"The unquestionable pillars of tobacco production in the United States are our soil and climate, our research capabilities, our knowledge and experience, and our reputation for a steady and reliable supply of quality leaf. None of these is dependent upon a Tobacco Program. With or without a program, we still have a solid basis for tobacco production With or without a Tobacco Program, what we will have to change is our strategic focus. We will have to turn our focus away from reliance on government ...to a strategy that emphasizes responsiveness to customer needs and assurances of product integrity. " -J. T. Bunn, December 9, 1998

Thank you, Chairwoman Dole and Congressional members for inviting me to participate in this important hearing. I would like to say that I am going to bring you some good news, Unfortunately, that is not possible. As you have heard, this maybe the toughest time the U.S. tobacco industry has ever known. This morning I want to talk about the Leaf Tobacco Exporters Association's views on the state of our industry and tell you what we think must be done to salvage our tobacco industry in this country.

For decades, LTEA member-companies have worked hard to support the U.S. market - its growers, workers and communities, by making major investments in leaf processing facilities within the tobacco-growing region. Today, we find ourselves at a point where there is very little left to support. U.S. production of flue-cured and burley tobacco is currently less than half the levels of just a few years ago. The decline in production continues as the domestic market for cigarettes falls. High support prices and the restrictive provisions of the federal tobacco program make it impossible for U.S. growers to compete in the world market. During this same period, other countries have progressively expanded production.

It is not news to any of us that many of the problems in the U.S. market have been brought on by numerous legislative and legal battles during the last decade. Yet the greatest impediment to recovery in the U.S. market remains inviolate and Unchallenged -and that is the federal tobacco program with the artificial costs it forces on domestic leaf prices. Simply put, the program has become so antiquated and inflexible it is destroying the entire tobacco domestic and export trade. Changes must occur. And they must occur NOW if we are to salvage U.S. flue-cured and burley production.

The unnecessary costs that result from the "cost of quota" and the inherent rigidity in the program have dramatically reduced the competitiveness of U .S. leaf in the world market. Besides contributing to the large production cuts of the last six years, this situation also has reduced the amount of U.S. leaf exported into the world market. The number of export customers has been dropping for more than a decade, and the list is rapidly getting shorter each year. Most recently, we lost two important and long-time export customers who decided not to purchase any U.S. flue-cured tobacco, due primarily to the high costs of our leaf. And it does not stop there. While we continue to promise and promise and promise these customers that U.S. price reform is just aroUnd the comer, we now have been informed by the remaining few export customers that they too are seeking less costly alternatives to U.S. leaf. Further declines in export sales will devastate the already crippled domestic tobacco market by reducing our economies of scale for producing and processing.

Leaf Tobacco Exporters Association endorses the principle of a buyout because we believe a buyout can make U.S. tobacco more competitive in the world market. However, we do have serious concerns about some aspects of the various legislative proposals that have been drafted for deliberation in previous legislative sessions. Weare most concerned about legislative language that would retain the market distorting features of the current federal tobacco program that restrict production and inflate leaf prices to uneconomic and noncompetitive levels.

We believe that any buyout proposal has to be written with the long-term interests of the growers in mind if the legislation is to be economically viable. And by "growers" we mean those producers who intend to continue growing tobacco post-buyout. All of us are feelitig the .. constraints of our shrinking market, but it is the growers who have been hurt the most by the current tobacco program's free-fall and unresponsiveness to market conditions. In the long-run, growers will not be well served if some of the worst features of that program are permitted to continue, hampering farm efficiency and compromising competitiveness.

I want to define LTEA's position on specific features of legislation regarding a tobacco quota buyout and the federal tobacco program.

First and foremost, LTEA strongly supports any and all efforts to make U.S. leaf tobacco more competitive in the world market. We believe a buyout of the program is an essential step in this direction. The cost to lease quota probably adds 50 cents per pound on average to the cost of U.S. leaf tobacco. The current law places the U.S. growers at a severe competitive disadvantage. There is no other tobacco-producing country in the world that requires growers to pay for the privilege of growing tobacco. Too often, we make excuses for our high prices. Other countries can pay low wages, they have government subsidies, the currency exchange rates are against us. But these so-called justifications miss the point altogether. These are advantages of our competitors -they are **not** reasons we should fail to address the role of price in a competitive market.

