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HEARING TO REVIEW TOBACCO PRODUCTION IN THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT, AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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HEARING TO REVIEW TOBACCO PRODUCTION IN THE UNITED STATES

THURSDAY, MARCH 26, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RURAL DEVELOPMENT,
BIOTECHNOLOGY, SPECIALTY CROPS, AND FOREIGN AGRICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 1302 of the Longworth House Office Building, Hon. Mike McIntyre [Chairman of the Subcommittee] presiding.

Members present: Representatives McIntyre, Bright, Cuellar, Kissell, Minnick, Conaway, Roe, and Thompson.

Staff present: Aleta Botts, Claiborn Crain, Sharon Rusnak, Debbie Smith, Kristin Sosanie, Mike Dunlap, Tamara Hinton, and Pelham Straughn.

OPENING STATEMENT OF HON. MIKE McINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

The CHAIRMAN. Good morning, ladies and gentlemen, and welcome to today's hearing to review the state of tobacco production in the United States.

I want to thank all of you for taking the time to come here to help us as we examine this important topic. I want to especially thank our witnesses who will be testifying before us, and others who have traveled despite some weather conditions that weren't quite conducive for some. I would also especially like to recognize a long-time friend who came to support those in testimony today who also is Chairman of the 7th Congressional District Advisory Committee on Agriculture, Mr. Jimmy Pate. Jimmy, thank you for traveling up here to be with us today, and for your work on behalf of agriculture in southeastern North Carolina and across North Carolina.

My name is Mike McIntyre. I know many of the witnesses. We will be having others coming in. I am pleased to be joined by our new Ranking Member, Mr. Conaway, who will be speaking in just a moment. This is the first formal hearing of this Subcommittee. We did have an economic roundtable discussion the day after our swearing-in in early January to discuss some of the ramifications of a possible economic stimulus package, how it was critical to rural America. I was very pleased with the results of that in terms of the inclusion of rural needs in what became the American Recovery and Reinvestment Act.

Today's formal hearing will be an opportunity, now, for us to look at ways in which tobacco production is being affected in the United States. We know that each of us represent agricultural producers and rural communities for whom we care deeply. I hope that this Committee will be able to evaluate issues within our jurisdiction that are important to those producers and communities, and I look forward to working with Mr. Conaway and others on our Subcommittee in that effort.

Tobacco has been cultivated in North Carolina since colonial times, well before it became a state. But, it found its calling as an economic engine in the late 1800s. Since that time North Carolina has become the nation's largest tobacco-producing state, producing almost 50 percent of the total tonnage in the year 2007. The tobacco industry contributes over $36 billion to the U.S. economy each year, employing over 19,000 individuals nationwide. In my home State of North Carolina, over 8,600 people are employed by the industry with a statewide economic impact of nearly $24 billion, so right at about $23.9 billion, to be more exact.

Those numbers only tell part of the story, however. For thousands of North Carolina farm families, the annual tobacco crop has meant the difference in terms of the farm's cash flow, oftentimes being the support mechanism for all of the other crops that are grown, especially for smaller farmers, it is what keeps the family economically surviving. The annual tobacco crop has meant a difference in terms of the farm's cash flow, the family's livelihood, and the ability to keep a farm going through otherwise very difficult times. Raising tobacco is not easy work by any stretch of the imagination, but farmers in North Carolina have risen to that challenge year after year down through the centuries.

Of course, North Carolina is not the only state in which tobacco production is important. In 2007, 356,000 acres of tobacco were harvested across the United States, producing around 389,000 tons. This industry as we know it is going through a time of transition. During the 108th Congress, I worked with many of my colleagues in the tobacco-producing states, Republican and Democrat, to end the last Depression-era quota system and pass a bill that included over $10 billion in total compensation for tobacco farmers across the country. This bill, commonly known as the Buyout Bill, passed without any additional regulation from the Food and Drug Administration of tobacco products. An issue that had been discussed many times is whether the FDA should be allowed to come on the farm, and continually what we heard everywhere from farmers and agribusiness and the rural communities was, do not put FDA on the farm. The tobacco buyout was extremely successful. People had said, how will you ever get that done, and I was thrilled because it really was a win-win. It got the government out of the tobacco business, which many people were concerned about. It also made sure that the Federal control, the quotas and what that did in terms of a person's personal property were no longer controlled by the Federal Government. It bought out the Federal interest in the control over personal property and real property. So we were very pleased that the buyout has been quite a success, and now farmers and free enterprise can decide whether or not to contract. Some farmers got out of the tobacco business and have transitioned to

other agricultural commodities, or into retirement, or have gone into other types of business. For those who stayed in, it obviously has had a dramatic effect in tobacco production.

Now legislation to allow FDA to regulate tobacco products is again under consideration. I am deeply concerned about how this legislation will affect tobacco production in North Carolina, and nationwide, that is already under pressure from difficult economic times, the higher U.S. dollar pushing down exports and increased competition from overseas producers who do not have to meet our more stringent labor and environmental regulations.

Because of the importance of tobacco in North Carolina, I am pleased to welcome three distinguished individuals from our home state to our witness list today. I know that our State Commissioner of Agriculture, Steve Troxler, was to be here and got fogged in at the Raleigh-Durham Airport this morning. But, I am pleased to have the Executive Director of the North Carolina Association of Tobacco Growers, Graham Boyd, who will be speaking in his behalf, and Graham, I know your knowledge is quite extensive and we welcome you to come here. Dr. Blake Brown is a Professor in the Department of Agriculture and Resource Economics at N.C. State, very well known, very well respected in terms of understanding the economics of agriculture in general, but especially tobacco in particular. He is specialized in research on policy and farm management for tobacco, cotton and peanuts, all of which greatly concern us in agriculture, but in particular tobacco and peanuts being two of the specialty crops that this Committee has direct jurisdiction over. Mr. Tommy Bunn is President of the U.S. Tobacco Cooperative. The Cooperative is grower owned and grower governed and markets leaf tobacco and tobacco products in the domestic and international markets. Tommy has raised tobacco himself, worked for both the USDA Agricultural Marketing Service and the North Carolina Department of Agriculture on tobacco issues. So I want to particularly welcome you gentlemen. We also will have the opportunity to speak to our other witnesses as they testify. I just wanted to call attention, in particular, to our North Carolina friends today.

I want to remind witnesses also after Mr. Conaway speaks and we begin testimony that we have 5 minutes provided for your statement. If you can read your statement in 5 minutes, that is fine. If you can't, please now start marking where you want to highlight so that you can honor the 5 minute rule. Also in terms of questions, I will just remind the Subcommittee that we too are going to be subject to the 5 minute rule and would ask Members to honor that so that all have a chance to hear the testimony and to have others answer questions. But have no fear. Your entire statement no matter how long it is will be allowed to be entered into the record.

[The prepared statement of Mr. McIntyre follows:]

PREPARED STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Good morning, and welcome to today's hearing to review the state of tobacco production in the United States. I want to thank all of you for being here as we examine this important topic, and I want to especially thank our witnesses who will be testifying before us today.

This is the first hearing of the Subcommittee for the 111th Congress, and I would like to take this opportunity to welcome my new Ranking Member, Mr. Mike Conaway of Texas, and indicate to him and my colleagues my sincere desire to conduct the work of the Subcommittee in a strong, bipartisan manner. Each of us represents agricultural producers and rural communities for whom and for which we care deeply. I hope that we are able to use this Subcommittee to evaluate issues within our jurisdiction important to those producers and communities, and I look forward to working with Mr. Conaway and others on that effort.

Tobacco has been cultivated in North Carolina since well before it became a state, but it found its calling as an economic engine in the late 1800s. Since that time, North Carolina has become the nation's largest tobacco producing state, producing almost 50 percent of the total tonnage in 2007.

Those numbers only tell part of the story. For thousands of North Carolina farm families, the annual tobacco crop has meant the difference in terms of the farm's cash flow, the families' livelihoods, and the ability to keep a farm going during difficult times. Raising tobacco is not easy work by any stretch of the imagination, but farmers in North Carolina rise to the challenge year after year.

Of course, North Carolina is not the only state in which tobacco production is important. In 2007, 356,000 acres of tobacco were harvested across the United States, producing around 389,000 tons.

This industry is going through a time of transition. During the 108th Congress, I worked with many of my colleagues in tobacco producing states to end the last Depression-era quota system and pass a bill that included over $10 billion in total compensation for tobacco farmers across the country. The bill passed without any additional regulation from the Food and Drug Administration (FDA) of tobacco products, an issue that had been discussed many times in the past.

Now legislation to allow FDA to regulate tobacco products is again under consideration. I am deeply concerned about how this legislation will affect tobacco producers in North Carolina and nationwide, already under pressure from difficult economic times, the higher U.S. dollar pushing down exports, and increased competition from overseas producers who do not have to meet our more stringent labor and environmental regulations.

Because of the importance of tobacco to North Carolina, I am pleased to welcome three distinguished individuals from North Carolina to our witness list today.

North Carolina Agriculture Commissioner Steve Troxler was raised in the Guilford County community of Browns Summit, and has spent his entire career in agriculture as founder, owner and operator of Troxler Farms. His family was even named "Tobacco Farm Family of the Year" by the Tobacco Growers Association of North Carolina.

Dr. Blake Brown is a Professor in the Department of Agricultural and Resource Economics at North Carolina State University. He has specialized in research on policy and farm management for tobacco, cotton and peanuts.

Mr. Tommy Bunn is President of U.S. Tobacco Cooperative. The Cooperative is grower owned and grower governed and markets leaf tobacco and tobacco products in the domestic and international markets. Tommy has raised tobacco and worked for both the USDA Agricultural Marketing Service and the North Carolina Department of Agriculture on tobacco issues.

Conclusion

I would encourage witnesses to use the 5 minutes provided for their statements to highlight the most important points in their testimony. Do not read your testimony unless you can complete it within the allotted 5 minutes or can read the highlights within the 5 minutes. Pursuant to Committee rules, testimony by witnesses along with questions and answers by Members of the witnesses will be stopped at 5 minutes. Your complete written testimony will be submitted in its entirety in the record.

At this time, I would like to recognize the Ranking Member of the Subcommittee, Rep. Mike Conaway, for any opening comments that he may have.

The CHAIRMAN. At this time now I would like to recognize the Ranking Member of the Subcommittee, Representative Mike Conaway. I guess you would call it Mike and Mike here. And we welcome Mike to have you here as our new Ranking Member of this Subcommittee.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. Well, thank you, Mr. Chairman, and I don't think you can have too many Mikes in Congress, so I look forward to joining the Mike caucus. This is our first hearing so I look forward to 2 long years, or short years, however you want to do it, of working together on issues that are keen on rural development and other areas of jurisdiction.

This is my first exposure to tobacco issues. I represent a district that doesn't grow tobacco. I have a personal history with it that is not favorable to tobacco use. My father died of emphysema and my mother-in-law died of lung cancer, both heavy smokers. My father never once blamed anybody but himself for his use of tobacco that contributed to his demise. But by the same token, I am not vengeful. I don't have an ax to grind with tobacco growers. There will be regulations. Those regulations ought to make sense. They ought to accomplish the limited goal in the least intrusive way possible. I am not convinced that FDA is the right agency to provide whatever new regulations might be there. They have their plate full, I would argue, with drugs and food safety, and other areas that they have not done a particularly spectacular job on, so I am not convinced that that should be the agency that does this.

