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North Central Piedmont North Carolina Tobacco Producers' Views Towards The Federal Tobacco Quota Buyout

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Abstract: The study reported here sought to determine North Carolina tobacco producers' perceptions of the current and future state of the tobacco industry. Findings indicate that North Carolina tobacco producers were concerned about the future of the tobacco industry. Respondents agreed that a federal tobacco quota buyout was needed to increase the price competitiveness of United States tobacco as well as the United States' share of the global tobacco market. Respondents also found production controls and FDA regulation over the manufacturing and consumer levels of the industry to be beneficial. The changing tobacco industry will need new educational programming from Extension.

Introduction

Tobacco has been the backbone of North Carolina since the state's founding in 1775. Farm sales of tobacco in the state total over \$1 billion annually, and together, tobacco manufacturing, processing, and farming make up between 5% and 6% of the gross state product (North Carolina Rural Economic Development Center, 2000). However, over the past few years, North Carolina tobacco producers have been met with several barriers in their efforts to provide the world with top-quality tobacco despite the use of new technology, excellent farming practices, and years of farming experience. Many factors such as lost production due to increases in the amount of foreign leaf imported into the United States have come about in the past few years and have had a detrimental effect on the tobacco industry as a whole. This factor alone has led to a decrease in stability and income among North Carolina tobacco producers (Flue-Cured Tobacco Cooperative Stabilization Corporation, 2003).

The United States tobacco industry has historically been controlled by the federal tobacco program, which was implemented under the Agricultural Adjustment Act of 1938. When the United States tobacco program

was initially established, it was done in such a manner as to allow only those holding growing rights (quotas) to sell tobacco legally. Under the program, producers were issued an acreage allotment and allowed to produce only a set number of pounds in any given year. This quota was determined by the United States Secretary of Agriculture and was based upon cigarette manufacturers' buying intentions, imports of foreign leaf, exports of domestic leaf, and the amount of tobacco in the Cooperative Stabilization surplus.

Under the program, a support price (loan rate) was established for each grade of tobacco in cooperation with the Commodity Credit Corporation (CCC). If the cigarette manufacturers were not willing to bid above the government loan rate for any lot of tobacco, an eligible grower could receive the lot's designated loan rate less any overhead deduction to cover the CCC's administrative costs. The cooperative would then arrange for the receiving, redrying, packing, storing, and eventual reselling of the tobacco under loan (Brown & Snell, 2000).

Although the tobacco industry had become a focus of criticism in the country, changes came about in the early 1990's that served to further benefit United States tobacco producers. Legislators recognized that domestically grown tobacco was becoming less competitive on the global market, so they enacted the Omnibus Budget Reconciliation Act of 1993 (Flue-Cured Tobacco Cooperative Stabilization Corporation, 2003). Brought about in response to an escalating volume of imports, the act required United States manufactured cigarettes to contain no less than 75% domestically grown leaf. Because of this act, the impact of foreign imports on the United States market was reduced, which in turn temporarily helped producers become more competitive in the global market (Flue-Cured Tobacco Cooperative Stabilization Corporation, 2003).

During the mid-1990's, however, the tobacco industry was affected by extremely detrimental legislation for tobacco producers. Health groups and government agencies began to view the tobacco industry as a disease-spreading entity. Because of this, pressure was put on legislators to act against the industry. The first major blow came on September 13, 1995, when President Bill Clinton proclaimed a tariff-rate quota (TRQ) for certain imported tobacco, primarily flue-cured and burley. Doing away with the domestic content requirement, the tariff-rate quota placed limitations on the quantities imported for consumption. Imports above quota levels were subject to a 350% ad valorem duty. However, most of the duty could be refunded if the same tobacco imported is used to manufacture cigarettes that are exported (Capehart, 2001). This appeared to be a strict law deterring imported tobacco, but in fact, the law eased restrictions on imports.

Another crucial blow to the industry came in the mid-to-late 1990's amid controversial debates and ridicule by health groups. As public support and concern grew for the need to offer smoker prevention, states began suing tobacco companies to recoup the cost of providing health care to people suffering from tobacco-related diseases (Chandler, 2002). In November 1998, the four largest cigarette manufacturers in the United States reached an agreement with 46 states to settle state suits brought against them. The attorneys general of the United States signed a Master Settlement Agreement (MSA) with cigarette manufacturers that stated that the manufacturers agreed to pay the states \$368.5 billion dollars over 25 years to compensate for Medicaid costs due to smoking. In return, the cigarette manufacturers were guaranteed that the states would file no further court suits pursuing these claims; they also gained limited immunity from other possible state-government claims (University of North Carolina, 2002).