Second, the interests of non-producing quota holders, who outnumber active producers more than ten to one, are diametrically different from the interests of the growers. Quota holders wish to maximize their income from quota rental and may be unconcerned if production is reduced as long as their income stream is protected. Quota owners have exercised a strong influence over the federal tobacco program for years and have often resisted changes that they believed would reduce quota income.

As a result, needed legislative changes in the program have not been made, and flue-cured and burley quota levels have been reduced by more than half since 1998. Quota rent levels have increased significantly while good growers have been forced to operate at production levels far below their optimum efficiency. This has contributed to the dramatic increase in quota lease rates, as growers have bid against each other in an effort to maintain an efficient scale of production. The resulting non-value-added costs also have made it difficult for u.s. growers to accept the lower prices that would be necessary to compete in the world market.

Third, we believe that the only solution to this problem today is dramatic policy change. We believe any legislation that seeks to replace the market distorting features of the existing progranl with new provisions that continue to limit production and maintain support prices at unrealistically high levels would guarantee a continued decline in U.S. tobacco production. More important, it would represent the loss of a historic opportunity to restore the competitive position of U.S. leaf in the world market and provide U.S. growers a chance to stay in business. This can only be done by freeing up efficient growers to do the best job they can, unfettered by restrictions on production and arbitrary floors on price.

Fourth, although LTEA is not taking a formal position on legislative proposals regarding the anlount of buyout payments to quota holders and growers, we do have strong concerns about the high cost of a buyout and the financing of these payments through assessments, or user fees, on manufacturers of tobacco products. Certainly, any assessments placed on the manufacturers would likely be passed on to the consumer, thus forcing the price of U.S. tobacco products to rise and the demand for tobacco products to decline even further. The unintended consequence of this financing mechanism would likely create even more hardship for the u.s. grower by reducing the need for domestic leaf.

Fifth, we also question the basis in some proposed legislation for providing quota buyout funds to growers who choose to continue producing tobacco because such payments would likely be contrary to World Trade Organization provisions on agriculture.

Sixth, we fail to understand the rationale for allowing quota owners who are also growers to "double-dip" by receiving payments for both their quota and their production, **and still** remain eligible to produce tobacco. We believe this concept has no place in any buyout legislation -it doesn't make sense because it simply costs too much.

Seventh, we believe that a post-buyout marketplace should be characterized by free market supply and demand. We believe that U.S. growers should be free to produce tobacco according to domestic and international market demands. Allowing the cost of U.S. tobacco to become competitive in the world market could minimize the need to import large volumes of foreign leaf.

In line with this, we also believe that buyout legislation should not place restrictions on post-buyout tobacco production areas. Growers who choose to continue producing tobacco and any new growers who decide to enter the market should have the flexibility to grow tobacco wherever the natural resources and climatic conditions would allow. We see no need for a federal oversight committee to place restrictions to protect a few growers to the detriment of the industry as a whole.

However, LTEA believes that ifbuyout legislation establishes a national tobacco board, it must include provisions for leaf export dealer representation. Some previous legislative drafts failed to recognize the difference between product exporters and leaf exporters. There is indeed a significant difference that must be acknowledged.

Finally, while FDA regulation of tobacco products is an issue that primarily concerns the manufacturing sector, we are strongly opposed to any type of FDA regulation that would impose direct oversight of farms and leaf processing operations. Costly and unnecessary governmental regulations will further burden the tobacco growers and increase the cost of U.S. leaf to our remaining foreign customers. We also think it is impractical to try to regulate at the farm and processing levels. If manufacturers are required to comply with FDA regulation, then it is the manufacturers who should be responsible for issuing specifications to processors and producers and monitoring their compliance. This would avoid the confusion -and the high cost -that would be inherent in trying to enforce multiple layers of compliance across multiple levels of the industry. It is, we believe, the only way such a regulatory environment can have any chance of working.

For years now, we have been dismayed by the lack of progress in making any substantive changes in the tobacco program. Even with the failure of so many in our industry to recognize the need for any change at all! Now we all are suffering the consequences of this inertia.

Tobacco policy must be changed. **Now. All of the market-distorting, non-competitive features must be laid to rest, relics of a bygone era. We need a marketplace shaped by supply and demand, one that will enable U.S. growers to produce tobacco competitively for the domestic and international markets.**

Thank you. ...