I want to spend more time this morning listening and trying to understand and learn what impacts these potential changes and the circumstances may have on rural North Carolina, rural Tennessee, rural Georgia and those parts of the country that do depend on tobacco as a cash crop. Your testimony will help me understand how best that whatever we intend or however we intend to regulate it that it gets done in a fair manner which the industry can cope with it in the least intrusive, least expensive manner possible. So thank you, gentlemen, and I look forward to visiting with you today about your issue.

The CHAIRMAN. Thank you so much, Mr. Conaway, and we welcome additional Members of the Subcommittee who have now arrived. The Chairman requests that other Members submit their opening statements for the record.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Thank you, Chairman McIntyre.

Today the Subcommittee will look at tobacco production in the United States. Given the challenges that tobacco farmers face—be it decreasing exports, increasing competition, or the current state of the economy, this is an important topic and I thank the Chairman for calling today's hearing.

Tobacco production makes up a significant part of the southern farm economy—especially in North Carolina and Kentucky, as is reflected by the makeup of the distinguished panel of witnesses here today.

Five years ago, Congress eliminated Federal farm price support for tobacco, and helped farmers transition into a free market system. Farmers are no longer restricted as to who can produce tobacco, where they can grow it, or how much can be marketed. But there is also no limit on how low the price can go.

During the buyout debate, regulation of tobacco products by the Food and Drug Administration (FDA) was a hot topic of discussion, and there have been many proposals since then. The most recent legislation being considered would impose additional FDA regulations on tobacco products and has the potential to negatively affect farmers, who are already facing tough economic times.

I appreciate the Subcommittee's work on this issue and look forward to hearing the witnesses' testimony.

The CHAIRMAN. As I stated a moment ago, the witnesses will have 5 minutes to share their testimony and then the chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, the Members who arrived will be recognized and I will ask the clerks to help me since you all virtually got here at almost the same time. But for Members who came after we started the hearing, you will be recognized in order of your arrival. So we appreciate the Members' understanding in that regard.

I mentioned earlier the witnesses from North Carolina. I would also like to welcome to this panel Dr. Will Snell, Professor, Department of Agricultural Economics from the University of Kentucky, another great basketball team like North Carolina. We enjoy the rivalry. And also Mr. Roger Quarles, producer and President of the Burley Tobacco Growers Cooperative Association from Georgetown, Kentucky. So welcome to you as well, gentlemen. We know the great tradition and history Kentucky has in tobacco production also.

Now we would like to go ahead and start our panel so that we can continue to move promptly today and honor everyone's time with other commitments as well. And *in lieu of* the State Agriculture Commissioner, Steve Troxler, as we stated earlier, who is delayed because of weather conditions, Mr. Graham Boyd will first testify. Mr. Boyd, you may proceed.

STATEMENT OF GRAHAM BOYD, EXECUTIVE DIRECTOR, NORTH CAROLINA ASSOCIATION OF TOBACCO GROWERS, RALEIGH, NC; ON BEHALF OF HON. STEVEN W. TROXLER, COMMISSIONER, NORTH CAROLINA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES, RALEIGH, NC

Mr. BOYD. Good morning. Members of the Committee, thank you for allowing me to fill in for our Commissioner of Agriculture, who regrettably could not be with you. I will deliver his testimony as it was presented for the record.

Our Commissioner grew up on a tobacco farm in Guilford County, North Carolina. For more than 30 years he was involved in the production of this crop. He understands very well the issues of challenge with weather, the steady decline of quotas, the Federal price support program, the buyout, *et cetera.* As North Carolina's Commissioner of Agriculture, he has seen the tobacco production bottom out following the end of the Federal price support program and then in recent years make a slight rebound. North Carolina produced nearly 385 million pounds of flue-cured tobacco on 171,000 acres last year. We are still the nation's leading producer of flue-cured tobacco despite the fact that we now have seen attrition bring us to less than 3,000 tobacco growers. That might seem like a lot, but in 2002 we had over 8,000 tobacco growers.

When it comes to tobacco, our Commissioner has seen a lot and understands the situation that is facing North Carolina's tobacco farmers firsthand. Tobacco farmers are under siege. That is the opinion that is felt. First, Congress this past year has raised the

excise tax on cigarettes by 62¢ per pack and now many states are lining up to do the same. In North Carolina, Governor Perdue has recommended in her budget raising the taxes on the product by $1 per pack.

The consequences for our farmers will be severe. The increase in the Federal excise tax hasn't yet taken effect but the impact is already being felt by North Carolina farmers. Cigarette companies have already begun to reduce their contracts for volume in 2009, some by as much as 50 percent. If the state excise tax goes up too, our growers will be hurt even more and this increase could also lead to many job losses in the manufacturing sector.

Tobacco manufacturing employs more than 10,000 North Carolinians and pays an average wage of over $86,000 per year, and that is more than twice the private industry average of $39,000 in our state. The last thing our state or any other needs right now are more lost jobs.

In addition to higher taxes, Congress is considering regulating tobacco, the purpose of your hearing today, which we appreciate the opportunity to testify before. Congressman Waxman's bill would put tobacco under FDA oversight. This is ill advised. FDA's focus right now should be, and needs to be, on food safety. Expanding FDA's mission would dilute its effectiveness in protecting our nation's food supply.

Congressman McIntyre and Indiana Congressman Buyer have introduced a bill that would create a new agency within the Department of Health and Human Services to oversee tobacco products. One of the things that Commissioner Troxler likes about this bill is that it would not subject farmers to additional regulations in the way tobacco will be grown, and that is good.

North Carolina growers increasingly rely on export markets. In fact, tobacco is our most valuable agricultural export, valued at more than $1 billion. Additional regulation would put our growers at a competitive disadvantage in international markets.

Agriculture is by far North Carolina's largest industry with a $70.8 billion economic impact. Tobacco manufacturing represents $24 billion in added value for North Carolina's economy. On average, a single tobacco plant is worth 71¢ in revenue for a U.S. farmer. That same plant will yield an average of $15.74 in state and Federal excise taxes on tobacco products. This money supports a variety of economic and health programs. A decrease in tobacco revenues will ultimately hurt states' ability to carry out programs that benefit many citizens.

In closing, Commissioner Troxler wanted to say that farmers must endure many hardships. They have to deal with weather and manage their input costs and fluctuating commodity prices. As he has said many times though, the single greatest factor in a farmer's ability to make a living isn't the weather but government policy. Commissioner Troxler urges you as a Committee to make wise policy decisions concerning the future of our nation's tobacco farmers. Your decisions will ripple throughout the states, communities both large and small. If you regulate and tax U.S. tobacco farmers out of business, America will become reliant on foreign tobacco that is not subject to the same high standards. The situation will be no

different from the many problems with imported food that our nation has experienced in recent years. Please choose wisely.

Thank you, and we would appreciate the opportunity to present some additional information for the record, Mr. Chairman.

[The prepared statement of Mr. Troxler follows:]

PREPARED STATEMENT HON. STEVEN W. TROXLER, COMMISSIONER, NORTH CAROLINA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES, RALEIGH, NC

Good morning, Mr. Chairman and Members of the Committee. Thank you for inviting me here today to talk about a topic I know very well.

I grew tobacco in Guilford County, North Carolina, for more than 30 years. I dealt with dry weather, wet weather, the steady decline of quotas, and the end of the Federal price-support system.

As North Carolina's Commissioner of Agriculture, I have seen tobacco production bottom out following the end of Federal price supports. And I have seen it rebound.

North Carolina produced nearly 385 million pounds of flue-cured tobacco on 171,000 acres last year. We are still the nation's leading producer of flue-cured tobacco, despite the fact that we now have less than 3,000 tobacco farmers. That might seem like a lot, but in 2002, we had 8,000 tobacco farmers.

When it comes to tobacco, I have seen a lot. But I have never seen the situation facing North Carolina's tobacco farmers today.

Tobacco farmers are under siege. First, Congress raised the excise tax on cigarettes by 62¢ a pack. Now many states are lining up to do the same. In North Carolina, Governor Perdue has recommended raising the tax on cigarettes by $1 per pack.

The consequences for our farmers will be severe. The increase in the Federal excise tax hasn't even taken effect yet, but it has already impacted North Carolina farmers. Cigarette companies have reduced 2009 contracts with our farmers by as much as 50 percent.

If the state excise tax goes up, too, our growers will be hurt even more. And, this increase could also lead to job losses in the manufacturing sector.

Tobacco manufacturing employs more than 10,000 North Carolinians and pays average wages of more than $86,000 a year. That's more than twice the state's private industry average of $39,000. The last thing North Carolina—or any state—needs right now is more lost jobs.

In addition to higher taxes, Congress is considering regulating tobacco. Congressman Waxman's bill would put tobacco under FDA oversight. This is ill-advised. FDA's focus right now should be, and needs to be, on food safety. Expanding FDA's mission would dilute its effectiveness in protecting our nation's food supply.

Chairman McIntyre and Indiana Congressman Buyer have introduced a bill that would create a new agency within the Department of Health and Human Services to oversee tobacco products. One of the things I like about this bill is that it would not subject farmers to additional regulations on the way they grow tobacco. That's good.

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Agriculture is by far North Carolina's largest industry, with a $70.8 billion economic impact. Tobacco manufacturing represents almost $24 billion in added value for North Carolina's economy.

On average, a single tobacco plant is worth 71¢ in revenue for a U.S. farmer. That same plant will yield an average of $15.74 in state and Federal taxes on tobacco products. This money supports a variety of economic and health programs. A decrease in tobacco revenues will ultimately hurt states' ability to carry out programs that benefit many citizens.

In closing, I want to say that farmers must endure many hardships. They have to deal with the weather and manage their input costs amid fluctuating commodity prices. As I've said many times though, the single greatest factor in a farmer's ability to make a living isn't the weather, but government policy.

I urge you to make wise policy decisions concerning the future of our nation's tobacco farmers. Your decisions will ripple throughout the states, in communities both large and small. If you regulate and tax U.S. tobacco farmers out of business, America will become reliant on foreign tobacco that is not subject to the same high standards. The situation will be no different from the many problems with imported foods that our nation has experienced in recent years.

Please choose wisely. Thank you.

The CHAIRMAN. Without objection, you certainly may, and thank you. You actually finished just under your time so we appreciate your promptness and your getting right to the heart of the matter.

We now welcome Dr. Blake Brown. You may proceed.

STATEMENT OF A. BLAKE BROWN, PH.D., AGRICULTURAL AND RESOURCE ECONOMICS AND HUGH C. KIGER PROFESSOR, NORTH CAROLINA STATE UNIVERSITY, RALEIGH, NC

Dr. BROWN. I would like to thank Chairman McIntyre and the Members of this Subcommittee for the opportunity to participate in this hearing. As noted, I am an agricultural economist specializing in tobacco policy, but I also lead a team at the new research campus in North Carolina which focuses on alternative agriculture for North Carolina farmers.

As noted, in North Carolina, tobacco remains the number one cash crop in terms of farm production. In 2008, North Carolina farmers had cash receipts from tobacco of $686 million. Since the end of the Federal tobacco program, tobacco farmers have made many transitions. Some have retired or exited farming for other occupations. Some have successfully transitioned to other farm enterprises. Most farmers are already diversified. Some farms have increased their production of tobacco with the result being that North Carolina produces more flue-cured tobacco now than was produced in 2004.

