TOBACCO QUOTA BUYOUT LEGISLATION:
ECONOMIC IMPACTS IN THE SOUTHEAST

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ABSTRACT

Expectations abound that a tobacco quota buyout will soon materialize. This paper provides a description of major elements of proposed tobacco quota buyout legislation. An input-output model is used to estimate the economic impacts—total output, value added, and employment—of a quota buyout on major tobacco states.

INTRODUCTION

Over the last few years, the tobacco production industry has experienced a number of problems including lower domestic demand, lower exports, more foreign imports, very high prices relative to world prices, skyrocketing quota lease rates, contract marketing, and marketing quotas cut in half. In 2001, a Presidential Commission established to examine challenges facing tobacco growers concluded that "tobacco farmers and their communities are in the midst of an unprecedented economic crisis (Commission, 2001, p. ES1)." The Commission report further concluded that the situation tobacco growers are in today has resulted in large part from the confines of the federal tobacco program in place since the 1930s (which, ironically, is the same factor to which most attribute the success and profitability of tobacco crops over the years). The Commission recommended a comprehensive overhaul of tobacco-related policy including replacing the tobacco quota system with a production permit system and compensating quota owners for the loss of quota assets and tobacco growers for costs of transitioning to a new system (i.e., a quota buyout). As a result, many growers are seeking changes in the program through a quota buyout and transfer program that would compensate quota owners for the lost value of their quota asset while transferring annual rights to grow tobacco to those actually growing the crop, all funded through assessments on tobacco manufacturers without involving federal taxpayer dollars.

In response to significant tobacco income losses and expectations for additional quota cuts and marketing changes, tobacco-state members of Congress have been working for several years to develop tobacco quota buyout and transition legislation and a new national tobacco policy. While the issue has received much attention in recent years without materializing, political analysts suggest that the much-anticipated tobacco quota buyout may come to fruition before the end of the 108th Congress.

The objectives of this paper are (1) to provide a concise description of current federal tobacco quota buyout and tobacco grower transition legislation and (2) to estimate the economic impacts of the tobacco quota buyout on major tobacco states. An input-output model is used to estimate the economic impacts—in terms of total output, value added, and employment—associated with tobacco quota buyout legislation for major tobacco states (North Carolina, Kentucky, Tennessee, Virginia, South Carolina, and Georgia).

BUYOUT LEGISLATION STATUS

Legislation being considered in the House and Senate would (1) terminate the current federal tobacco program, (2) compensate tobacco quota owners for the elimination of their government-created quota asset, (3) make transition payments to tobacco quota growers to facilitate adjustment to a new environment for tobacco production and marketing, and (4) establish a new national agricultural tobacco policy consistent with other policies affecting tobacco and tobacco products.

As of the beginning of the second session of the 108th Congress (January 2004), several buyout bills introduced in the House of Representatives between 1998 and 2003 had given way to a single consensus bill, the Tobacco Reduction, Accountability, and Community Enhancement Act of 2003 (H.R. 3160). H.R. 3160 was introduced September 24, 2003 by representative Fletcher (R-KY) along with 40 co-sponsors, most from major tobacco states. Following the introduction of several tobacco quota buyout bills on the Senate side between 1998 and 2003, senators from major tobacco states coalesced behind a single senate consensus buyout bill introduced July 31, 2003. The senate buyout bill—S.1490, the Tobacco Market Transition Act of 2003—consensus effort was led by senators McConnell (R-KY) and Dole (R-NC) with ten additional co-sponsors from major tobacco states. Both the senate and house tobacco buyout bills received considerable attention during the latter half of the first session of the 108th Congress, but no definitive actions on either aisle of Congress materialized before the end of the first session.

Tobacco quota buyout legislation would make payments to individuals who own tobacco quotas and also to individuals who are active tobacco farmers (who may or may not own the tobacco quota they grow). The primary difference between the buyout bills being considered in the House (H.R.3160) and Senate (S.1490) is the calculation of the total amount of funds available for tobacco quota owner and grower compensation and transition. Both pieces of legislation establish quota owner and grower compensation funds by multiplying $8 per pound by the base poundage for quota owned and $4 per pound by the base poundage for quota grown. The Senate bill uses 2002 basic quota and 2002 effective quota as the base poundage level for each type of tobacco while the House bill uses the 1997-2002 average of basic quota and 1997-2002 average of effective quota to calculate the total funds available. These alternative base poundage years result in payments that total near $11 billion in the Senate version and near $15 billion in the House version. Payments in the Senate version are front-loaded and spread over six years while payments in the House version are spread evenly over seven years.