The Master Settlement also called for participating manufacturers to address the negative impact the MSA would have on tobacco growers and quota owners. This resulted in Phase II of the settlement, which called for a \$5.15 billion fund to be divided among the states that produce cigarette tobaccos (Agricultural Policy Analysis Center, 2002).

Purpose and Objectives

The Federal Tobacco Buyout (H.R. 4520) signed into law by President Bush on October 22, 2004 has dramatically affected North Carolina's tobacco-dependent counties. The purpose of the study reported here was to determine the perceptions of North Carolina tobacco producers towards the federal tobacco quota buyout prior to its passage. In order to accomplish the aforementioned purpose, the following objectives were developed:

- To determine the demographic characteristics of North Carolina tobacco producers.
- To evaluate the general perceptions of North Carolina tobacco producers towards the proposed federal tobacco quota buyout.
- To evaluate the perceptions of North Carolina tobacco producers towards the competitiveness of American agriculture in the global market if a buyout takes place.
- To determine what North Carolina tobacco producers perceive to be possible advantages of a federal tobacco quota buyout.
- To determine what North Carolina tobacco producers perceive to be possible disadvantages of a federal tobacco quota buyout.

Methodology

The population of the study was comprised of North Carolina tobacco producers in five North Central Piedmont counties. Because North Carolina tobacco production comprises nearly 40% of all tobacco production in the United States, the study collected the views and opinions of producers within the largest tobacco-producing region of the country (National Agricultural Statistics Service, 2003). The population for the study consisted of 487 North Central Piedmont North Carolina tobacco producers compiled by the Farm Service Agency's Kansas City Statistical Division. From this population, a stratified random sample of 250 tobacco producers was chosen for the study. Upon completion of the study, 114 North Carolina tobacco producers completed and returned the survey instrument for a final return rate of 46%.

At the time of the study, a survey suitable to meet the research objectives was not found. A survey instrument was developed by the researcher based on the research questions of the study with the aid of an exhaustive literature review. The validity of the instrument was established by means of content validity. Brown (1983) defined content validity as "the degree to which items on a test representatively sample the underlying content domain" (p. 487). Brown recommended using expert judges as one means of establishing content validity. A panel of experts comprising the researcher's graduate committee reviewed the survey instrument for content validity. Face validity was established during a pilot test of the instrument consisting of 20 North Carolina tobacco producers who were not included in the survey population.

The survey instrument consisted of three sections: Section I—Demographic and Producer Characteristics, Section II—General Perceptions of the Tobacco Buyout, and Section III—American Tobacco Global Market Share. Cronbach's alpha was used as the reliability measure for this study. The benefit of the alpha is that the

computer print out provides a clue as to which items are not contributing to the measure. Davis (1971) suggested that 0.5 to 0.6 would be high enough in the early stages of research, while the 0.8 measure is commonly used. Cronbach's alpha reliability coefficients for sections II and III were .75 and .69, respectively. The demographic variables were not analyzed for reliability because of their static characteristics.

For the study, elements of Dillman's (2000) survey methodology were utilized to achieve an optimal return rate. A three-round mail questionnaire approach was used. In order to maximize the response rate, a series of phone calls were made to all non-respondents following the third round. In order to control for non-response error, Miller and Smith (1983) recommended comparing early to late respondents. Upon completion of the study, an evaluation of the data showed that there were no significant differences.

Findings

Research Objective One

North Central Piedmont North Carolina tobacco producers were asked to provide their complete demographic characteristics (Table 1)

Table 1.
Demographic Characteristics

Demographics	n		Mean or Percent	SD
Age			52.85	13.67
Gender	Male	110	96.5%	
	Female	4	3.5%	
Race/Ethnicity	Black	9	7.9%	
	Native American	1	0.9%	
	White	104	91.2%	
Highest Degree Earned	Less Than High School	11	9.6%	
	High School or Equivalent	76	66.7%	
	Associate's	9	7.9%	
	Bachelor's	18	15.8%	
Marital Status	Single	28	24.6%	
	Married	36	75.4%	
Number of Children			2.07	
			2.18	