While North Carolina produces almost 50 percent of U.S. tobacco, tobacco is an economically important crop in other states. In South Carolina in 2007, the value of tobacco production was $69 million. In Virginia, the value was also $69 million and in Georgia it was $59 million.

Tobacco farmers have faced numerous challenges since the end of the tobacco program. They had to decide whether or not they could profitably produce tobacco in the deregulated environment of lower prices and greater uncertainty. Farms often had to be restructured with major decisions being made about the purchase of specialized equipment. Input prices increased over 30 percent due mainly to increases in curing fuel and fertilizer prices. Fortunately, tobacco prices recovered some, which helped cover some of the increased production costs.

Increases in Federal and state excise taxes on cigarettes have impacted demand for tobacco. The recent 61¢-per-pack increase in excise tax associated with SCHIP is expected to cause U.S. cigarette consumption to decline approximately six percent, which will lead to a two to three percent reduction in demand at the farm level. Current proposals by a number of states to increase state excise taxes will further decrease demand. As noted, tobacco companies already seem to be factoring in these impacts by lowering amounts of tobacco contracted for with farmers.

Lower U.S. tobacco prices since the end of the program have improved our competitiveness with foreign production. Since 2005, Brazil, the largest exporter of flue-cured tobacco, has lowered flue-cured production by almost the same amount that U.S. flue-cured has increased. While world demand for tobacco is stagnant, lower U.S. demand means that U.S. tobacco farmers are increasingly de-

pendent on their ability to compete with foreign tobacco producers. In 2007, exports of flue-cured tobacco accounted for over 47 percent of total use of U.S. flue-cured. U.S. tobacco producers' ability to increase global market share depends on price and quality. The global market effects of incorporating harm-reduction attributes into U.S. tobacco are unknown at this point.

FDA regulation of tobacco products and the accompanying emphasis on harm reduction will significantly impact burley and flue-cured tobacco producers. Demand for burley and flue-cured tobacco will decline primarily due to three factors. First, U.S. cigarette consumption is expected to decline due to increased regulation and increased cigarette prices due to the cost of regulation. Second, harm-reduction technologies will likely reduce the amount of tobacco in each cigarette, therefore reducing demand. Third, the emphasis on harm reduction is shifting demand towards smokeless tobacco products, which use little burley or flue-cured tobacco. Alternatively, if higher standards are set for tobacco used in U.S. cigarettes, imported tobacco could become less competitive with U.S. tobacco, partially offsetting some of the adverse effects of regulation.

Finally, given the increased interest in tobacco and its regulation, one area of need is data. USDA's Economic Research Service no longer provides analysis of the tobacco sector. The Foreign Agricultural Service only provides raw export and import data so that international tobacco production will soon be extremely difficult to track. Adequate data for tracking and analysis would seem to be an issue from which all sides involved would benefit.

In summary, the primary determinants of the fate of U.S. tobacco farmers may well be FDA regulation of tobacco products and the ability of U.S. tobacco growers to compete against foreign tobacco producers.

Again, thank you very much for allowing me to participate in today's hearing.

[The prepared statement of Dr. Brown follows:]

PREPARED STATEMENT OF A. BLAKE BROWN, PH.D., AGRICULTURAL AND RESOURCE ECONOMICS AND HUGH C. KIGER PROFESSOR, NORTH CAROLINA STATE UNIVERSITY, RALEIGH, NC

I would like to thank Chairman McIntyre and the Members of this Subcommittee for the opportunity to participate in this hearing. My name is Blake Brown. I am an agricultural economist at North Carolina State University where I provide economic analysis and educational programming for tobacco and peanut producers. I also lead a Cooperative Extension team based at the new NC Research Campus in Kannapolis. This team focuses on educational programs in value-added and alternative agriculture and fresh produce safety.

In North Carolina tobacco remains the number one crop in terms of the value of farm production. In 2008 North Carolina farmers had cash receipts from tobacco of $686 million. This was surpassed only by hogs, poultry and the aggregated receipts from all greenhouse and nursery crops. Tobacco accounted for about seven percent of the value of all North Carolina farm production. Since the end of the Federal tobacco program tobacco farmers have made many transitions. Some have retired or exited farming for other occupations. Some have successfully transitioned to other farm enterprises. Most farms were already diversified. Some farms have increased their production of tobacco with the result being that North Carolina produces more flue-cured tobacco now than was produced in 2004 at the end of the program.

While North Carolina produces almost 50 percent of U.S. tobacco, tobacco is an economically important crop in other states. In South Carolina in 2007 the value of tobacco production was over $69 million. In Virginia the value was also $69 million and in Georgia the value was $59 million.

Tobacco farmers have faced numerous challenges since the end of the tobacco program. They had to decide whether or not they could profitably produce tobacco in the deregulated environment of lower prices and greater uncertainty. Farms often had to be restructured with major decisions being made about the purchase of specialized equipment. Input prices increased over 30 percent due mainly to increases in curing fuel and fertilizer prices. Fortunately, tobacco prices recovered some which helped cover the increased production costs.

Increases in Federal and state excise taxes on cigarettes have impacted demand for tobacco. The recent $0.61 per pack increase in the Federal excise tax associated with SCHIP is expected to cause U.S. cigarette consumption to decline approximately six percent which will cause a 2–3 percent reduction in demand at the farm level. Current proposals by a number of states to increase state excise taxes will further decrease demand. Tobacco companies already seem to be factoring these impacts into cigarette prices and lowering amounts of tobacco contracted for from farmers.

Lower U.S. tobacco prices since the end of the program have improved competiveness with foreign production. Brazil, the largest exporter of flue-cured tobacco, has lowered flue-cured production from over 1.5 billion pounds in 2005 to about 1.4 billion pounds in 2008. This reduction of 130 million pounds in Brazilian production corresponds to the increase of about 120 million pounds in flue-cured production in the U.S. While world demand for tobacco is stagnate, lower U.S. demand means that U.S. tobacco farmers are increasingly dependent on their ability to compete with foreign tobacco producers. In 2007 exports of flue-cured tobacco accounted for over 47 percent of total use of U.S. flue-cured. In a global tobacco market that is not increasing in size, the ability of U.S. tobacco producers to increase global market share depends on price and quality. Price will be impacted by the cost of production, including regulation, in the U.S. and external factors such as exchange rates. The effects on quality, as defined by the global market, of incorporating harm reduction attributes into U.S. tobacco are unknown.

FDA regulation of tobacco products and the accompanying emphasis on harm reduction will significantly impact burley and flue-cured tobacco producers. Demand for burley and flue-cured tobacco will decline primarily due to three factors. First, U.S. cigarette consumption is expected to decline due to increased regulation and increased cigarette prices due to the cost of regulation. Second, harm reduction technologies will likely reduce the amount of tobacco in each cigarette. Third, the emphasis on harm reduction is shifting demand toward smokeless tobacco products which use little burley or flue-cured tobacco. If higher standards are set for tobacco used in U.S. cigarettes, imported tobacco could become less competitive with U.S. tobacco partially offsetting some of the adverse effects of regulation.

Finally, given the increased interest in tobacco and its regulation, one area that is lacking to track and analyze this industry is data. USDA's Economic Research Service no longer provides data or analysis of tobacco. The Foreign Agricultural Service only provides raw export and import data so that international tobacco production will soon be extremely difficult to track. USDA's Agricultural Marketing Service no longer reports tobacco prices. Adequate data for tracking and analysis would seem to be an issue from which all sides involved would benefit. Again, thank you for allowing me to participate in this hearing.

The CHAIRMAN. Thank you, Dr. Brown.

Dr. Snell.

STATEMENT OF WILLIAM M. SNELL, PH.D., EXTENSION PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF KENTUCKY, LEXINGTON, KY

Dr. SNELL. Chairman McIntyre, Members of the Subcommittee, thank you for the opportunity to participate in this hearing. My name is Will Snell. I am an agricultural economist at the University of Kentucky. I work with farm organizations and growers on economic and policy issues related to both burley and dark tobaccos.

The last time I had the privilege to testify before this Committee was just prior to the passage of the tobacco buyout, which I eventually labeled as the most significant policy event affecting Kentucky agriculture since the adoption of the Federal tobacco program back

in the 1930s. The majority of our farmers supported the buyout and would say today it was our best alternative, but we knew ultimately it would come at a cost.

As expected, the early post-buyout era resulted in a major change in the number and location of tobacco farmers. Census data reveals that we are down to around 8,000 farms still growing tobacco in Kentucky, which is a 72 percent reduction since the pre-buyout days. But, it still represents about one out of every 11 Kentucky farms and about half of all the farms growing tobacco in the United States. While it was apparent that the buyout would create challenges, I was confident it would also create opportunities for some of our growers. It certainly did occur during the early part of the post-buyout era as more competitive prices, declining value of the U.S. dollar and tight world supplies led to calls for U.S. burley growers to expand production. For the first 4 years after the buyout, U.S. burley use exceeded production and dark tobacco production nearly doubled in response to the growing demand for smokeless tobacco products.

But the tobacco economy has changed dramatically in recent months. U.S. burley exports are being reduced by a higher value dollar, global recession and increasing foreign supplies. Domestically, a multitude of factors including tax increases, smoking restrictions, imports, shift to smokeless tobacco products, movement of cigarette production overseas, and possibly anticipated FDA regulations is reducing the domestic needs for U.S. burley. Consequently, we have quickly moved from a period of excess demand for U.S. burley to more balanced supply and demand or possibly an oversupply situation for burley. Alternatively, the downturn in dark tobacco contract volume expected in 2009 is more of an overproduction problem from last year than a demand issue.

In response to these changing market conditions, U.S. tobacco purchasers have been reassessing their buying strategies for 2009, and it is going to result in many growers experiencing cuts in contract volume this year or total elimination of the contracts in 2009.

What I am very concerned about are those farmers who, for a wide variety of reasons, are contemplating either expanding their production beyond their contract volume for this year; or in a growing number of cases many farmers are beginning to think about getting back in the tobacco production business at a time period when they don't have a sound marketing plan. While most farmers without a marketing plan have been able to find a profitable home for their tobacco during the excess demand period, I am not very confident this marketing strategy will work in 2009.

Unlike other crops that have safety net measures, tobacco farmers have no way, currently, to manage price risk other than through contractual agreements. At this time there is limited communication within the industry. There is no price reporting, no Federal grading and minimal public data analysis for not only tobacco growers, but also for manufacturers and the health community. Personally, I find it very disturbing that USDA collects data and provides analysis on hundreds of commodities but the data and analysis for tobacco, which is our 9th highest value crop in the United States, has been virtually abandoned by USDA. As my colleague, Blake Brown, pointed out, the Economic Research Service

decided not to replace their tobacco analysts. FAS no longer tracks tobacco trade and foreign production, and AMS eliminated their collection and reporting of tobacco prices.

So at a time when tobacco farmers will be making some of their most important, critical, and most expensive investment decisions about their future, the data needed to perform these informed decisions is extremely limited and being controlled primarily by the buying sector. And if any type of regulation does come about, Federal agencies along with possibly health groups and tobacco buyers will need access to data analysis related to tobacco production.

In conclusion, we all know that tobacco growers face a lot of challenges in a very uncertain future but I still remain optimistic that low-cost, quality tobacco producers can survive given emerging opportunities.