Producers of the following types of tobacco are eligible for quota owner and grower payments from the buyout funds: (1) flue-cured tobacco, types 11-14; (2) dark-fired tobacco, types 21-23; (3) burley tobacco, type 31; (4) dark air-cured tobacco, types 35-37; (5) cigar filler tobacco, types 42-44; and (6) cigar binder tobacco, types 54-55.

The tobacco quota owner compensation fund would be allocated among various kinds of tobacco in proportion to each kind's share of the 2002 basic quota for all tobaccos[1]. Each individual producer of that kind of tobacco would then be eligible for a payment based on his 2002 basic quota level as a share of total 2002 basic quota for that kind of tobacco. The tobacco grower transition fund would be allocated among various kinds of tobacco in proportion to each kind's share of the 2000-2002 average effective quota for all tobaccos. Each individual active tobacco grower of that kind of tobacco would then be eligible for a payment based on his 2000-2002 average effective quota (July 1) as a share of total 2000-2002 average effective quota for that kind of tobacco. Table 1 provides estimates of total payments to tobacco quota owners and growers of each kind of tobacco under H.R.3160 and S.1490.

[1] For kinds of tobacco for which the program is administered as an acreage-based allotment instead of a poundage-based quota, allotments will be converted to a poundage equivalent.

Table 1. Estimated tobacco quota buyout total payments by kind.

		H.R. 3160 (2004-2010)			S. 1490 (2004-2009)		
Type(s) / Kind		**Quota Owner Payment** *$8/lb * 1997-2002 Basic Quota*	**Grower Payment** *$4/lb * 1997-2002 Effective Quota*	**Total Payments** *Quota Owner + Grower Payments*	**Quota Owner Payment** *$8/lb * 2002 Basic Quota*	**Grower Payment** *$4/lb * 2002 Effective Quota*	**Total Payments** *Quota Owner + Grower Payments*
11-14	Flue-Cured	*$5,506,266,667*	*$2,768,133,333*	**$8,274,400,000**	*$4,656,000,000*	*$2,181,200,000*	**$6,837,200,000**
31	Burley	*$3,594,266,667*	*$2,341,400,000*	**$5,935,666,667**	*$2,593,600,000*	*$1,376,000,000*	**$3,969,600,000**
22-23	Dark Fire-Cured	*$340,040,212*	*$170,020,106*	**$510,060,318**	*$267,496,000*	*$133,748,000*	**$401,244,000**
35-36	Dark Air-Cured	*$102,727,144*	*$51,363,572*	**$154,090,716**	*$84,560,000*	*$42,280,000*	**$126,840,000**
21	Virginia Fire-Cured	*$18,887,320*	*$9,443,660*	**$28,330,980**	*$11,200,000*	*$5,600,000*	**$16,800,000**
37	Virginia Sun-Cured	*$1,131,255*	*$565,628*	**$1,696,883**	*$800,000*	*$400,000*	**$1,200,000**
41-55	Cigar Filler & Binder	*$53,557,319*	*$26,778,659*	**$80,335,978**	*$27,200,000*	*$13,600,000*	**$40,800,000**
	ALL TOBACCOS	**$9,616,876,583**	**$5,367,704,958**	**$14,984,581,541**	**$7,640,856,000**	**$3,752,828,000**	**$11,393,684,000**

About 95 percent of all buyout payments would be made to quota owners and producers of flue-cured tobacco and burley tobacco. The Senate bill would allocate a larger share of payments to flue-cured quota owners and producers (60 percent) than under the House bill (55 percent). The flip side is the case for burley quota owners and producers where they would receive 35 percent of total payments under the House bill and 40 percent under the Senate bill. This relative difference is the result of the differing base years the bills use to determine the total amount of payments. The House bill uses the 1997-2002 quota average (basic quota for owners and effective quota for growers) to determine the total amount of money available for distribution to each kind of tobacco while the Senate bill uses 2002 quota levels. Since 1997, burley tobacco quotas have been reduced more than flue-cured quotas. Thus, including the earlier years causes burley quota owners and growers to receive a relatively larger share of payments under the House bill.

