

Senator Dole, thank you for holding this important hearing, and thank you for offering Universal the opportunity to participate.

Before I begin my formal testimony, please allow me to give you a brief overview of Universal, and the role that Universal plays in an industry that is so important to the economic vitality of North Carolina.

Universal is the world's largest independent leaf tobacco merchant.

Put more simply, we purchase leaf from the growers and process and sell the leaf to tobacco product manufacturers.

Universal's global headquarters is located in Richmond, Virginia, but our U.S. operational headquarters is located in Rocky Mount, North Carolina and we now have the largest and most modern leaf processing plant in the world located just outside of Nashville, North Carolina.

The leaf dealer sector is part of the domestic and global tobacco industry that is often overlooked, but we contribute a great deal to the economy of North Carolina.

During the last flue-cured and burley processing seasons, Universal processed in North Carolina about 120 million pounds of the flue-cured crop and about 110 million pounds of the burley crop.

That translates to about 27 percent of total flue-cured crop sold and about 40 percent of the total burley crop sold.

In addition, during the same time period, Universal employed more than 1,000 people in North Carolina and generated more than \$20 million in payroll for the North Carolina economy.

With these facts in mind, I want to stress that Universal plays a key role in the U.S. tobacco industry.

And, we are proud of our long-time support of the domestic industry, including our recent \$130 million investments in the U.S., of which more than \$100 million was spent in North Carolina.

Unfortunately if drastic change doesn't take place very soon in the domestic tobacco industry, there will be very little left in the United States for Universal to support.

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Senator, your staff asked me to speak today about how the current state of the domestic tobacco industry is impacting Universal's business, and what we

believe must happen to dramatically change this situation.

Unfortunately, I must tell you that the domestic tobacco industry is in serious decline, due primarily to the federal price support program that has worked to price U.S. leaf out of the world market and paralyzed good growers by rewarding mediocrity and increasing the cost of doing business in the U.S.

This, obviously, is having a detrimental effect on our business.

Without a doubt, the last several years have been some of the most tumultuous and uncertain in the history of tobacco in the United States.

And these times have had an effect on everyone in the industry.

Let's look at some of the cruel and sobering facts:

U.S. production of both flue-cured and burley tobacco is currently at half of the level of just a few years ago -and we know from internal and external data that we're facing a potentially devastating quota cut for the 2005 flue-cured crop;

Exports -the only growth engine left for the domestic market -are shrinking at an alarming rate;

And, we believe both of these issues are directly related to the federal tobacco program.

As a result, thousands of growers have been forced to scale back their operations, reduce workforce, and take income cuts.

Growers have made the capital investments and have the equipment to produce a crop twice- the size as today -yet many growers are making bad long-term economic decisions today out of pure necessity just to stay in business in the short term.

But, growers and their families are not alone in experiencing pain.

In the leaf purchasing & processing sector, consolidations fostered out of basic survival have shrunk the industry as domestic and export purchase levels continue to decline without a bottom in sight.

All three of the major independent leaf dealers have been forced to shut down major processing operations and downsize their workforce.

Universal alone has gone from having seven leaf processing facilities in 1998 to three in 2004.

And, Universal's U.S. employment level has dropped from approximately 8,000

jobs to about 2,500 during that same time period.

Unfortunately, it is very likely that more bad news will occur in our sector - and throughout the entire domestic industry unless the "handcuffs" of the tobacco program are removed and good growers are given an opportunity to compete in the world market.

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Now, you may be asking yourself, if the state of the domestic tobacco market is so bad, why did Universal recently invest \$130 million in the United States?

How could Universal make such a significant commitment to the United States market when the future looks so bleak?

Yes, we recently completed a major modernization effort in the United States by building a brand new, 1.2 million-square-foot, state-of-the-art processing factory in Nash County, as well expanding and renovating our Danville, Virginia facility so that it, too, would contain the most modern leaf processing equipment in the world.

Yes, that \$130 million outlay does represent the single largest investment ever made by Universal in processing facilities.

And, yes, we are very proud to have made these investments in North Carolina and Virginia.