Number of Family Members Supported by Tobacco Operation				
Portion of Income Tobacco Operation Comprises	Only	25	21.9%	
	Primary	62	54.4%	
	Secondary	27	23.7%	
Years of Experience Producing Tobacco Currently			31.47	30.75
Percentage of Tobacco Pounds Currently		Owned	48.35%	31.08
		Rented	51.01%	31.35
Current Market for Tobacco Operation	Direct Contract	90	78.9%	
	Auction	24	21.1%	

Research Objective Two

Respondents were asked to give their opinions in relation to the general perceptions of the federal tobacco quota buyout. Table 2. shows the means, standard deviations, and rankings for the 15 statements relating to the producers' general perceptions of the buyout. For the purpose of data analysis, readers should utilize the following specifications when interpreting the scale for tables two and three: 1-1.49 = Strongly Disagree, 1.50-2.49 = Disagree, 2.50-3.49 = Uncertain, 3.50-4.49 = Agree, 4.50-5.00 = Strongly Agree.

Table 2.
General Perceptions of the Tobacco Buyout

Statements	Mean	SD
Decreases in producer incomes can translate into less spending at the local level, which could be devastating to local economies that have not diversified and continue to thrive on tobacco production.	4.48	.86
Legislation such as the tariff-rate quota (TRQ) has weakened the current tobacco program by allowing imports of foreign leaf to skyrocket, adversely affecting the income of North Carolina farmers.	4.48	.77
Imports of foreign leaf are the primary cause for the dramatic loss of quota in recent year.	4.46	.81
In North Carolina, tobacco-dependent counties are some of the most economically	4.32	.88

distressed counties.		
A portion of federal excise taxes should go to providing economic development assistance to tobacco-dependent communities.	4.23	.92
Job opportunities outside of tobacco production in many counties are limited.	4.11	1.06
By eliminating the rental rate for quota, domestic leaf prices would decrease, therefore helping United States tobacco compete with cheaper foreign leaf.	4.06	1.06
I would be interested in diversifying into non-tobacco activities on my farm.	3.94	1.09
If United States tobacco production declines, there will be an increase in demand for domestic leaf, which would benefit tobacco producers' tremendously.	3.91	1.12
Someone in my family will be producing tobacco in ten years.	2.67	1.08
The current federal tobacco program serves to add structure and stability to the tobacco industry.	2.63	1.40
Declines in the demand for cigarettes at the consumer level translate into declines in tobacco demand at the grower level.	3.62	1.04
I would encourage my children to grow tobacco.	2.36	1.20
Cigarette manufacturers are concerned about tobacco producers.	2.19	1.04
If tobacco companies do well, tobacco producers do well.	2.11	1.20
Scale: 1=Strongly Disagree, 2= Disagree, 3=Uncertain, 4=Agree, 5= Strongly Agree		

Research Objective Three

Respondents were asked to gauge their opinions in relation to the effects a federal tobacco quota buyout

would have on American agriculture in the global market.

Table 3.
The Buyout and Global Market Share

Statements	Mean	SD
If a buyout occurs, the competitiveness of United States tobacco in the global market would increase.	4.28	.89
A federal tobacco quota buyout is needed in order to increase the price competitiveness of United States tobacco.	4.25	.88
Several buyout proposals call for production controls and restrictions on where tobacco may be produced in an effort to keep tobacco production in counties where it has historically been produced. These production controls are a necessity to ensure production remains in the Piedmont counties.	4.25	.97
If a buyout does not pass, the tobacco program will eventually phase itself out.	4.16	1.04
A post-buyout tobacco industry with no production controls would probably increase expansion and cause a decrease of production in the Piedmont and an increase in the Coastal region of the state.	4.13	1.02
Regardless of whether a buyout passes, the current tobacco program will be eliminated in the next five years.	4.04	1.10
Most quota buyout proposals call for payments to quota owners of \$8/lb. and producers of \$4/lb. This is a fair estimate of quota's worth.	4.02	.94
In recent years, the United States has suffered a loss of global market share due to negative legislation.	3.94	.79
The only way a buyout will be passed is if it is coupled with FDA regulation of the tobacco industry.	3.94	1.07
FDA regulation is a benefit if applied only to the manufacturing and consumer levels of the tobacco industry.	3.75	1.04
Regardless of whether a buyout passes, the current tobacco program will be eliminated in the next five years.	3.70	.91
If a quota buyout occurs, there will be an elimination of the current federal tobacco program and all price supports that are associated with it, in turn benefiting the tobacco industry.	3.69	.80
In recent years, the United States has suffered a loss of global market share due to an increase in domestic leaf prices.	3.48	1.07
In recent years, the United States has suffered a loss of global market share due to lawsuits.	3.32	.97
	3.20	1.10