I applaud Chairman McIntyre for setting up this hearing. Some claim that after the buyout the government got out of the tobacco-growing business, but this is so far from the truth. You all continue to debate issues such as tobacco taxes, labor policy, trade agreements, export promotion, policies that impact interest rates and exchange rates, crop insurance, tobacco regulation, and tobacco data collection, all issues that will have an important impact on the future of our nation's tobacco farmers.

Thank you, Chairman.

[The prepared statement of Dr. Snell follows:]

PREPARED STATEMENT OF WILLIAM M. SNELL, PH.D., EXTENSION PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF KENTUCKY, LEXINGTON, KY

Chairman McIntyre and Members of the Committee, thank you for this opportunity to participate in this hearing. My name is Will Snell. I'm an agricultural economist from the University of Kentucky where I work with farm organizations and growers in Kentucky and surrounding states on economic and policy issues related to burley and dark tobaccos.

The last time that I had the privilege to testify before this Committee was just prior to the buyout which I labeled as the most significant policy event affecting Kentucky agriculture since the passage of the New Deal farm programs back in the 1930s. Historically, tobacco has been the backbone of our state's agricultural economy. In 1997 the value of tobacco production in Kentucky established a record high of $947 million, accounting for 25 percent of our total agricultural sales. Following the buyout, the value of Kentucky's tobacco crop fell to around $300 million, but have since rebounded to nearly $400 million in 2008. However, tobacco now accounts for less than ten percent of our cash receipts amidst lower tobacco production and prices levels (compared to the pre-buyout period) and successful diversification efforts. The majority of our farmers supported the buyout, and would say today that it was our best alternative at the time, but we knew ultimately it would come at a cost for some of those who attempted to stay in the industry.

As expected, the early post buyout era resulted in a major change in the number and location of tobacco farms. The Census data reveals that we are down to around 8,000 farms left growing tobacco in Kentucky—a 72 percent reduction since the pre-buyout days, but this still represents one out of every eleven Kentucky farms and accounts for ½ of all farms growing tobacco in the United States. Some exited due to age, others do to better alternatives, but others just simply could not survive in this new economic environment.

While we knew the buyout would create challenges, I was confident it would also create opportunities for some of our better growers—and this certainly did occur during the early post-buyout era as more competitive grower prices, a declining U.S., dollar, and tight world supplies of quality burley lead to calls for the remaining burley farmers to expand production. For the first 4 years after the buyout U.S. burley use (approximately 300 million pounds) exceeded the amount supplied by U.S. burley growers (approximately 200 million pounds) as production was constrained due to labor challenges, a lack of infrastructure, weather-related problems,

and continued long-term uncertainty of producing a crop that had a very unpredictable future. Alternatively our dark tobacco production has nearly doubled in response to growing demand for smokeless tobacco products.

While favorable conditions occurred during the early post-buyout era, the tobacco economy has changed dramatically in recent months. Global needs for U.S. burley tobacco are being adversely impacted by an increasing value of the U.S. dollar, a global economic downturn, and increasing foreign supplies of lower quality tobacco. Domestically, tax increases, smoking restrictions, health issues, shifts to smokeless tobacco products, increasing availability of imports, movement of cigarette production overseas, and possibly anticipated FDA regulation are reducing domestic needs for U.S. burley.

Consequently, my analysis indicates that we have quickly moved from a period of excess demand for U.S. burley to a more balanced supply/demand scenario or possibly an oversupply situation given these deteriorating demand conditions for burley. Alternatively, the downturn in dark tobacco contract volume expected in 2009 is more of an oversupply issue than a demand issue following a massive excessive expansion in 2008. So the decline in dark acres this year will enable the industry to get back in a more favorable supply to use scenario to take advantage of anticipated growing product demand.

In response to these changing market conditions, U.S. tobacco buyers have been reassessing their buying strategies during the past few weeks. Some of the better growers may actually see production opportunities expand, but most will see their levels reduced, while others may not be given an opportunity to renew their contracts in 2009.

What I am very concerned about are for those farmers who based upon a wide variety of factors such as losing their off-farm job, observing depressed prices for other commodities, or have already spent all their buyout dollars are contemplating expanding their tobacco production beyond their contract volume or many others who exited after the buyout are thinking about getting back into the tobacco production business tobacco acres without a sound marketing plan. While some farmers without a marketing plan have been able to find a home (i.e., auctions or cooperatives) for their tobacco during the recent excess demand situation, I am not confident that these other marketing outlets can absorb a significant boost in production in 2009 without some major price adjustments, especially on lower quality tobacco.

Unlike other crops that might have access to safety net measures of the farm bill or futures markets, tobacco farmers have no way to manage price risk other than through contractual agreements, primarily with powerful multinational tobacco companies. At this time there is limited communication within the industry, no market news to report prices received, no Federal grading, and minimal public data and analysis for not only growers, but also for manufacturers, and the health community.

I find it disturbing that USDA collects data and provides analysis on hundreds of commodities ranging from lentils to chickpeas, but the data and analysis for tobacco—the ninth highest valued field crop in the U.S. has almost been totally eliminated by USDA. The Economic Research Service (ERS) of USDA decided not to replace their tobacco analyst. USDA's Foreign Agricultural Service (FAS) no longer tracks tobacco trade and foreign production and USDA's Agricultural Marketing Service (AMS) eliminated recording tobacco prices and providing market news.

Unfortunately in a time when tobacco farmers will be making some of their most critical and expensive investments decisions about their future, data needed to make informed decisions are extremely limited and being controlled primarily by multinational tobacco company and dealers. And if any type of regulation comes about, Federal agencies, along with possibly health groups and tobacco buyers will need access to data and analysis on tobacco production.

So in conclusion, U.S. tobacco growers undoubtedly face a lot of challenges and a very uncertain future. But I do think low cost quality burley and dark tobacco producers can not only survive, but do well in an economic environment that will provide them with opportunities. I applaud Chairman McIntyre for setting up this hearing. Some claim that after the buyout, the government got out the tobacco farming business. But that is so far from the truth. You all continue to have influence over tobacco taxes, labor policy, trade agreements, export promotion, tobacco regulations, and USDA's role in collecting and analyzing data—all issues that have an important impact on the future of our nation's tobacco farmers.

The CHAIRMAN. Thank you, Dr. Snell.

Mr. Bunn.

STATEMENT OF JESSIE THOMAS BUNN, PRESIDENT, U.S. TOBACCO COOPERATIVE INC., RALEIGH, NC

Mr. BUNN. Chairman McIntyre, I thank you for the opportunity to address this U.S. House Subcommittee. I am Jessie Thomas Bunn, President of U.S. Tobacco Cooperative Incorporated.

Mr. Chairman, I commend you and other cosponsors of H.R. 1261, the Youth Prevention and Tobacco Harm Reduction Act. This bill will authorize Health and Human Services to realistically address tobacco harm reduction with scientific-based programs instead of bureaucratic mandates.

U.S. Tobacco Cooperative has production contracts with approximately 1,000 member growers for the 2009 flue-cured crop. Our members are located in five states: Florida, Georgia, South Carolina, North Carolina, and Virginia. The Cooperative provides numerous services to the growers including supplying materials for marketing preparation, operating marketing centers for purchasing tobacco in all member areas, warehousing new crop tobacco for processing, processing tobacco for customers, long-term inventory storage of processed tobacco, and selling tobacco to international customers and domestic customers. In 2004, the Cooperative purchased a small processing facility and a small manufacturing facility in Timberlake, North Carolina. The manufacturing facility currently produces cigarettes, small cigars and roll-your-own product. As you can tell from this digest of services that U.S. Tobacco Cooperative extends to our member growers, we are an integral part of approximately 1,000 grower operations. The size of our members' contracts range from 5,000 pounds, approximately 2½ acres, to 500,000 pounds, which would be 250 acres.

Many of our members are father-and-son operations. We are working to expand our customer base, both foreign and domestic, which would allow us to offer contracts to more growers. Some growers were lured away from tobacco production in 2008 by unusual record-high prices of other commodities. These same growers were back requesting tobacco contracts in 2009 because profit margins are so thin on other commodities for 2009. Most tobacco growers do not have access to enough cropland to create economies of scale for the production of food, feed and fiber crops. Many tobacco growers farm less than 100 acres. Tobacco growers want to, and are dependent on, continuing to grow tobacco. Growers have little or no alternative use for tobacco production equipment and facilities.

This year the growers' concerns are directed to pending FDA legislation that could saddle the industry with financial and operating constraints that would be impossible to meet. This Cooperative supports H.R. 1261 because of the bill's rational approach of tobacco harm reduction. Growers realize and understand that tobacco production will be regulated by the government in the future and that tobacco harm reduction will be pursued. On the other hand, growers realize that H.R. 1256 will provide the authorization for FDA to dictate regulations for all aspects of the tobacco industry from seed to sale. H.R. 1256 will dictate standards and specifications on the manufacturer that cannot be met by the U.S. growers that supply leaf tobacco for manufacturing. The growers are aware that the scope of H.R. 1256 is broad and will allow onerous regula-

tions that can be impossible for U.S. growers to meet. Tobacco production already requires high investments. Extensive production standards and record-keeping would only harm U.S. tobacco growers' competitive position in the world market.

H.R. 1256 can require manipulation of nicotine in products to the extent that growers will have to use Genetically Modified Organism varieties to meet standards. Commercial production of GMO varieties in the United States will kill much of our export market. Many of our tobacco customers will not use GMO tobacco or buy tobacco from areas where GMO tobacco is grown, period.

If H.R. 1256 becomes law, growers expect continuing escalation of add-on regulations from FDA, especially since the FDA will be funded by user fees. Since current FDA programs are under-funded, tobacco user fees will provide a windfall of resources to expand the bureaucracy of FDA. The mandate of H.R. 1256 can damage our growers' ability to service the export market by imposing standards on production that differ from the needs of export customers. U.S. grower production that is destined for an export market should accommodate the needs of export customers instead of FDA.

Another element of H.R. 1256 that could cause serious damage to this Cooperative is the classification of manufacturing. Large or small manufacturer definitions will classify our small cooperative facility as a large manufacturer because the definition will include all employees of the Cooperative as manufacturing employees regardless of their duties. This concept is irrational. Several manufacturers that have much larger production volumes than the Cooperative's Timberlake factory will be considered a small manufacturer. The FDA manufacturing compliance schedule could close our factory doors, which will be to the competitive benefit of other competing small manufacturers. This Cooperative is an integral grower service organization and should not be punished for doing more than just manufacturing. The manufacturing segment should be classified as a separate function from grower services.

U.S. Tobacco Cooperative takes the position that H.R. 1261 will provide a more productive way of addressing tobacco harm without jeopardizing the livelihoods of growers. In contrast, as already stated in this testimony, H.R. 1256 offers unpredictable authority to control the tobacco industry from seed to sale while creating unreasonable costs with the approximate 1,000 grower families that depend on U.S. Tobacco Cooperative to keep them in business.

There are many stipulations in H.R. 1256 that cannot be selectively implemented. We will not understand all aspects until the regulations are published. This is another of many reasons why our grower Cooperative opposes H.R. 1256.

Mr. Chairman, thank you for the opportunity to provide testimony to this Subcommittee and for the other Members that helped sponsor H.R. 1261, and those that will vote in favor of 1261. Thank you very much.