The majority of all flue-cured tobacco is produced in North Carolina while the majority of all burley tobacco is produced in Kentucky. While tobacco is produced in 16 states, production is concentrated in six major tobacco states in the Southeast: North Carolina, Kentucky, Tennessee, South Carolina, Virginia, and Georgia. About 96 percent of all buyout payments will be dispersed in these six major tobacco states. Buyout payments will be further dispersed since some absentee tobacco quota owners live outside traditional tobacco growing regions. Table 2 summarizes expected total seven-year payments and annual payments by state according to the House buyout bill (H.R.3160). Table 3 summarizes expected total six-year payments and first-year payments according to the Senate buyout bill (S.1490).

Table 2. Estimated tobacco quota buyout payments by state under H.R.3160, 2004-2010 and annually.

	Total Payments Over 7 Years			Annual Payments (continued for 7 years)		
State	Quota Owner Payment	Quota Grower Payment	Total Buyout Payments	Quota Owner Payment	Quota Grower Payment	Total Buyout Payments
Alabama	$4,730,470	$2,529,824	$7,260,294	$675,781	$361,403	$1,037,185
Florida	$113,531,271	$58,691,915	$172,223,186	$16,218,753	$8,384,559	$24,603,312
Georgia	$579,955,578	$316,565,300	$896,520,878	$82,850,797	$45,223,614	$128,074,411
Indiana	$95,344,520	$59,477,268	$154,821,788	$13,620,646	$8,496,753	$22,117,398
Kentucky	$2,724,420,766	$1,583,551,871	$4,307,972,637	$389,202,967	$226,221,696	$615,424,662
Missouri	$35,477,031	$20,261,487	$55,738,518	$5,068,147	$2,894,498	$7,962,645
North Carolina	$3,734,538,746	$1,974,896,434	$5,709,435,180	$533,505,535	$282,128,062	$815,633,597
Ohio	$111,974,378	$74,292,119	$186,266,497	$15,996,340	$10,613,160	$26,609,500
South Carolina	$686,864,192	$356,199,208	$1,043,063,400	$98,123,456	$50,885,601	$149,009,057
Tennessee	$801,522,284	$580,755,898	$1,382,278,182	$114,503,183	$82,965,128	$197,468,312
Virginia	$645,188,846	$365,480,167	$1,010,669,013	$92,169,835	$52,211,452	$144,381,288
West Virginia	$22,173,144	$25,490,258	$47,663,402	$3,167,592	$3,641,465	$6,809,057
Wisconsin	$53,557,319	$26,778,659	$80,335,978	$7,651,046	$3,825,523	$11,476,568

Table 3. Estimated tobacco quota buyout payments by state under S.1490, 2004-2009 and first year payments (annual payments are front-loaded, declining over the period).

	Total Payments Over 6 Years			First Year (2004) Payments		
State	Quota Owner Payment	Quota Grower Payment	Total Buyout Payments	Quota Owner Payment	Quota Grower Payment	Total Buyout Payments
Alabama	$4,000,000	$1,993,420	$5,993,420	$800,000	$373,766	$1,173,766
Florida	$96,000,000	$46,247,341	$142,247,341	$19,200,000	$8,671,376	$27,871,376
Georgia	$490,400,000	$249,443,271	$739,843,271	$98,080,000	$46,770,613	$144,850,613
Indiana	$68,800,000	$34,953,755	$103,753,755	$13,760,000	$6,553,829	$20,313,829
Kentucky	$1,985,968,000	$958,615,310	$2,944,583,310	$397,193,600	$179,740,371	$576,933,971
Missouri	$25,600,000	$11,907,323	$37,507,323	$5,120,000	$2,232,623	$7,352,623
North Carolina	$3,144,800,000	$1,532,722,725	$4,677,522,725	$628,960,000	$287,385,511	$916,345,511
Ohio	$80,800,000	$43,660,184	$124,460,184	$16,160,000	$8,186,285	$24,346,285
South Carolina	$580,800,000	$280,673,515	$861,473,515	$116,160,000	$52,626,284	$168,786,284
Tennessee	$590,888,000	$359,235,338	$950,123,338	$118,177,600	$67,356,626	$185,534,226
Virginia	$524,000,000	$264,761,986	$788,761,986	$104,800,000	$49,642,872	$154,442,872
West Virginia	$16,000,000	$14,980,181	$30,980,181	$3,200,000	$2,808,784	$6,008,784
Wisconsin	$27,200,000	$13,600,000	$40,800,000	$5,440,000	$2,550,000	$7,990,000

