

North Carolina Farm Bureau is pleased to testify today on this critical issue of a buyout of the tobacco price support and quota system. Thank you for putting your shoulder to the wheel on behalf of North Carolina's farmers and quota owners in pushing for a reasonable buyout of this badly broken system. We recognize that this is not an easy issue to tackle. You have made it your top priority and have worked tirelessly in a bipartisan manner to move this issue towards a successful conclusion. For this I thank you.

The tobacco price support and quota system has been good to farmers. I cannot say enough good things about the economic, social and environmental benefits this sound program has brought to thousands of communities. Today though, the program is not working for farmers and the tobacco industry for the following reasons:

- 1) It was never designed for the current intense world competition that our farmers face today.
- 2) It was never designed for large-scale farming operations that we have today.
- 3) It was never designed to operate under the current marketing conditions, especially contracting.
- 4) It was never designed to withstand the consequences of the Master Settlement Agreement.

North Carolina's rural economy has taken many hits as traditional industries, including tobacco, resize, restructure and adjust to world economic realities. According to Blake Brown, Extension Economist at NC State University, North Carolina farmers have seen a \$500 million dollar drop in annual farm gate income from tobacco farming since 1997. Bar a weather disaster, economists are forecasting potential for another \$200 million dollar loss next year because of an unprecedented 30% quota cut. These combined figures represent a \$700 million dollar loss of equity used to finance farming operations. Anyone who operates a business understands what happens when the balance sheets reflect such a loss of assets. I am sure the panel of ag lenders will address the impact of loss of collateral on credit worthiness and the ability to repay loans. If the 2005 projected quota cut comes to pass, the Coop will again be under tremendous pressure to mitigate the impact. I am sure the coop chairman will explain the difficulty and consequences of further intervention.

Additional quota cuts signal the end of the United States being a reliable supplier of flue-cured tobacco on the world market. We have steadily lost foreign buyers due to high prices and low leaf selectivity. Further loss of quota will seal our fate. Our foreign customers are watching the buyout issue very closely. They are being forced to make the business decisions on whether to remain customers of

American leaf. Once we have lost these markets for leaf tobacco, it will be difficult to get them back.

Additional quota cuts will cause the already high rent for quota to further I escalate. Neighbor bidding against neighbor... friend against friend for whatever quota there is left to rent. We will see farmers forced to exit tobacco farming without an option for orderly transition or a safety net. As we consider massive restructuring of the program to salvage some stability for tobacco producers; who will win that political tug-of-war, the east -the piedmont -the quota owners -or the producers?

Tobacco quota impacts farmland values. The check-off funded export promotion program run by Tobacco Associates is running out of necessary funding. The check-off funded Tobacco Research Commission is also hurting. As assessments spiral out of control, the whole no-net-cost infrastructure has become a house of cards and is on the verge of collapse. Political realities make federal funding of these programs impractical. So where do we go? What do we do?

The impending collapse of the tobacco quota system will be a harsh and financially devastating occurrence for farmers and rural North Carolina. We have plowed this row to the cliff and can go no farther.

Farmers were not at the table when the Master Settlement Agreement was negotiated in 1998. The public health community hoped the MSA would begin the demise of tobacco manufacturing. Sen. Dole, just the opposite happened. Today, we have startup cigarette companies that are not only growing, but thriving using cheap imported tobacco and making minimal contributions to the MSA funds! Because of the impact the MSA has had on the quota system, farmers are swallowing the economic impact while state governments balance their budgets with the proceeds of the settlement.

Senator Dole, for there to be a future for North Carolina tobacco farmers, our producers must be unfettered from a program that has regrettably run its course. Farmers must be allowed to compete and meet their customer's needs. This can only be obtained through a complete, adequately funded, total buyout of the current tobacco quota system.

Adequate compensation for their investment in the program will allow many farmers to exit the industry with dignity. However, there must be a stable future for those farmers who wish to invest in growing and selling tobacco. NC Farm Bureau is at your disposal... anytime... anywhere... anyplace... to continue to work in a serious way with any group. ..the manufacturers, leaf dealers and the public health community to make certain farmers have a future.

Thank you very much.