[The prepared statement of Mr. Bunn follows:]

PREPARED STATEMENT OF JESSIE THOMAS BUNN, PRESIDENT, U.S. TOBACCO COOPERATIVE INC., RALEIGH, NC

Chairman McIntyre—Thank you for the opportunity to address the U.S. House Agriculture Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture.

I am Jessie Thomas Bunn, President of U.S. Tobacco Cooperative Inc. This Cooperative's former name for 62 years was Flue-Cured Tobacco Cooperative Stabilization Corporation. The name change was made to reflect the Cooperative's new mission since the 2004 Tobacco Quota Buyout.

Mr. Chairman, I commend you and other cosponsors of H.R. 1261—The Youth Prevention and Tobacco Harm Reduction Act. This bill will authorize Health and Human Services to realistically address tobacco harm reduction with scientific based programs instead of bureaucratic mandates.

U.S. Tobacco Cooperative is a grower owned and grower governed Cooperative. The Board is composed of ten seats elected by growers and one seat appointed by the Governor of NC.

U.S. Tobacco Cooperative has production contracts with approximately 1,000 member growers for the 2009 flue-cured crop. Our members are located in five states; Florida, Georgia, South Carolina, North Carolina and Virginia. The Cooperative provides numerous services to the growers including supplying materials for market preparation, operating marketing centers for purchasing tobacco in all member areas; warehousing new crop tobacco for processing; processing tobacco for customers; long term inventory storage of processed tobacco and selling tobacco to international customers and domestic customers. In 2004 the Cooperative purchased a small processing facility and a small manufacturing facility in Timberlake, NC. The manufacturing facility currently produces cigarettes, small cigars and roll-your-own products.

As you can tell from this digest of services that U.S. Tobacco Cooperative extends to our member growers we are an integral part of approximately 1,000 grower operations. The size of our members' contracts range from 5,000 pound (approx. 2.5 acres) to 500,000 pound (approx. 250 acres). Many of our members are father and son operations. We are working to expand our customer base, both foreign and domestic which could allow us to offer contracts to more growers.

The Cooperative members have made the transition from producing under a quota system to producing for a market responsive industry. Most all of today's production is contract based. Some growers were lured away from tobacco production in 2008 by unusual record high prices of other commodities. These same growers were back requesting tobacco contracts for 2009 because profit margins are so thin on other commodities for 2009. Most tobacco growers do not have access to enough crop land to create economics of scale for the production of food, feed and fiber crops. Many tobacco growers farm less than 100 acres. Tobacco is still the only legal crop that can sustain farm income for thousands of growers in the tobacco producing area. Tobacco growers want to and are dependant on continuing to grow tobacco. Growers have little or no alternative use for tobacco production equipment and facilities.

During the spring tobacco growers are usually concerned with the challenges of weather, disease and labor issues for the coming season. This year, the growers' concerns are directed to pending FDA legislation that could saddle the industry with financial and operating constraints that would be impossible to meet.

This Cooperative supports H.R. 1261 because of the bill's rational pursuit of tobacco harm reduction. Growers realize and understand that tobacco products will be regulated by the U.S. Government in the future and that tobacco harm reduction will be pursued. On the other hand, growers realize that H.R. 1256 will provide the authorization for FDA to dictate regulations for all aspects of the tobacco industry from seed to sale. H.R. 1256 can dictate standards and specifications on the manufacturer that can not be met by the U.S. growers that supply leaf tobacco for manufacturing. The growers are aware that the scope of H.R. 1256 is broad and will allow onerous regulations that can be impossible for U.S. growers to meet. Tobacco production already requires high investments. Extensive production standards and record keeping will harm the U.S. grower's competitive position in the market place.

H.R. 1256 can require manipulation of nicotine in products to the extent that growers will have to use Genetically Modified Organism (GMO) varieties to meet standards. Commercial production of GMO varieties in the U.S. will kill much of our export market. Many of our tobacco customers will not use GMO tobacco or buy tobacco from areas where GMO tobacco is grown—period.

H.R. 1256 can burden growers with unnecessary pesticide standards and record keeping that will again raise the cost of U.S. production beyond the competitive value of U.S. grower's tobacco. The intent may not be in H.R. 1256 to regulate grow-

ers but this bill will regulate the crop that U.S. growers supply. We all know that the standards will be mandated by the manufacturers on the tobacco purchased from U.S. growers. If H.R. 1256 becomes law, growers expect a continuing escalation of add on regulations from FDA especially since the FDA will be funded by user fee. Since current FDA programs are under funded, tobacco user fee will provide a windfall of resources to expand the bureaucracy of FDA.

The mandate of H.R. 1256 can damage our grower's ability to service the export market by imposing standards on production that differ from the needs of export customers. U.S. growers production that is destined for an export customer should accommodate the needs of the export customer instead of FDA.

Another element of H.R. 1256 that could cause serious damage to this Cooperative is the classification of manufacturing. The large and small manufacturer category definitions will classify our small cooperative facility as a large manufacturer because the definition will include all employees of the Cooperative as manufacturing employees regardless of their duties. This concept is irrational.

Several manufacturers that have much larger production volume than the Cooperative's Timberlake factory will be considered small manufactures. The FDA large manufacturer compliance schedule could close our factory doors which will be to the competitive benefit of other competing small manufacturers. This Cooperative is an integrated grower service organization and should not be punished for doing more than just manufacturing. The manufacturing segment should be classified as a separate function from grower services.

U.S. Tobacco Cooperative takes the position that H.R. 1261 will provide a more productive way of addressing tobacco harm without jeopardizing the livelihood of growers. In contrast, as already stated in this testimony, H.R. 1256 offers unpredictable authority to control the tobacco industry from seed to sale while creating unreasonable cost for the approximate 1,000 grower families that depend on U.S. Tobacco Cooperative to keep them in business.

There are many stipulations in H.R. 1256 that can be selectively implemented. We will not understand all of the impacts until the regulations are published. This is another of many reasons why our grower Cooperative opposes H.R. 1256.

Mr. Chairman, thank you for the opportunity to provide testimony to this Subcommittee.

The CHAIRMAN. Thank you, Mr. Bunn.

Mr. Quarles.

STATEMENT OF ROGER QUARLES, PRESIDENT, BURLEY TOBACCO GROWERS COOPERATIVE ASSOCIATION; PRESIDENT, INTERNATIONAL TOBACCO GROWERS ASSOCIATION, GEORGETOWN, KY

Mr. QUARLES. Good morning. I am Roger Quarles, a lifelong tobacco grower in Scott County, Kentucky. I am the President of the Burley Tobacco Growers Cooperative Association as well as President of the International Tobacco Growers Association. The burley co-op represents all growers in five states while ITGA has 22 member countries representing 85 percent of the world's tobacco production.

I want to thank this Committee for the opportunity for burley growers to address today's issues, and allow comments on our evolving industry as changes occur resulting from Federal and state cigarette tax increases along with the looming Federal regulations towards our manufacturer buyers.

Our burley sales opportunities have shrunk from 300 million pounds in 2004 to approximately 200 million pounds in 2008. There appears an additional ten to 15 percent reduction in sales opportunities for 2009 based on notifications to the growers recently. Our number of growers has adjusted since 2004 to the most efficient producers, or those that had very few income alternatives either on or off the farm. Burley tobacco remains the cash crop of choice for the majority of Kentucky farms.

There are indications that 10 to 25 million pounds of burley may be produced off contract in 2009. It is certainly unclear whether all these pounds can be sold at a profit to our growers either through the auction, dealers, pin hookers or our co-op associations.

Domestic use of our burley continues to shrink from cheaper imported leaf, successful smoking cessation programs, and, particularly, increased taxes on the state and Federal level. You will recall Congress will allow a 200 percent increase in the Federal excise tax April 1.

I am pleased to report our burley co-op is now transforming very quickly from its former role as USDA agent to a marketing cooperative. We purchased approximately four percent of the 2008 crop. We have concentrated on selling this leaf, particularly in the Asian region and particularly in China. Other countries in Southeast Asia have numerous independent manufacturers that need an American blend product to compete with the dominant international manufacturers. We are also approaching manufacturers in Europe. Their burley production is quickly eroding and will probably cease to exist due to reductions in E.U. subsides for tobacco farmers.

The viability of American manufacturers that use U.S. burley is vitally important to our farmers. Our co-op and other leaf dealers cannot replace their purchases at this time, and it is unlikely to do so entirely. It is clear burley farmers' future will rely on export opportunities to global manufacturers. We, as growers, are concerned with any imposed manufacturer regulations that may affect our crop yields or consumer acceptance of manufactured products containing burley.

We are particularly concerned about any regulations that may affect our export leaf markets. It would be unwieldy to produce leaf crops that would be dictated to measures that are different between foreign manufacturers as opposed to domestic manufacturers. We must immediately recognize that often U.S. regulations are also exported to our global buyers through treaties and international groups such as the World Health Organization or the World Bank. The Framework Convention of Tobacco Control has already been ratified by 160 countries. Thankfully, the United States has not ratified this Draconian treaty as it appears to violate First Amendment rights. Tobacco growers throughout the world would be affected by any regulations imposed on our growers and products consumed in America. It is imperative that all imported leaf and consumer products be treated equally to domestic products.

Our support has always been conditioned on the acceptance of pure science to determine changes in consumer products, and, especially, the allowed introduction of proven safer products that differ from existing brands.

The Waxman bill has a number of areas that we think can be improved with constructive improvements. These include, but are not limited to, ensuring that tobacco producers as well as manufacturers are encouraged and given incentives for developing leaf and products that are lower in risk, ensuring that products that are scientifically established to be lower in risk are made available to consumers of tobacco and nicotine products are labeled, marked and regulated based on the relative risk.

We fully expect grower involvement and a seat at any board that has authority to impose regulations changing any aspect of our markets, including the entire spectrum of leaf production through the end consumer. These Federal regulations were never anticipated to be the pathway to elimination of tobacco consumption, but rather a legitimate effort to mitigate its known harmful effects. Further hearings or perhaps a summit should be held allowing all stakeholders to be heard. This would fill President Obama's promise to America of an open and transparent process in government. Burley Co-op would certainly be willing to participate in such a plan.

Thank you for your time.

[The prepared statement of Mr. Quarles follows:]

PREPARED STATEMENT OF ROGER QUARLES, PRESIDENT, BURLEY TOBACCO GROWERS COOPERATIVE ASSOCIATION; PRESIDENT, INTERNATIONAL TOBACCO GROWERS ASSOCIATION, GEORGETOWN, KY

Good morning.

I am Roger Quarles a lifelong tobacco grower in Scott Co. Kentucky. I am the President of the Burley Tobacco Growers Cooperative Association as well as President of the International Tobacco Growers Assn. The Burley Co-op represents all growers in 5states with the majority in Kentucky. ITGA has 22 member countries representing 85% of the world tobacco production.

I want to thank this Committee for the opportunity for Burley Growers to address today's issues and allow comments on our evolving industry as changes occur resulting from Federal and state cigarette tax increases along with looming Federal Regulations towards our manufacturer buyers.

Our Burley sales opportunities have shrunk from 300 million pounds in 2004 to approximately 200 million pounds in 2008. There appears additional 10–15% reduction in sales opportunities for 2009 based on notifications from buying interests to growers recently. The number of growers has adjusted since 2004 to the most efficient producers or those that have very few income alternatives—either on or off the farm. Burley Tobacco remains the cash crop of choice for the majority of Kentucky Farms.