Under both the Senate and House buyout proposals, North Carolina would receive the largest share (38 to 41 percent) of the quota owner and grower payments: $5.7 billion under the House bill and $4.7 under the Senate bill. Kentucky would be the second largest recipient: $4.3 billion under the House bill and $2.9 billion under the Senate bill, or 26 to 29 percent). The House bill is somewhat more favorable to burley producing states than flue-cured producing states, especially burley tobacco growers. The House bill uses the 1997-2002 average effective quota to determine the total amount of money available for distribution to growers of each kind of tobacco. In the late-1990s, burley tobacco effective quota was considerably higher than basic quota. While this gap between basic and effective quota has eroded significantly in recent years, inclusion of the earlier years causes growers to receive a larger share of a state's payments under the House bill. For example, in Tennessee, the second leading burley state, growers would receive 42 percent of the state's $1.4 billion under the House bill but only 36 percent of the projected $950 million under the Senate bill. Also because of the inclusion of the earlier years, Tennessee and Kentucky combined would receive 38 percent of all payments under the House bill but only 34 percent under the Senate bill.

Another aspect of potential buyout legislation relevant for analyzing the impacts on state and regional economies is its potential impact on the future distribution of expected Phase II funds[2]. According to the Tax Offset Adjustment language included in the Phase II agreement, any new payments to tobacco quota owners or growers, from any volume-based source (such as

[2] In November 1998, the four largest cigarette manufacturers reached an agreement with 46 states to settle state suits to recover costs associated with treating smoking-related illnesses. According to the Master Settlement Agreement (MSA), the cigarette industry is projected to pay the settling states in excess of $200 billion over 25 years. In addition, the MSA called for participating manufacturers to address the negative impact that the MSA would have on tobacco growers and quota owners. In July 1999, tobacco states and participating manufacturers signed the National Tobacco Growers Settlement Trust, or Phase II agreement. Phase II funds—expected to total over $5 billion over 12 years—may only be used to make direct payments to tobacco quota owners and tobacco growers.

taxes or fees or assessments) trigger a dollar-for-dollar reduction in Phase II obligations. (National Tobacco Grower Settlement Trust, pp. A5-A10). While all of the legal questions regarding the impacts of a buyout on Phase II payments have not been resolved, most legal experts agree that passage of H.R.3160 or S.1490 would effectively eliminate any future Phase II payments to tobacco quota owners and growers. Table 4 provides estimates of Phase II payments to date and anticipated future payments. According to these estimates, immediate passage of buyout legislation would eliminate $2.7 billion in Phase II payments that tobacco states currently expect to receive through 2010.

Table 4. Estimates of Phase II payments to participating tobacco states, 1999-2010.

	Initial Projected Payments	Adjusted Actual/ Expected	Cumulative Actual/ Expected	Cumulative Remaining
	million dollars			
1999	380	380	380	4,575
2000	280	248	628	4,195
2001	400	361	989	3,947
2002	500	444	1,433	3,586
2003	500	442	1,875	3,142
2004	500	440	2,315	2,700
2005	500	440	2,755	2,260
2006	500	440	3,195	1,820
2007	500	440	3,635	1,380
2008	500	440	4,075	940
2009	295	250	4,325	500
2010	295	250	4,575	250

DATA AND METHODS

This study employs input-output (I-O) analysis at the state level for 10 tobacco states. The I-O analysis is conducted using the IMPLAN software and databases to derive the economic relationships and linkages between the tobacco production sector and the rest of the economy.