If a buyout occurs at the \$8/\$4 level, I will continue to produce tobacco.		
FDA regulation over the tobacco industry will have a negative effect at the grower level.	3.16	1.04
Many buyout proposals lay out plans for some type of price support following a buyout. This would serve to benefit tobacco producers.	3.15	1.42
If a buyout occurs at a reasonable level of payment, I will continue to produce tobacco and invest the buyout payments into expansion of my farming operation.	2.96	1.12
If a buyout occurs at any level of payment, I will exit production completely.	2.76	1.08
Scale: 1=Strongly Disagree, 2= Disagree, 3=Uncertain, 4=Agree, 5= Strongly Agree		

Research Objective Four

Respondents were asked to gauge their opinions in relation to what they foresee as possible advantages the federal tobacco quota buyout would have on the United States' tobacco industry.

Table 4.
Possible Advantages of a Federal Tobacco Quota Buyout

Possible Disadvantages	Yes or No	Frequency	Percentage
Lower Leaf Price	Yes	64	56
	No	50	44
No Quota Rental Rate	Yes	90	79
	No	24	21
FDA Regulation Over The Tobacco Industry	Yes	50	44
	No	64	56
Increase In Demand For Domestic Leaf	Yes	87	76
	No	27	24
Elimination Of The Current Tobacco Program	Yes	56	49
	No	58	51
Expansion Possibilities	Yes	61	54
	No	53	46
Final Payment To Exit Production	Yes	37	32
	No	77	68

Increase In United States Global Market Share	Yes	77	67
	No	37	33
No Production Restrictions	Yes	47	41
	No	67	59

Research Objective Five

Respondents were asked to express their opinions in relation to what they foresee as possible disadvantages the federal tobacco quota buyout would have on the United States' tobacco industry.

Table 5.
Possible Disadvantages of a Federal Tobacco Quota Buyout

Possible Disadvantages	Yes or No	Frequency	Percentage
Elimination Of Current Tobacco Program	Yes	27	24
	No	87	76
No Price Supports	Yes	52	46
	No	62	54
No Production Controls	Yes	47	41
	No	67	59
Stress On Local Economies Dependent On Tobacco Production	Yes	64	56
	No	50	44
Decrease In Number Of Farmers	Yes	71	62
	No	43	28
Moving Of Production From Piedmont	Yes	70	61
	No	44	39
No Marketing Restrictions	Yes	29	25
	No	85	75
Price Control By Cigarette Manufacturers	Yes	85	75
	No	29	25

Conclusions

Based on the findings of the study reported here, the following conclusions were reached.

- Tobacco producers disagreed with encouraging their children to grow tobacco and additionally agreed that job opportunities outside of tobacco in their respective counties were limited. Given this factor, it can be assumed that the local tax base of these communities, which has traditionally been greatly tobacco dependent, will face many challenges in converting to other business enterprises, which will, in turn, present challenges for Extension educational programming.
- It was found that the respondents believed the following would be possible advantages of a federal tobacco quota buyout: lower leaf prices, no quota rental payments, increase in demand for domestic leaf, expansion possibilities, and an increase in United States global market share. The aforesaid perceptions serve as an indicator that the tobacco industry is greatly changing and will require new educational programming from Extension.
- Respondents also believed the following would be possible disadvantages of a federal tobacco quota buyout: stress on local economies dependent on tobacco production, decrease in number of farmers, moving of production from Piedmont, and price control by cigarette manufacturers. With the aforementioned perceptions, it is highly imperative that Extension programs in tobacco-producing states provide research-based information to help producers make informed decisions regarding their futures.

Recommendations

- Increased Extension educational programming should be provided by state and local governments to assist tobacco producers in learning about other commodity enterprises outside of traditional tobacco production agriculture.
- Entities such as the Golden Leaf Foundation and the Tobacco Trust Fund Commission should continually strive to provide programming and funding to improve the lives of individuals affected by the ever-changing tobacco industry.

Implications

The Federal Tobacco Buyout has greatly changed the economic, social, and political structure of North Carolina. Many families for generations relied on the golden leaf for their livelihood. With the changes in the industry, tobacco-dependent communities will have to continuously seek ways to improve the lives of their citizens, without the dependence upon the traditional cash crop, a hallmark of the state's history. Extension as an educational entity will have to play a major role in tobacco-dependent communities' transition into new economic enterprises as the agricultural industry continuously changes.

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