There are indications that 10–25 million pounds of Burley will be produced without a prior sales agreement in 2009. It is certainly unclear whether all these pounds can be sold on the open market—through auctions, dealers, pin hookers or our Co-op Assn. at a profit to those growers.

Domestic use of our Burley continues to shrink from cheaper imported leaf, successful smoking cessation programs and particularly increased taxes as states and now the Federal Government try to solve their economic crises from consumers of tobacco products. You will recall Congress will allow a 200% increase in the Federal Excise tax on April 1st.

Our Economic experts such as Dr. Will Snell tell us over 80% of U.S. Burley is now exported with Switzerland and Netherlands the largest importers. It is obvious Phillip Morris International is the recipient in Switzerland while the Netherlands is the port of further distribution to other countries. I am pleased to report our Burley Co-op is quickly transforming from our former role as a USDA agent to a marketing Co-op. We purchased approximately 45% of the 2008 crop.

We have concentrated selling this leaf in the Asian region—particularly China. Other countries in South East Asia have numerous Independent manufacturers that need an American blend product to compete with the dominant international manufacturers. We are approaching manufacturers in Europe—particularly Eastern Europe to sell Burley as its own Burley production is disappearing due to reductions from European Union agriculture subsidies for tobacco farmers.

The viability of American manufactures that use U.S. Burley is vitally important to our farmers. Our Co-op and other leaf dealers cannot replace their sales opportunities at this time and it is unlikely to ever do so entirely.

It is clear our future will rely on export opportunities to global manufacturers. We as growers are concerned with any imposed manufacturers regulations that may affect our crop yields or consumer acceptance of manufactured products containing Burley.

One issue effecting current Tobacco policy in the U.S. is the availability of data since the tobacco buyout of 2004. No data is being collected by government about where tobacco is being produced and how much. It is also important to find out which tobacco is being placed into which grades for future insurance needs. We recommend this Committee explore the possibility of some new Tobacco Data Collection that could be useful to our industry.

We are particularly concerned about any regulations that may affect our Export Leaf Markets. It would be unwieldy to produce leaf crops that would be dictated to measures that are different between foreign manufacturers as opposed to domestic manufacturers. We must immediately recognize that often U.S. Regulations are also often exported to our Global buyers through treaties and or international Group's such as the World Health Organization, or World Bank. The Framework Convention of Tobacco Control has already been ratified by 160 countries. Thankfully the U.S. has not ratified this Draconian treaty as it appears to violate 1st amendment rights. Tobacco growers through out the world will be affected by any regulations imposed on our growers and products consumed in America. It is imperative all imported leaf and consumer products be treated equally to domestic products.

The Burley Co-op agreed over 10 years ago with the Core Principles agreements achieved by AHEAD. We agreed to support Regulations that may improve or protect the health of consumers. We have never wavered in our support of the AHEAD coalition even after the tobacco buyout legislation was passed.

Our support has always been conditioned on the acceptance of pure science to determine changes in consumer products and especially the allowed introduction of proven "safer" products, if you will, that allow products that differ from existing brands.

The Waxman bill has a number of areas where we think there can be constructive improvements. These include but are not limited to:

- Ensuring that tobacco producers (as well as manufacturers of both tobacco and other nicotine products) are encouraged and given *incentives* for developing leaf and products that are lower in risk.
- Ensuring that products that are scientifically established to be lower in risk are made available to consumers of tobacco and nicotine products and that all tobacco and nicotine products are labeled, marketed and regulated based on the risks and relative risks of those products.
- Ensuring that the any FDA Scientific Advisory Committee (in the Waxman legislation) has voting representation of someone who is knowledgeable in tobacco production as well in the science of plant technology.
- Ensuring that any FDA Scientific Advisory Committee has voting representation of someone who understands issues pertaining to labeling and marketing (including First Amendment protections).
- Ensuring that there is better integration between FDA (or whatever agency is created) the USDA, EPA, FTC, CDC, DHS, ATF and other agencies that results in a more coordinated and unified effort.

We also fully expect grower involvement and a seat at any Board that has authority to impose Regulations changing any aspect of our markets including the entire spectrum of leaf production through the end consumer. These Federal Regulations were never anticipated to be the pathway to elimination of tobacco consumption but rather a legitimate effort to mitigate its known harmful effects.

Further hearings or perhaps a "Summit" should be held allowing all stakeholders to be heard. This would fulfill President Obama's promise to America of an open and transparent process in government. The Burley Co-op would certainly be willing to participate is such a plan.

Thank you for your time.

The CHAIRMAN. Thank you very much and thanks to all of our members of the panel today, and thanks for your timely testimony.

Mr. Boyd, you mentioned the risk of additional regulations from government agencies affecting the way farmers raise tobacco. I know you were sharing Mr. Troxler's testimony, but to the extent of your experience in working with farmers statewide in North Carolina, could you elaborate on the risks and what it would mean to individual producers when you talk about additional regulations being a concern under the Waxman bill?

Mr. BOYD. Mr. Chairman, tobacco, not unlike every other cultivar under practice now, regardless of your commodities, is pretty extensively regulated with regards—the Commissioner could give you an exact accounting for what the Department jurisdiction is. But, between the United States Department of Agriculture and the states departments of agriculture—I am referencing issues such as pesticide application and environmental rules and so forth—the number of agencies that are already present on the farm are extensive with regard to compliance. The concern is that giving FDA broad and full authority, sweeping authority that would empower its jurisdictive authority over the farm would bring inspectors in to an environment where they might not be acclimated or trained with regard to understanding agricultural farm practices the way that a staff member from one of the Department of Agriculture agencies would. We know with any regulation comes price or cost, both in terms of enforcement and punitive measures. So those would be certainly some areas that we have expressed concern towards, and that is our reason for applauding your cosponsorship effort on making sure that it is done through an agency whose purpose would not be, let us say, to eliminate tobacco production in this country. Because as we view it, it is in direct conflict with the mission of charge of the FDA and we have experience there which is the references that the Commissioner has made with regards in our state, for example, jalapeño peppers, tomatoes, peanut butter, as you are well aware, broccoli. There are a number of these, and this distinguished panel represents these many states that produce these commodities. You understand what the impact has been to your farmers when hysteria or a scare has resulted. Those are the kind of burdensome regulatory impacts that either farmers couldn't comply, or could not afford to meet certain standards. At the end of the day, in the Waxman language, FDA still can't say tobacco is a safe product.

The CHAIRMAN. Because of the limited time, let me pick up on that. You mentioned pesticide. I know this Subcommittee does have direct jurisdiction over the pesticide issue.

Mr. Bunn, I believe in your testimony at page four at the bottom you say, "H.R. 1256 can burden growers with unnecessary pesticide standards." Can you expound upon exactly what you mean in regards to the pesticide problem?

Mr. BUNN. Any kind of elaborate, extensive reporting requirements that causes a farmer to be unable to meet those, such as record-keeping that he is unable to do, unless he goes and hires an additional person just to keep records, we feel that this will be damaging. If there are standards placed out there that are different than what our export customer wants, then that should be taken into consideration, because an export customer may have a standard that is different than what the FDA has, and if that tobacco is destined for that company, we need to be able to satisfy that particular purchaser.

The CHAIRMAN. And, also in your testimony on page five, you refer to the classification of the Cooperative in regards to manufacturing and state that you are concerned that, "The large and small manufacturer category definitions will classify our small cooperative facility as a large manufacturer because the definition will in-

clude all employees of the Cooperative as manufacturing employees regardless of their duties," and then you say the concept is irrational. You conclude that particular segment of your testimony by saying at the top of page six, "The manufacturing segment should be classified as a separate function from grower services." Tell us about how many employees you have in the manufacturing segment?

Mr. BUNN. We have less than 100 employees in the manufacturing segment. We have well over 500 employees during the season that furnish services to the grower. So it is our interpretation of the way that H.R. 1256 is written they could very well say that our manufacturing numbers are over 500.

The CHAIRMAN. All right, when in fact grower services are——

Mr. BUNN. Are the predominant——

The CHAIRMAN.—the 500 figure?

Mr. BUNN. That is right.

The CHAIRMAN. And less than 100 is the manufacturing?

Mr. BUNN. Right, and as far as the size of manufacturing, we have less than ½ of a percent of the marketplace, and the 6th largest manufacturing facility in this country would be classified as a small manufacturer.

The CHAIRMAN. Thank you, sir.

Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I don't have any particularly in-depth questions other than, you look at—your testimony was about how increased taxes reduces tobacco demand and usage. We are going to continue to apparently fund SCHIP with increased tobacco taxes. I think you mentioned, Mr. Boyd, that North Carolina is proposing additional taxes. Even the title of the Chairman's bill talks about the reduction of harm or whatever, and I would assume that would be less tobacco usage. Where are the economics and are there alternative crops that these growers have an option of using to replace the revenue stream from tobacco growing and selling? In other words, is there someplace else for them to go that they can make as much money in that as they do with tobacco, Dr. Brown or Dr. Snell?

Dr. BROWN. Sure. Our farmers are already extremely diversified in North Carolina. In fact, we are the third most diversified state in the country in terms of agriculture. So all of these farmers have other commodities that they are raising. As I mentioned, one of the programs I work with is a program in value-added and alternative agriculture at our new research campus. It is very, very, very difficult to find crops that are as stable and have the same profit margins as tobacco, and most of these farmers are working with other things. We focus on fresh produce, for example, at our new research campus. But with most of our newer commodities and newer alternatives, there are much higher levels of risk, and of course, there is a steep learning curve. Our tobacco has concentrated in the I–95 corridor in the eastern part of the state and we have a low-cost production area there, and even though that is a very, very agriculturally intense area, in fact, it was rated as one of the most profitable areas to farm in the United States back in 2005, tobacco still continues to be the most profitable commodity for those farmers and the cash crop of choice for those farmers in that area.

Mr. CONAWAY. I have some familiarity with cotton farming and there is a crossover point, a number of acres you can grow cotton on and really make money at. I don't have a sense of where that is. A tobacco-only farm, where is the break-even in acres planted where you can feed a family and make a living on a tobacco-only farm?

Dr. BROWN. Well, we don't have very many tobacco-only farms. Most of our farms grow a wide range of crops, as I mentioned.

Mr. CONAWAY. But is it 10 acres——

Dr. BROWN. No, it would be more like at least 100 acres in flue-cured tobacco. When you look at the mechanization that has taken place in flue-cured tobacco, the breaking-even points—as in cotton, the breaking-even point is around 1,000 acres. You need one cotton harvester to harvest 1,000 acres so you kind of look at it in 1,000 acre units. In tobacco, it is closer to 100 acre units because that is essentially what you need for the very specialized equipment that you have to use to harvest. And of course, with the labor issues that we are seeing now, there are numerous economies of scale in terms of trying to bring labor into the farm, which has also increased the scale of the farm that is required in order to make it economical. So it is really not a small farm enterprise in flue-cured tobacco anymore. It is a middle-sized farm. It still sustains a lot of mid-sized farms, which is really a disappearing segment in U.S. agriculture.