The IMPLAN modeling system provides estimates of direct, indirect, and induced impacts[3] that would result from tobacco quota buyout payments[4] and changes in the tobacco sector's economic activity that a buyout would trigger.

Impacts of two "shocks" are estimated for each scenario, compared to continuation of the status quo. The first impact is the infusion of tobacco quota owner and grower payments[5]. Quota owner and grower payment allocations are designed according to the payout schemes in the two pieces of legislation under consideration, as presented in tables 2 and 3. Under both the H.R.3160 and S.1490 scenarios, individual quota owner payments are based on the share of 2002 basic quota owned and quota grower payments are based on the share of the 2000-2002 average marketings. State-level tobacco basic quota and marketing quota data were provided by the USDA's Farm Service Agency, Tobacco and Peanuts Division, the Burley Tobacco Growers Cooperative, the Flue-Cured Stabilization Cooperative, the Burley Stabilization Corporation, the Eastern Dark-Fired Tobacco Grower's Association, and the Western Dark-Fired Tobacco Grower's Association. The second impact is the elimination of expected future Phase II payments to tobacco quota owners and growers. State-level estimates of future Phase II payments were based on each state's share of total Phase II settlement funds available according

3 Direct impacts are the result of changes in final demands in the tobacco sector. Indirect impacts occur through changes in inter-industry purchases such as inputs or services as these industries respond to the changes in demands by the tobacco sector. Finally, induced impacts are the result of changes in household incomes and changes in household spending that are the result of changes in final demands in the tobacco sector.

4 Data in the most recent U.S. Census of Agriculture were used to estimate each state's distribution between small- and large-scale tobacco producers to determine which household sector was impacted (household sectors $25,000-$35,000 versus $75,000-$100,000) for each state. These data, along with other databases and relationships in the IMPLAN model were used to determine appropriate multipliers for each state and region.

5 While not detailed in the legislation, past experience with other agricultural buyout and termination programs (primarily, the peanut quota buyout included in the 2002 Farm Bill) suggests that it seems reasonable to expect tobacco quota owner compensation payments to be treated as capital gains for tax purposes and tobacco grower transition payments to be treated as ordinary income for tax purposes.

to the percentage allocations in the National Tobacco Growers Settlement Trust and projections of future Phase II payment adjustments (Tiller, 2004).

Another important impact of the buyout is the effect it will have on the future structure of tobacco production and marketing. Buyout impact estimates should consider post-buyout impacts on the market price, level of production, and costs of production. Elimination of the federal tobacco price support and supply control program is expected to result in significant reductions in market prices. While the post-buyout equilibrium price is unknown, studies have estimated that tobacco market prices absent the program may decline by about 25 percent (Brown, et al., 1999). While the price decline will reduce revenues in the tobacco production sector, expected declines in costs of production will offset the net effect. Tobacco quota lease costs currently average around $0.50 to $0.75 per pound. Post-buyout, tobacco growers will no longer be required to own or lease tobacco quota in order to market their production, eliminating current lease costs from the cost of production. For this study, it is assumed that the downward price adjustment (about $0.40 to $0.50 per pound) and the lower costs of production (about $0.50 to $0.75 per pound for leased pounds, zero for owned pounds) are offsetting and result in no net change in net revenue in the tobacco production sector. Another expected impact of the tobacco quota buyout and elimination of the federal tobacco program is major changes in the composition and size of tobacco production operations. Most tobacco quota owners who do not produce their quota (rather, they lease it out to an active grower) will drop out of the sector. Further, a large number of current growers are expected to exit tobacco production, perhaps in excess of 50 percent in some areas (Brown, et al., 1999). Tobacco production will become concentrated on fewer, larger, and more efficient farms. However, at least in the short run, the overall level of demand for U.S. leaf and therefore the production level is not expected to change significantly. This study assumes that the post-buyout level of tobacco production remains constant. Further, one element of both H.R.3160 and S.1490 is a restriction limiting future tobacco production to current tobacco counties and states. Thus, the analysis of statewide economic impacts assumes no changes in each state's current production level.

