NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

PRESS RELEASE

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POLICY CENTER RELEASES TOBACCO STUDY

The North Carolina Center for Public Policy Research released a major study of the tobacco industry Monday. Entitled The Tobacco Industry in Transition, the study examines the federal tobacco programs, the six major tobacco companies, and the issue of smoking and health.

"When the federal tobacco program comes within 11 votes of being abolished by the U.S. Senate, it is time for political leaders in Washington and Raleigh to develop new policies for the 1980s," said Ran Coble, the Executive Director of the North Carolina Center. Coble said the book is being released to contribute to a more informed discussion of the $1.1 billion industry, which provides about one-third of North Carolina's total farm income.

For the past two years, the Center called on experts around the world to examine five concerns confronting tobacco farmers, companies and now the U.S. House of Representatives -- the federal allotment and price support programs, crop alternatives for tobacco farmers, American leaf exports, tobacco corporation diversification, and the effects of smoking on health. The report juxtaposes opposing points of view within each of these areas. William R. Finger, editor of the book, stated "We have prepared the book with a wide range of readers in mind -- from scholars and experts to those with only a casual or limited interest." The 326-page book includes these findings:

- The size of tobacco farms is increasing while the number of farms is decreasing.

- Tobacco farming is becoming more mechanized due to use of bulk barns and the mechanical harvester.

- Crops such as trellis tomatoes, strawberries, apples and peaches yield as much income per acre as flue-cured tobacco for farmers in North Carolina.

- From 1960-79, the U.S. share of the world leaf market shrank from 61 to 29 percent.

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- More and more cigarette manufacturers are buying up non-tobacco companies and diversifying into other fields. For example, Philip Morris now owns the Miller Beer and Seven-Up soft drink companies, while R.J. Reynolds owns DelMonte Foods.

- Health concerns have refocused consumer demands for low-tar, low-nicotine cigarettes so that, by 1979, these brands accounted for close to 50 percent of U.S. cigarette sales.

- The debate over whether smoking causes cancer has expanded into research on the potential hazards of cigarette smoke on the nonsmoker and the possibility of producing a less hazardous cigarette.

The list of contributors to the anthology includes Charles Pugh, agricultural extension economist at N.C. State University; Hugh Kiger, the executive vice-president of the Leaf Tobacco Exporters Association; Joseph Kinney, staff director for the Committee on Agriculture of the National Governor's Association; the general counsel for the Tobacco Institute and the general counsel for a Non-Smokers' Rights organization; columnist William Buckley; and former Secretary of Agriculture Robert Bergland.

The Center is an independent nonprofit organization created to examine public policies that affect North Carolina. It is supported by foundation grants and has about 600 subscribing members. It has recently issued other reports on teacher certification and the needs of Indians in North Carolina. The Ford Foundation provided funds to support the tobacco study. Copies of the book may be obtained for $23.95 by calling Lexington Books toll-free, 1-800-428-8071, or by writing the North Carolina Center for Public Policy Research at P. O. Box 430, Raleigh, North Carolina 27602.

For more information, call Beth Briggs at (919) 832-2839.

STATEMENT BY RAN COBLE

EXECUTIVE DIRECTOR, N. C. CENTER FOR PUBLIC POLICY RESEARCH

Press Conference for Release of

The Tobacco Industry in Transition: Policies for the 1980s

September 28, 1981

On behalf of the Board of Directors and staff of the North Carolina Center for Public Policy Research, I'd like to welcome you to our press briefing on the release of our latest study, The Tobacco Industry in Transition: Policies for the 1980s. First, let me introduce you to the people at the head table:

- Mr. Hawk Johnson, Treasurer for the Center's Board of Directors and Director of Public Affairs for North Carolina National Bank in Raleigh;

- Senator Gerry Hancock, state senator from Durham and former Chairman of the Board for the Center;

- Mr. Bill Finger, the editor of this book and the editor of the Center's quarterly magazine, N.C. Insight;

- Dr. Charles Pugh, an extension economist at N.C. State University and the author of two of the best chapters in the book concerning the federal tobacco programs; and

- Dr. Hugh Kiger, executive vice-president of the Leaf Tobacco Exporters' Association, who also authored a fine contribution to the section of the book on the expanded flue-cured tobacco world market.

Why the Center Chose to Do a Study on Tobacco

As many of you know, the North Carolina Center for Public Policy

Research is an independent, private, nonprofit organization created to examine public policy issues that affect North Carolina. We chose to do a study of the tobacco industry because it has such a great effect on North Carolina. Tobacco is important in money terms: it provides about one-third of North Carolina's total farm income, about $1.1 billion dollars a year. It's important in people terms: about 265,000 people are involved in tobacco-related jobs. And it's important in business terms: some of the major tobacco companies have either manufacturing plants or corporate headquarters in North Carolina.