Mr. CONAWAY. Dr. Snell, is there anything you want to——

Dr. SNELL. Yes, I will make some comments on behalf of burley. Our farmers tend to be a lot smaller than flue-cured farmers. We are also seeing a lot of diversification in Kentucky. We have been very fortunate that half of our tobacco settlement dollars have gone towards agricultural economic diversification. But at the same time, as I mentioned in my testimony, we have lost 72 percent of our tobacco farms since the buyout. There are still more farms growing tobacco than producing any other crop in the Commonwealth of Kentucky. Our farmers tend to be diversified into cattle production. Some have experimented successfully with some vegetables and fruit production. But predominantly our best diversification within tobacco is an off-farm job, and that is the concern we have right now with the loss of jobs in rural communities that a lot of our farmers that grew a few acres of tobacco but depend more upon an off-farm job. Either the spouse or the farmer themselves are being laid off and that is the reason why, as Mr. Quarles pointed out, that a lot of our farmers are trying to get back into the tobacco production business, but unfortunately it is not at the right time.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank you very much, Mr. Conaway.

Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman.

I am especially happy to welcome the guests here today but especially the gentleman from North Carolina, and being from North Carolina myself, this is a pleasure to be able to have fellow North Carolinians here, and especially Dr. Brown. I am going to put in a plug for the North Carolina research campus. The work that you guys do there can benefit agriculture for this nation, for the world.

Seven universities coming together to advance nutrition and other causes of agriculture, what a wonderful idea, what a wonderful facility and how wonderful it is to be in my district.

Mr. Bunn, you talked about that with the harm reduction and taxation, the change in product mix to smokeless tobacco and then with more farmers wanting to get back into tobacco this year, do you think we are looking at a situation of vastly overproducing this year?

Mr. BUNN. No, I don't think so because most of the tobacco production is done so under contract, and there may be a few farmers that decide to go out and grow tobacco speculatively, but that is a great risk and most of the farmers have some sense of where they are going to sell tobacco. There may be some out there, but that is for people that have the personal financing to do so.

Mr. KISSELL. And Mr. Boyd, it was mentioned in Mr. Troxler's remarks that the number of farmer families in North Carolina dropped from 8,000 to 3,000 in the past few years even though the productivity has stayed high and the production is good. Do you see that reduction continuing? I know there are a lot of unknowns out there but what rate of decline is taking place there?

Mr. BOYD. Congressman, some of that attrition was by design. It was the purpose, as the Chairman made reference to, in the design and the need for the tobacco buyout was so that people could in fact exit the business. So that is not necessarily, well, is it not an exciting number. It was a trend that was predicted to occur and, in fact, was a function and need for the buyout. As it has occurred, the farmers that remain, the fewer that are there now are larger in scope of operation, and that is in reference to Dr. Brown's commentary that it now takes more and more acres in order to see a diminished margin of return in order to be successful with the amount of volume of tobacco-specific assets. And it really is driven by demand, and the concern you have now is what about the next generation of young farmers, and that is the real challenge. So, if economically this segment of the agricultural industry is enticing, then it will invite those young people to enter into that vocation, but it is very capital intensive on a per-acre basis commodity to produce. And then a lot of them are feeling some of the societal pressure with regards to the eroding view towards tobacco. Largely, we have been insulated from that on the farm because we don't get into a health debate. That is a manufacturers' battlefront, if you will. But, I think there is complexity there even in a state such as North Carolina.

Mr. KISSELL. Thank you. One last question, and I really don't direct this to anyone so anybody who wants to jump in, imports. How much of a threat are they to our market right now? I read in the testimonies that it seems to be the quality is not there so it is not too threatening. I am just curious about how much of a threat it might be.

Dr. SNELL. I will make a comment on behalf of burley. We used to have about 500 million pounds of total burley use in the United States between imported and foreign tobacco, and about 400 million, that used to be domestic. Now, we are down to about 50 million pounds being domestic burley, and probably imported tobacco is still over ⅔ of total burley use by the manufacturers, so it is a

serious problem, and some of the issues related to regulation sparked the curiosity of tobacco farmers perhaps. If you talk about regulation, our farmers just want to make sure that everybody is playing on the same level field. That may create some opportunities, as Dr. Brown mentioned in his testimony, to maybe constrain the level of imported tobacco coming into this nation.

Mr. BUNN. Congressman Kissell, if I might comment at this point, importation often follows the value of the dollar and the value of the dollar is very low. That makes offshore tobacco much more attractive and competitive, but as the dollar value increases—well, let me say, as far as exporting tobacco, it is reversed. As long as the value of the dollar is low, we can compete very well. When it turns back around, the import tobacco can certainly be a major problem, but at this point in time the quality of our tobacco still reigns as far as being some of the best in the world.

Mr. BOYD. Congressman, one other aspect to that. It would be in regard to black market and illegitimate product. That is an important consideration for this Committee to give thought to. When we over-regulate and overprice with regard to the cost of the procurement side of the tobacco, at the end of the day if adults who are going to choose to use a legal product still choose to do so. In the wake of this burdensome impact, what is left behind are going to be the tobacco farmer, the tobacco farm economy that evaporates with no chance for recourse. With regard to health concerns, that is still going to be there because people are going to smoke something, and so will they be smoking something that is less safe, and even maybe to your concern circumvents the tax collection value that our systems of government at every level have become so dependent on.

The CHAIRMAN. Thank you. Thank you, Mr. Boyd. Thank you, Mr. Kissell.

Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. I thank the panelists for their testimony this morning.

Dr. Snell, in your testimony you had mentioned about, you just referenced quickly about emerging opportunities. I was just curious if you can elaborate on that? What opportunities do you see out there as emerging into the future?

Dr. SNELL. In my testimony, I pointed out I work with both burley and dark tobacco producers, and the situation in dark tobacco is very much different than the cigarette-style tobaccos because smokeless tobacco consumption for a variety of reasons has been increasing about four or five percent annually for about 20 years. We are pulling back in dark tobacco production this year, but as I mentioned, it is mainly because we almost doubled production over the past 2 or 3 years. Demand is still increasing but we just oversupplied the market last year. There has been a lot of debate about the potential reduced health issues related to smokeless tobacco products, relative to cigarette production. So, that market is still very upbeat on the demand side and we have seen in Kentucky a growing percentage of our tobacco being produced is dark tobacco rather than burley. In fact, in the State of Tennessee, the value of dark tobacco production now exceeds the value of burley production. As far as burley, obviously this is an industry where

the future is in the international markets, and Mr. Quarles addressed some of his trips to some international markets. There are a lot of markets overseas that have traditionally been a flue-cure-type tobacco product, but as they introduced burley tobacco, especially U.S. burley tobacco into their blends, we have seen some increases in the American blended cigarette in those markets. A lot of that depends upon income levels of those countries, and as incomes improve that they tend to buy up the value of their tobacco products that they consume. So again, the emerging opportunities for burley tobacco will be in the international marketplace and not the domestic market.

Mr. THOMPSON. Thank you. I don't know if any of the other panelists have any insight or any other thoughts on emerging opportunities?

Mr. QUARLES. The only thing I would like to add to those comments is that as Dr. Snell has indicated and we have known for some time, that 80 percent of our burley is being exported. The primary importing countries are Switzerland, which is obviously Philip Morris International, and the Netherlands, which is a port that distributes to other countries throughout the world. We have always felt, on the burley side, that there could be opportunities if the regulations are done properly, but our main concern is that all products should be treated equally. We want all imported tobacco to go back to some sort of inspection form. Typically some of these imported tobaccos are going to what they call value cigarettes, the cheap cigarettes, the cigarettes that sell for a very low price. They contain no American tobacco whatsoever. It is entirely imported Oriental and burley, and consequently, we as American tobacco growers, we really don't have much sympathy with those types of products. We would rather have every cigarette consumed in America to be American-grown tobacco, particularly because we follow all the regulations that the EPA imposes on us on pesticides and other chemicals that we use, and those same regulations are not imposed upon imported tobacco.

Mr. THOMPSON. Thank you. Mr. Chairman, I yield back the rest of my time.

The CHAIRMAN. Thank you, Mr. Thompson.

Mr. Bright.

Mr. BRIGHT. Mr. Chairman, thank you very much for having this hearing today, and gentlemen, thank you for being here and your informative testimony. Just a couple of quick questions and I guess I will direct my first question, it is a two part question, to Dr. Brown.

Dr. Brown, you mentioned in your testimony that if higher standards are set for U.S. tobacco products, imported tobacco may be less competitive. My number one concern would be, does this refer to the quality of the tobacco or quality standards in your testimony?

Dr. BROWN. I think it could refer to several things. It could refer, one, to pesticides, it could refer to quality. It depends on what standards are defined in any FDA regulation, what the requirements of companies are.

Mr. BRIGHT. And that is a real key and important question that we always have to ask and to understand. Could you go into more

detail on what standards you might be referring to and why U.S. producers are able to meet those higher standards?

Dr. BROWN. I am not sure what those would be at the moment. I think that would be a matter that would just have to be examined, and would be one that could use some attention whenever they go to FDA, but I don't have any particular ones in mind.

Mr. BRIGHT. Dr. Snell, my second and last question is directed to you, and you mentioned labor challenges and a lack of infrastructure as being just a couple of constraints faced by producers immediately following the buyout and currently. Could you provide additional details on these labor and infrastructure constraints?

Dr. SNELL. Burley tobacco is very labor intensive like most tobaccos but it is even more so than flue-cured tobacco, and we cannot—even in this day and era of high unemployment rates, we cannot find local labor. They are not willing to work, and as a result, our farmers have become more and more dependent upon migrant laborers, and have a lot of interest in the H–2A program and some of the administrative changes that have taken place in recent times. Infrastructure, we have a lot of dilapidated infrastructure out there. Farmers are very reluctant to put a lot of large financial outlays for an industry that has a very uncertain future. And as Mr. Boyd pointed out, one of the biggest challenges we have is certainly getting young people that have an interest in growing tobacco. The average age of a tobacco farmer is approaching 60 years of age, so——

Mr. BRIGHT. Sixty?

Dr. SNELL. It is around 60, and that is certainly a challenge for the buying industry to keep interest in growing the crop, and again, the situation is, we are not replacing a lot of our infrastructure and that is certainly a long-term challenge for the industry.

Mr. BRIGHT. How concerned, Doctor, are you about the down economy pushing some producers in Kentucky back into the tobacco production crop industry?

Dr. SNELL. I am very concerned. I have an opportunity in my position to travel the state as well as Ohio and Tennessee, and again, the fact that a lot of our farmers after the buyout became more and more dependent upon off-farm income. As those jobs have been reduced or individuals have had layoffs in their family, they look out, they have some infrastructure still left. They see other commodity prices are coming down. They have already spent their buyout dollars. They have heard that even though people in the past have grown tobacco without a contract and been able to sell it that they think there may be a market for that tobacco in 2009. I think that tobacco will move, but it will move at a considerably lower price. I have a big concern that the economy is contributing to potential oversupply of burley tobacco.

Mr. BRIGHT. Thank you very much. I yield back my time, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Bright.

Mr. Roe.

