agriculture can waive the 10 percent quota reduction limit if loan stocks exceed 150 percent of the reserve stock level.

1995 to Present

President Clinton proclaimed a tariff-rate quota (TRQ), effective September 13, 1995, for certain imported tobacco, primarily flue-cured and burley. The proclamation also eliminated duties on cigar wrapper, binder, and filler, and Oriental tobacco. The TRQ replaced the domestic content rule (OBRA) of 1993, which was determined to be inconsistent with the General Agreement on Tariffs and Trade (GATT). GATT implementing legislation contained provisions ending the domestic content provisions once the President proclaimed a TRQ on certain types of tobaccos. The TRQ is the result of negotiations which conform to existing GATT requirements. Negotiations with supplier countries established a tariff-rate quota for imported flue-cured and burley tobacco as a GATT/WTO-consistent alternative.

The TRQ places limitations on the quantities imported for consumption. Because of superseding agreements, Canada, Mexico, and Israel are not included under the quantitative restrictions. Imports above quota levels are subject to a 350-percent ad valorem duty. However, most of the duty may be refunded if the same tobacco imported is used to manufacture cigarettes that are exported. Imports under nine harmonized tariff subheadings during the period September 13 to September 12 of any year are limited to the following quantities:

<table>
<thead>
<tr>
<th>Current Quantity</th>
<th>Million pounds (declared weight)</th>
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</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>26.5</td>
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<tr>
<td>Brasil</td>
<td>176.8</td>
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<tr>
<td>Chile</td>
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<tr>
<td>Guatemala</td>
<td>19.6</td>
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<tr>
<td>EU-15</td>
<td>22.0</td>
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<tr>
<td>Malawi</td>
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<tr>
<td>Philippines</td>
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<tr>
<td>Thailand</td>
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<tr>
<td>Zimbabwe</td>
<td>26.5</td>
</tr>
<tr>
<td>Other</td>
<td>6.6</td>
</tr>
<tr>
<td>Total</td>
<td>332.6</td>
</tr>
</tbody>
</table>

Summary and Conclusions

Many changes have been made to the Federal tobacco price support production control program?especially during the last dozen years. Changes have been made to increase the U.S. competitive position in world markets and significantly lower potential taxpayer costs for operating the program. Even though taxpayer costs are relatively small, the association between use of tobacco products and various diseases has spawned the introduction in Congress of several bills to eliminate the price support program.

The implementation of the tariff-rate quota has brought the United States in line with the GATT/Uruguay Round accord. Imports have increased under the less restrictive TRQ and are expected to be continued at higher levels than were under the domestic content rule. However, U.S. growers may benefit from increased exports of leaf, and cigarette companies will not have the incentive to move production offshore that existed under the domestic content rule.