We also chose to do a study of tobacco because, in the last few years and particularly in the last few weeks, it has become apparent that tobacco is not a sacred cow in Congress anymore. Our political leaders in Washington and Raleigh need to learn from tobacco farmers and the tobacco companies, because they are changing their mode of operations rapidly. In an environment of federal budget cuts, political leaders in a tobacco state have to develop new policies for the 1980s -- new policies based on what the latest facts and trends in the industry are instead of the traditional approach of "Are you for tobacco or a'gin' it?"

The Center is releasing the book at this time because tobacco programs are, as "The Music Man" said, in trouble, right here in River City. Even the most adamant defender of the tobacco programs has to recognize the need for a period of reflection when the federal tobacco programs come within 11 votes of being abolished by the U.S. Senate and when a proposal to reduce some tobacco support prices fails by only 1 vote. The U.S. House of Representatives begins debate on the Omnibus Farm Bill this week, and we hope this book will be open on each one of your desks when you write your news articles or do your radio or TV stories.

Why the Book Is Important

We think the book is important for two reasons: First, it has something to say to the policymakers who face a vote in the House of Representatives or who hold state or national offices. If you're interested in how the federal tobacco programs work, read Charles Pugh's article. When an amendment is offered in the House to abolish the tobacco program, see what he says about the possible consequences of that vote. And when legislators begin looking for alternatives to elements of the tobacco program like the price support or allotment systems, Dr. Pugh's article is where they can be found.

The second reason the study is important is that it contains new research in many areas, new facts, and a fresh look at trends in the industry. Let me take a few minutes to review some of our findings.

Review of the Findings in the Study

Part I of the book is devoted to a discussion of the federal tobacco programs and tobacco farmers.

- In looking at tobacco farming operations, we found that the size of tobacco farms is increasing while the number of farms is decreasing. Specifically, from 1972-79, the flue-cured "farm management unit" increased in size by 45% while the number of operations declined by almost a third.

- Tobacco farming is becoming more mechanized due to use of bulk barns and mechanical harvesters. Again from 1972-79, the amount of the flue-cured crop that was harvested mechanically jumped from 2% to 30% and the amount cured in bulk barns increased from 8 to 61%.

- You have always heard that nothing can touch tobacco as a cash crop in North Carolina. We found that trellis tomatoes, strawberries, apples, and peaches yield as much income per acre as flue-cured tobacco in North Carolina. This is a finding in Part II of the book entitled "Alternatives for Tobacco Farmers."

Part III of the book is devoted to World Leaf Sales.

- Here we found that from 1960-79, the U.S. share of the world leaf market shrank from 61 to 29%, yet overall U.S. exports rose. This seemingly contradictory finding is explained by the fact that though the overall market for cigarettes is expanding, U.S. companies are getting a smaller share of the pie. This is because the quality of other countries' tobacco is improving while their prices are still below ours.

Part IV is an important part of the book; it's an in-depth look at what we called "The Big Six" tobacco manufacturers -- R.J. Reynolds, Philip Morris, Liggett and Myers, American Tobacco, Brown & Williamson, and P. Lorillard.

- We found that R.J.Reynolds and Philip Morris moved far ahead of the other companies in sales and profits by taking advantage of a booming international cigarette market, particularly in Third World countries and by diversifying into other products.

- Cigarettes continue to be the major moneymaker for the tobacco companies but the per cent of total revenue from cigarettes is on the decline. Evidence of this can be found in examples like Philip Morris owning the Miller Beer and Seven-Up soft drink companies and R.J. Reynolds owning DelMonte Foods.

- The issue of smoking and health dominates the fifth Part of the book with a review of the scientific evidence -- pro and con -- on whether smoking causes cancer and a discussion of issues that have become the health debate for the 1980s: the potential hazards of cigarette smoke on the nonsmoker and the possibility of producing a less hazardous cigarette.

- You'll also find information you can't find anywhere else in a chapter that reviews restrictions on cigarette smoking and advertising that have been levied by governments in 35 countries.

The last section of the book is on "The Politics of Tobacco." It brings us full circle to the debate going on in Congress at this very moment. In 1931, Governor O. Max Gardner said he couldn't support a legislatively imposed limit on tobacco acreage. He said government had no right to interfere in such areas. Instead he asked tobacco farmers to diversify into other food and feed crops in what was called his "Live at Home" campaign. He had seen the inability of government and the tobacco industry to adjust to the world around it and was looking for new policies. Fifty years later, we need to look again.