Mr. ROE. Thank you, Mr. Chairman. It is really a pleasure to be here and where everybody on the panel sounds like I do. It is nice to be here for that. I will tell you that, as Dr. Snell did, it was a burley tobacco patch that convinced me organic chemistry was not

that hard, and I grew up on a farm that my cousin still raises 100,000 to 250,000 pounds a year in Stewart County, Tennessee. One of the things that you all brought up—and in Tennessee, as you well know, we just added a 61¢ increase in the price of a pack of cigarettes, and then the Federal Government added another 60¢ here just recently. What the governor has done there is to try to encourage farmers to begin to look at switchgrass and hydroponics and other areas, and that is obviously something that our agricultural community is looking at. One of the things you said, and it applies to all manufacturing, and Mr. Boyd, you may have touched on this too, is a set of requirements put on our producers whether they are in the auto industry or other industry is that EPA and OSHA and all of that doesn't apply to foreign producers and it puts us at a definite disadvantage. If you all could comment on that, and then the other thing that our farmers don't want is somebody from the Federal Government tromping around all over their farm telling them what to do, another unfunded mandate. I was the Mayor of Johnson City before I got here, and it was difficult dealing with all the Federal unfunded mandates. Instead of looking at it from a health reason, but as a punitive reason, that it is just going to be another unfunded mandate for farmers. Could you all comment on that?

Mr. BOYD. Congressman, I would certainly concur with your perspective on it, and that is our testimony here. I hope the Committee doesn't portray that we have a staunch anti-opinion here. But, the issue, as we understand it, is that there are two alternatives or there are two versions under consideration, one that your Chairman is a cosponsor of. One of your other colleagues from California has a bill and we all know, I mean, he has had an agenda to push for FDA well over a decade. And I read both bills numerous times, and one thing that surprises me in the Waxman bill is that it doesn't conclude exactly what the jurisdictive authority with any specificity will be, but it certainly knows exactly what it is going to cost. So, that is confusing a little bit out here. I am just giving you one citizen's viewpoint there, if I can take off the hat from the association and say, "How do you know what it is going to cost but you are not sure exactly what it is you are going to do." The alternative version here doesn't speak to that detail. It speaks more in terms of what are our goals and what do we want to try to accomplish with regard to the information. The extended education and any protection that an agency might be able to afford those adults who choose to use the product; and at the same time being steadfast and not be punitive to those people who are involved in the commerce of tobacco. Congressman McIntyre's bill that he and Congressman Buyer are cosponsors of, and many other names on it as well, is explicit about that, that it protects traditional farm practices.

So our concern is the actual production of agriculture, and as Dr. Brown pointed out, in North Carolina, not unlike Tennessee, our farms are very diversified and tobacco farmers farm a host of other commodities. We have about 82 that we produce. So our concern would be that you would find it either too burdensome to comply, or too expensive to comply, and beyond that, why is it necessary at the farm level and how would it be enforced. The FDA is in the

news media on a regular, daily basis with criticism with regard to falling short of its purpose and charge right now. Even in North Carolina recent headline accounts of syringes being made in Angier, North Carolina, that the FDA knew about for 3 years and people were dying specifically as a result of that and nothing was done. So, these are our concerns and our confusion.

Mr. ROE. Thank you all and thank you, Mr. Chairman. I yield back my time.

The CHAIRMAN. Thank you very much. I believe that covers those who are present that were here. We had a couple other Members come in and had to step back out for various reasons. The panel has done an excellent job. Rather than going down the list again, if there are any follow-up questions that anybody would like to have? I know our witnesses have traveled a long way, I want to make sure nobody misses any additional opportunity. I would like to just ask a couple points of clarification.

Dr. Brown, you mentioned in your testimony, at the very end, about data tracking and your concern about there being adequate data tracking and analysis, that it would seem to be an issue that all sides would benefit from. How is that data being tracked now, given the current circumstances and the lack of other formal data tracking that you mentioned? How is the data being kept as we speak?

Dr. BROWN. Well, as an economist who gets asked to do a lot of analysis, I can tell you it is kind of difficult. A lot of times we have to make more than just educated guesses because of the lack of data now. International data on foreign production, about the only place that we could find that prior to this year was at one of the international leaf dealer's websites where they issued a report. They have stopped issuing that report now. The Foreign Agricultural Service used to track that data and have attaché reports where it came in and they would report the international production of tobacco in other countries. They no longer do that. Very, very few are the places where you can find that. The only thing that FAS provides now is just the raw import and export data, which you have to go in and dig up yourself. Economic Research Service used to provide excellent analysis of some of this data and pulled it together, which made our jobs much easier when we were asked to report to policymakers and farm groups. They no longer provide any analysis of that. About the only USDA agency that is really doing any significant reporting of data is the National Agricultural Statistics Service, which continues to record crop production and acreage harvested. Beyond that, we have hardly any data to rely on in terms of analysis, and so in terms of tracking this crop, very soon it will be very difficult to track it, particularly internationally.

The CHAIRMAN. Do you have recommendations, specifically, that you would like to state or to submit regarding about what would be the best means that we could improve the data tracking? I realize that some of these agencies are not going to welcome the idea of being told to do it again but nevertheless, just from your professional opinion.

Dr. BROWN. No, I understand. Thank you. I think in terms of the Foreign Agricultural Service, they are collecting international data

on other crops, so they are working with agricultural attaché offices and agricultural embassies around the world. It doesn't seem to me like it would be too onerous to ask that they also get some data on tobacco as well, since that is an important crop. In particular, if FDA regulation goes forward, this data will be important to a lot more than just the tobacco community. It will be important to a lot of folks to know what is going on in other countries like Brazil or large agricultural regions.

I would say on the other end of the spectrum here in Washington to have the Economic Research Service provide some of the same services in terms of tobacco that they do for cotton, peanuts, or other commodities that I work with would be very, very helpful to have as an analyst. Again to provide this data, and again, many of the things that Tom Capehart was providing before for us are things that are going to be asked not only by the tobacco community, but also in terms of the FDA regulation.

The CHAIRMAN. Thank you, Dr. Brown.

Dr. BROWN. Thank you.

The CHAIRMAN. Mr. Bunn, if you can just bullet point the types of regulations that you think would come out of FDA legislation that, as you have stated, would be impossible for growers to meet?

Mr. BUNN. It is hard to understand all of it because we don't know what the regulations will say now but we can speculate. I would like to get back to you with a list of those for the record.

The CHAIRMAN. I think that would be helpful, because as we talk about the concerns of FDA on the farm and another bureaucrat coming out and bringing bureaucracy to the farm, and the insult that is obviously to growers, their being the experts on farming rather than a bureaucrat coming out and trying to regulate. We know the concern that could cause, and it would helpful for this Subcommittee and also in our efforts to present that to the rest of Congress. So if you would submit that within the next 10 days?

Mr. BUNN. Yes, I will.

The CHAIRMAN. That would be very helpful.

Does any other panel Member have any follow-up questions? I will open it up. I think everyone has gone in order of seniority so now we will open it up. Does anybody have a particular question? Yes, Mr. Roe.

Mr. ROE. Thank you, Mr. Chairman, just a brief question for Mr. Quarles.

I know when I grew up, you would go work on your place and then you would go help somebody else with theirs. Now, labor is a huge problem on the tobacco farm. Could you just comment on that and how the immigration, how that is going, because that is a huge issue, at least in Tennessee.

Mr. QUARLES. Yes, sir. Tobacco, as Dr. Snell indicated, as we all know, as you well know, is very labor intensive. Burley tobacco production has changed very little in the last 200 years. We still use by and large the old tobacco knife and spear to spear it on the wooden sticks. We have not moved to mechanization not nearly as much as the flue-cured crop has. There are concerns with the current H–2A program. We have had some good progress in relaxing the requirements recently, but now we find out that the President is going to go back and strike some of that and raise the wage rate

back to where it was previously. But there is adequate labor as long as you use the migrant labor, and that also extends to other agriculture crops throughout Kentucky or in any state, I suspect. Any type of vegetable production is obviously dominated by migrant labor. Our horse industry is dominated by migrant labor just as the construction trades, laying brick, putting roofs on houses, that is all dominated by migrant labor. You could just go on and on about the need for adequate migrant labor to come into each of our states. We appreciate any efforts that this Committee could have in keeping those regulations more near to the need of the farmers rather than to the needs of the people that don't have the interest of farmers at heart.

Mr. ROE. Thank you, Mr. Quarles. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Roe. Anyone else? If not, I understand we are going to have a series of votes that is going to be called momentarily. We have been blessed that we got you all done and you don't have to sit here and wait on us to go to vote. We wanted to honor your time. Thank you for the timely, important information. If anyone else has any additional comments they would like to submit to the record, please do so within the next 10 days. We thank everyone for their attendance and pray God's blessings upon your travel.

Thank you very much. The meeting is now adjourned.

[Whereupon, at 11:15 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTAL MATERIAL SUBMITTED BY HON. STEVEN W. TROXLER, COMMISSIONER, NORTH CAROLINA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

Overall All States' Average Cigarette tax: $1.21 per pack

Including $1.00 per pack Federal excise tax beginning 4–1–2009 (currently .39 per pack)

The highest combined state-local tax rate is now $4.25 in New York City, with Chicago, IL second at $3.66 per pack. Other high state-local rates include Evanston, IL at $3.48 and Anchorage, AK at $3.324 per pack.

This is not including any local or city tax rates.

If you take the United States 2008 average flue-cured yield of 2239 lbs. acre in 2008

Gross farm gate revenue per acre in 2008 is 2,239 lbs. × $1.756 = $3,931.68 per acre to the farmer

A pound of tobacco makes 500 cigarettes, so the Federal and average State cigarette tax combined per acre amount to (2,239 lbs. × 70% yield after processing = 1,567 usable pounds per acre after processing) 1,567 lbs × 500 cigarette per pound of tobacco = 783,500 cigarettes per acre which if you divide by 20 cigarettes per pack = 39,175 packs per acre which would be taxed at $2.21 per pack beginning April 1, 2009 with the increase of the SCHIP tax increase = $86,576.75 per acre for the Federal and State Government at the average state tax rate.

If you were in New York City it would be $4.25 State & City + Federal Tax of $1.00 per pack to total $5.25 combined tax 39,175 packs per acre × $5.25 = $205,668.75 per acre for Cigarette excise tax.

Government per acre w/o Master Settlement Payments $86,576.75

Farmer per acre $3,931.68

The government gets 2,202% more per acre than the actual producer who goes out and takes risk to grow the tobacco crop.

$3,931.68 per acre / Value per plant 5,500 = .71¢ per plant to the farmer

$86,576.75 / 5,500 plants per = $15.74 to the government per plant

SUPPLEMENTAL MATERIAL SUBMITTED BY JESSIE THOMAS BUNN, PRESIDENT, U.S. TOBACCO COOPERATIVE INC.

- Growers should not be forced to meet punitive and aberrant FDA standards. Growers have developed good management and cultural practices over time from experience and from research based knowledge. Growers will not be able to meet unreasonable and unfavorable standards on production because new standards that require growers to change good cultural practices could adversely affect yield and quality of the grower's production. FDA required standards could leave growers without know-how, proven cultural practices and existing research-based knowledge for producing leaf tobacco.
- Testing for FDA standard compliance is impossible for growers at the farm level. Growers are neither equipped to test for FDA standards nor able to abandon non-compliant crops because of the high production cost.
- FDA standards that require growers to change equipment used in the production, curing or marketing of leaf tobacco would be impossible to meet. Most growers do not have the economic option to risk recapitalizing high cost equipment for mandated changes in cultural practices.
- FDA pesticide standards that require changes in pesticide use will dramatically affect leaf tobacco production. Alternative pesticides may not be available because of the limited number of pesticides with EPA approval for use on tobacco. Developing new pesticides requires years of research and time for EPA approval.

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