ESTIMATES OF ECONOMIC IMPACTS

Estimates obtained from the IMPLAN model include direct, indirect, and induced effects and are presented for total industry output and employment. Total industry output represents the annual dollar value of the goods and services that an industry produces. The total economic activity impact presented is the sum of the total industry output impact across all industries in the state's economy[6]. Employment represents the number of total wage and salary employees, both full-time and part-time, as well as self-employed.

Table 5 presents the net increase in economic activity and employment that results from the buyout according to the provisions of the House buyout bill (H.R.3160). For the first year of the buyout, the table provides each state's level of buyout payments (quota owner plus grower), the level of expected Phase II payments that will not be paid, an estimate of the net increase in economic activity for the state and the net increase in total employment. The total amount of buyout payments over the life of the buyout implementation (seven years) and associated net increase in economic activity are also presented. Similar data for the Senate buyout bill scenario (S.1490) are presented in table 6. The total economic activity estimates presented in tables 5 and 6 are the net increases over the baseline level where the baseline is the continuation of the status quo situation, i.e., without a buyout.

[6] Total industry output includes impacts in the tobacco producing sector and also more than 525 other sectors delineated in the model, such as state and local government, education, hospitals, banking, eating and drinking, and others.

Table 5. Estimated tobacco quota buyout (H.R.3160) impacts on total economic activity and employment, first-year and seven-year total by state.

	Year 1				7-Year Total	
	Total Buyout Payments	Unrealized Phase II Payments	Total Economic Activity Impact	Total Employment Impact	Total Buyout Payments	Total Economic Activity Impact
North Carolina	$815,633,597	$174,570,000	$994,930,703	9,616	$5,709,435,180	$6,964,514,920
Kentucky	$615,424,662	$136,436,000	$707,945,243	7,185	$4,307,972,637	$4,955,616,701
Tennessee	$197,468,312	$34,822,000	$263,974,964	2,602	$1,382,278,182	$1,847,824,747
South Carolina	$149,009,057	$31,924,000	$170,475,843	1,756	$1,043,063,400	$1,193,330,903
Virginia	$144,381,288	$30,268,000	$180,584,278	1,712	$1,010,669,013	$1,264,089,943
Georgia	$128,074,411	$26,910,000	$164,088,675	1,517	$896,520,878	$1,148,620,725
Ohio	$26,609,500	$6,256,000	$30,530,249	305	$186,266,497	$213,711,745
Florida	$24,603,312	$5,198,000	$31,863,523	349	$172,223,186	$223,044,660
Indiana	$22,117,398	$5,336,000	$25,960,823	269	$154,821,788	$181,725,762
Missouri	$7,962,645	$1,932,000	$10,041,025	96	$55,738,518	$70,287,172

Table 6. Estimated tobacco quota buyout (S.1490) impacts on total economic activity and employment, first-year and seven-year total by state.

	Year 1				6-Year Total	
	Total Buyout Payments	Unrealized Phase II Payments	Total Economic Activity Impact	Total Employment Impact	Total Buyout Payments	Total Economic Activity Impact
North Carolina	$916,345,511	$174,570,000	$1,151,235,593	11,127	$4,677,522,725	$5,669,258,470
Kentucky	$576,933,971	$136,436,000	$651,056,001	6,607	$2,944,583,310	$3,168,482,172
Tennessee	$185,534,226	$34,822,000	$244,605,943	2,411	$950,123,338	$1,210,325,208
South Carolina	$168,786,284	$31,924,000	$199,271,486	2,053	$861,473,515	$981,480,158
Virginia	$154,442,872	$30,268,000	$196,506,735	1,863	$788,761,986	$967,068,892
Georgia	$144,850,613	$26,910,000	$191,299,675	1,769	$739,843,271	$943,830,885
Ohio	$24,346,285	$6,256,000	$27,135,427	271	$124,460,184	$131,610,276
Florida	$27,871,376	$5,198,000	$37,229,684	408	$142,247,341	$183,472,713
Indiana	$20,313,829	$5,336,000	$23,170,701	240	$103,753,755	$112,055,018
Missouri	$7,352,623	$1,932,000	$9,025,337	87	$37,507,323	$43,568,593

H.R.3160 Buyout Scenario

As shown in table 5, the model indicates that the $816 million in tobacco quota buyout payments to quota owners and growers that North Carolina would receive in the first year of the buyout, coupled with the loss of $175 million in expected Phase II payments, would result in a net increase in economic activity in the state totaling $995 million. This additional economic activity would support more than 9,600 additional jobs in the state. Through 2010, the cumulative economic impacts of the buyout would total nearly $7 billion in North Carolina.