The Tobacco Industry in Transition

Prominent Facts and Trends -- A Summary List

I. The Tobacco Program and the Farmer

1. In 1930, to alleviate the volatile effects of an open tobacco market, Gov. O. Max Gardner asked tobacco farmers to diversify into other crops through his "Live at Home" campaign. (pp. 6-10)

2. If the tobacco program were abolished, at least 10 identifiable consequences can be anticipated. (pp. 18-19)

3. The federal tobacco program can be amended in a number of ways without undermining its ability to restrict the supply of flue-cured and burley tobacco so as to keep the average price above the open-market level. (pp. 19-25)

4. In the last 20 years, newly developed technology and amendments to the tobacco program have transformed the flue-cured tobacco farm structure from a labor-intensive to a capital-dependent system:

   * from 1972-79, the flue-cured farm management unit increased in size by 45 percent (from 9.5 to 13.8 acres) while the number of operations declined by almost a third (pp.42,63);

   * from 1972-79, the percent of the flue-cured crop harvested mechanically jumped from 2 to 30 percent and the percent cured in bulk barns increased from 8 to 61 percent (pp. 42, 65-66);

   * North Carolina State University and R.J. Reynolds Tobacco Company spearheaded the research that resulted in a commercially-viable, mechanical tobacco harvester (p.48);

   * three major changes in the farm system allowed the new technology to take hold (p.49 for summary and pp. 38-42 for background);

   * displaced allotment holders have replaced lost tobacco earnings by combining income from four sources: lease and transfer of quota, special services (particularly social security), crop and livestock production, and off-farm employment (pp. 52-57)

   * linear trends affecting the tobacco farm structure have evolved into a circular system (p.64);

   * in 1979, three out of four allotments were not grown on the farm to which they are assigned (pp. 66-69)

II. Alternatives for Tobacco Farmers

5. Trellis tomatoes, strawberries, apples, and peaches are all viable crop alternatives for tobacco farmers since they yield as much income per acre as flue-cured tobacco (pp. 94-98).

6. Marketing systems for vegetable and fruit farming do not receive the governmental support that tobacco receives, and consequently North Carolina imports three-fourths of the vegetables its residents consume (pp. 98-100).

7. From 1978 to 1979, the number of tobacco farmers -- not counting seasonal labor -- declined from 52,000 to 46,000, a 12 percent decrease (p. 104).

8. North Carolina farm leaders have not been leaders in researching the possibilities of growing tobacco as a source of protein even though it may be a viable crop alternative (pp. 110-115).

III. World Leaf Sales Expand -- But U.S. Share Shrinks

9. From 1960-1979, the U.S. share of the world leaf market shrank from 61 to 29 percent, but overall exports rose somewhat due to a growing international demand -- and marketing effort -- for tobacco (pp. 119ff, esp. Tables 11-1,2,3,4) (for marketing, see 151-156).

10. Zimbabwe tobacco is currently considered second in quality to American leaf and yet is half the cost (pp. 123-125).

11. Protectionist trade practices designed to help high-priced American tobacco compete against cheap foreign tobacco are contrary to the General Agreement on Tariffs and Trade (p. 141-143).

12. In 1980, Imperial Tobacco Limited closed its last remaining leaf processing plant in the United States, located in Wilson, N.C., a symbol of declining interest in the American leaf (pp. 145-146).

IV. Corporate Diversification and International Expansion

13. The "Big Six" tobacco manufacturers -- R.J. Reynolds, Philip Morris, Liggett and Myers, American Tobacco, Brown and Williamson, and P. Lorillard -- now have both domestic and international cigarette operations as well as diversified product lines (pp. 159-169).

14. The American tobacco companies initially resisted diversification. When cigarette sales stagnated in the 1960s (though revenues remained strong), extra cash and the urging of Wall Street, among other factors, prompted moves out of tobacco (pp. 165-167).

15. Tobacco consumption is increasing rapidly in developing countries, and the American manufacturing leaders are expanding attention to this market (pp. 167-169).

16. R.J. Reynolds and Philip Morris have moved far ahead of the other cigarette manufacturers, primarily through expanded international efforts and dramatic diversification moves (pp. 169-180 for corporate profiles and 197-202 for statements from each company's chief executive officer).

17. Cigarettes continue to be the major earner for the tobacco companies but the percent of total revenues from cigarettes is on the decline (see tables on pp. 170,176, and 182).

18. There is a steady decline in the number of tobacco manufacturing jobs through attrition, plant closings, and gradual layoffs (pp. 221-223).

19. Institutional and individual investors consider tobacco companies valuable investment vehicles for long-term capital gains (pp. 229-231).

V. The Risks of Smoking: Rights and Ramifications

20. Three new areas of debate have surfaced for the 1980s:
1) the possibility of producing a less hazardous cigarette;
2) the potential hazards of cigarette smoke on nonsmokers; and
3) the risk of smoking to workers in hazardous occupations.

21. Governments in 35 countries have addressed health hazards and smoking issues with various restrictions on smoking and cigarette advertising (p. 301 and chart on 304-309).

VI. Politics of Tobacco: Policymaking under a Cloud of Smoke

22. Public officials in Raleigh and Washington are not addressing the problems of tobacco programs frankly but are instead attempting to hold fast to the existing premise that "tobacco is King" (pp. 313-318).