However, I am sorry to say that we made these investments with little or no confidence in the future of the U.S. market.

Rather, Universal made these investments because we needed to increase efficiency in order to remain viable in the face of smaller U.S. crops and the ever higher quality demands of our customers.

Universal recognizes that we took a substantial risk as the fundamental problems facing our industry remain squarely in place and, so far, no one has shown any true inclination to deal with them.

But, we felt that these were the decisions and investments that we had to make in order to maintain our position as the premier leaf dealer in the U.S. - even if the export market completely collapses and we only service the shrinking domestic market.

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So, what must be done to ensure the future of the domestic tobacco industry?  
Without a doubt, the greatest challenge the industry faces today is **the need for substantial and immediate change - the time has come to eliminate the federal tobacco price support program.**

Let me explain.

The program has been historically one of our greatest assets and one of the most effective and efficient farm programs in the United States.

Now, it has become an albatross - clearly saddled with antiquated rules and noncompetitive prices.

And, it has become so inflexible that it cannot react and effectively respond to changes in global and domestic markets.

Many in the industry -including Universal -believe the program has led to greatly inflated U.S. tobacco prices to the point where the U.S. is no longer competitive in the world market.

This is evidenced by the declining export figures we've all seen.

Regrettably, more and more foreign customers are turning away from U.S. leaf and seeking cheaper alternatives in other countries such as Brazil, Malawi, and China.

Because of these reasons and others, Universal strongly believes the only way for U.S. leaf to be more price competitive in the world market is to allow the market to work without restrictions on production or prices.

That's why, in principle, we support a quota buyout and its subsequent elimination.

The right to grow tobacco must be placed squarely in the hands of the growers if the domestic industry has any chance of long-term survival.

Good growers must have the ability to expand and achieve economies of scale if they are to be able to compete profitably in the world market.

The United States is the only country in the world where growers, in some cases, have to pay for the privilege of growing tobacco.

This places U.S. growers at a severe competitive disadvantage to growers elsewhere in the world.

But more importantly, we believe that **the complete elimination of the federal price support system is absolutely essential if the U.S. grower is going to be able to compete effectively in the world market.**

Any new tobacco legislation that emerges from the U.S. Congress should not limit production or have measures that support prices at artificial and noncompetitive levels.

Instead, these production and price issues should be determined by simple supply and demand economics.

Universal believes that a move to a free market system will help to restore the competitive position of U.S. leaf tobacco in the world market and stabilize domestic leaf production.

In fact, we believe that it is the **only** step that can achieve these important objectives and restore the viability of the domestic tobacco industry.

These are just two of issues that Universal believes must be resolved in the very near future, but we believe that these are the most critical issues.

I will offer a more thorough explanation of our views on these and other issues for the record.

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Senator Dole, let me close my testimony by stating that Universal has been - and remains today - a significant buyer and the largest processor of U.S. tobacco.

We have worked hard to support this market, its growers, and its workers - and I believe that our recent \$130 million investments lends full credence to our commitment to the U.S. market.

We fully intend to be here for years to come - processing U.S. tobacco in our state-of-the-art processing facilities.

But, the time is fast approaching when there may be very little left for us to support.

That is why change must come and it must come soon.

In some cases, these changes will be painful - but no change at all is bringing a great deal of pain as well.

It will take strong leaders with the willingness to make the tough decisions in the short-term in order to have a prosperous long-term.

Senator Dole, I applaud the leadership that you have shown in focusing congressional attention on these issues that are so vital to the future of the domestic tobacco industry.

Universal stands ready to work with you to do what needs to be done.

Yes, reaching these goals will be difficult and challenging.

But, the cost of **not** acting is further decline in production of tobacco in the United States and the rapid disappearance of one of the Southeast's most important industries.

Thank you again for inviting me to testify before this subcommittee hearing.

I greatly appreciate the opportunity you have given me, and I hope that you find my testimony useful as you and your colleagues in the United States Congress discuss ways to stabilize and improve the domestic tobacco industry.

I look forward to answering any questions that you may have.