Annual payments over the period would sustain the additional jobs created and enhance economic growth and development. In Kentucky, annual payments of more than $617 million, net Phase II reductions, would result in $708 million in additional economic activity in the first year and support 7,185 new jobs. In the six major tobacco states, the total economic impact of the buyout in the first year would be $2.48 billion and would support more than 24,000 additional jobs. Over all 10 states included in the model, the estimated impacts would be more than $2.58 billion and over 25,000 new jobs. The cumulative net economic impact of nearly $15 billion in buyout payments to all 10 states through 2010 would be more than $18 billion.

S.1490 Buyout Scenario

As shown in table 6, the model indicates that the $916 million in tobacco quota buyout payments to quota owners and growers that North Carolina would receive in the first year of the buyout, net Phase II reductions, would result in a net increase in economic activity in the state totaling $1.15 billion. This additional economic activity would support more than 11,000 additional jobs in the state. Through 2010, the cumulative economic impacts of the buyout would total $5.67 billion in North Carolina. In Kentucky, annual payments of more than $577 million, net Phase II reductions, would result in $651 million in additional economic activity in the first year and support more than 6,600 new jobs. In the six major tobacco states, the total economic impact of the buyout in the first year would be $2.63 billion and would support more than 25,800 additional jobs. Over all 10 states included in the model, the estimated impacts would be more than $2.73 billion and over 26,800 new jobs. The cumulative net economic impact of nearly $11.37 billion in buyout payments to all 10 states through 2010 would be more than $13.4 billion.

Recall that the payment rate under the S.1490 scenario is highest in the first year and declines over the six-year buyout period. Also recall that the S.1490 scenario bases total payments on 2002 quota levels instead of the 1997-2002 average. Thus, major flue-cured tobacco states—North Carolina, South Carolina, Virginia and Georgia—actually receive a higher level of buyout payments in the first year, and therefore larger economic impacts, under this scenario although the total payment level and total net economic activity impact is still lower than under the H.R.3160 scenario. Since buyout payments decline over the period, economic growth and development triggered by the infusion of early buyout dollars would be required to sustain initial employment growth estimated in the first buyout year.

DISCUSSION

Regardless of the near-term outcome of tobacco buyout legislation, this study provides valuable information for tobacco farmers and their communities. Tobacco producers, agricultural leaders, and Congressional staffers have expressed a strong desire for the information provided by this research effort.

The ultimate fate of tobacco quota buyout and transition legislation is entirely unknown at this point. Recent news reports have reiterated the commitment of House leadership to bring the tobacco buyout issue to a floor vote in the second session of the 108th Congress. Reports from the Senate have continued to emphasize the importance of linking tobacco quota buyout legislation and legislation granting the Food and Drug Administration the authority to regulate manufactured tobacco products although no formal progress has been reported on either front. While the impact estimates presented in this study mirror the only viable pieces of legislation currently under consideration, widespread expectations are that a passable tobacco buyout bill would likely have a considerably lower price tag than those in H.R.3160 and S.1490. Latest reports are that a buyout package totaling near $7 billion may be under consideration. This level is consistent with a failed proposal developed in November 2003 that would have attached the buyout to the Omnibus Appropriations bill. Although still unclear, some sources have indicated that a scaled-down buyout proposal would also include measures that would allow tobacco quota owners and growers to continue to receive expected future Phase II payments through 2010 as scheduled.

As the tobacco quota buyout issue progresses through the political arena, this research will evolve and update estimates of economic impacts associated with the proposed buyout. In addition to providing state-level impact estimates, requests for similar information at the congressional district level for major tobacco states have also been expressed. Data are being assembled and analyzed to allow I-O modeling of the tobacco quota buyout at the congressional district level. Further research could also analyze additional scenarios with alternative assumptions regarding future increases in demand for and production of U.S. leaf tobacco post-buyout, as domestic and world markets adjust to lower U.S. prices and market restructuring.

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