

Second meeting
Apr. 23, 1985

SUMMARY OF STAFF GROUP WORKING DOCUMENT

Key Program Elements

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Hes. Donlop.
Bob _____

A. Price Support

(1) Flue-cured

- * 1985: \$1.40 (set administratively)
- * 1986 and subsequent years: based on (1) the difference in the immediately preceding year's price support level and the previous 5 year market average price (dropping the high and low years) (reduced by 30 cents per pound in 1981, 1982, 1983, 1984, and 1985) and (2) the change in the index of prices paid by tobacco farmers over the previous calendar year. Secretary would average the percentage changes of the two with authority for the Secretary to establish the price support level between 65 and 100 percent of this increase or decrease.

(2) Burley

- * 1985: \$1.45 (set by statute)
- * 1986 and subsequent years: set at a level that will maintain the normal price support differential between Burley and Flue-cured tobacco.

(3) All other kinds of tobacco

- * 1985 and subsequent years: set using the formula for 1986 in the current law.

To be added
Tax considerations

Changed from R.T.P. -
1) added index of prices.
2) Have prevented support price from getting out of line by 1 or 2 crop years that are out of line.

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(4) Apply Nunn amendment to all kinds of tobacco.

*no flexibility
co-op board
adopt the Nunn Amendment.*

Tobacco Advisory Committee

* Establish a seven member advisory committee to be appointed by the Secretary: two represent Flue-cured growers; two represent Burley growers; two represent the cigarette manufacturers; and *and a representative of* the Under Secretary of *the Secretary of Agriculture.* Agriculture for International Affairs and Commodity Programs (who would be chairman). One person representing dealers (nominated by the Leaf Exporters Association) would be a nonvoting advisor.

Certified producer groups *and grow associations* for each kind of tobacco would (by kind of tobacco) together nominate four persons (i.e., four Burley and four Flue-cured). Secretary would appoint two from each group nominated.

Committee recommends amount of *flue cured & burley* quotas and amount of minimum loan inventory, and advises Secretary regarding disaster crop designations and grading standards. Recommendations on quota to be made to Secretary two weeks before Secretary must announce quota.

Term?

C. Marketing quotas

* Secretary announces quotas by January 1 for Flue-cured and by March 1 for other kinds.

anyed from P.S.R.?

*include more
one +
system men to
the be included
chairman rather
in inst. Secy. for
monies. +
P.R. wants to
away from
ditional tobacco
ities. Also want
control the
robation, they will
responsibility for
aying N.W.C.*

*Took dealers out on voting members.
P.S.R. thinks everybody, dealers included,
should pay.*

*How about minor kinds.
They are exempted from
price support levels.
Price quota for minor
kinds of tobacco*

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Burley & F.C.

- * Purchasers submit to Secretary statements of the amount of any kind ~~of~~ tobacco they intend to purchase at auction. These statements are exempt from FOIA disclosure.

- * Tobacco Advisory Committee receives aggregate amount and recommends quota to Secretary.

Quota adjustments by the Secretary would be limited as in current law, i.e., 10 percent for Burley and 15 percent for Flue-cured.

R.I.R. proposal applied to 98% - 102%

Compromise? Could get us into trouble with large undermachines.

D. Auction Purchase Requirements

- * A license and performance bond is required of every purchaser at auction to enforce the provisions. Could be suspended or revoked for non-compliance.

(Warehouses, and probably dealers?, would be exempt.)

Obligations of purchasers are based on amount purchasers submit to determine quota.

Each purchaser must buy at least 90 percent of its amount submitted to determine quota.

If a purchaser buys less than 90 percent of its amount submitted to determine quota, it must pay the appropriate producer association a penalty of 75 percent of the cost to the association for that amount of tobacco below 90 percent of its amount submitted.

This thin to disaster
Ooq's

from performance bonds

In any year in which 90% of tobacco is sold into the trade No penalty would apply

- * Penalties will be used exclusively to fund purchasers' obligations associated with maintaining loan inventory in excess of minimum loan inventory levels.
- * Purchasers are not bound by the 90 percent obligation in cases of disaster or short crops. In these cases, purchasers can buy from loan inventory their proportionate share based on all amounts submitted to determine quota for that kind of tobacco.

E. Disaster Crop Designation:

- * Secretary may declare any tobacco crop (whether presently under loan or in the future) a disaster crop due to drought or other conditions beyond the control of the producers.

Any disaster crop will not be eligible for price support but the crop may be sold on the open market.

If Secretary determines a crop may be declared a disaster crop, he may advance such portion of the loan as he determines will protect the interests of the net cost fund.

F. Minimum Loan Pool Inventory

- * For Flue-cured, the minimum loan inventory will be the greater of 100 million pounds or 15 percent of effective quota.

*ided as that
sy. Can not the
support price
cover, lowest
price.*

*Could drop below
50 m lbs for reserves
purposes.*

*Should be created
only for purposes
of N.W.C. computations.*

- * For Burley, the minimum loan inventory will be the greater of 50 million pounds or 10 percent of effective quota.
- * For other tobacco, the Secretary will establish the minimum loan inventory, based on the recommendations of the Tobacco Advisory Committee.
- * Growers will pay all no net costs associated with maintaining the minimum loan inventory.
- * Purchasers will pay all no net costs associated with maintaining any loan inventory in excess of the minimum loan inventory levels, based on their proportionate market share according to the most recent Maxwell Report.

G. Purchase of Inventory Stocks

(1) Flue-cured

- * 1976-1981 stocks will be sold at a discount of 90 percent and purchasers will pay all carrying charges associated with these crops.
- * 1982-1984 stocks will be sold at a discount of 10 percent. Purchasers will pay all carrying charges associated with these crops.
- * Manufacturers may purchase inventories over a five-year period based on share of market according to the 1984 Maxwell Report. Agreements to carry out these purchases would be subject to approval by the

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Secretary, in consultation with the Attorney General.

(2) Burley

- * The 1982 stocks will be sold at the published asking price plus carrying charges.
- * The 1983 stocks will be declared a disaster and may be sold at a discount.
- * The 1984 stocks will be sold at the associations' costs plus carrying charges.
- * Manufacturers may purchase inventories over a five-year period, based on share of market according to the 1984 Maxwell Report. Agreements to carry out these purchases would be subject to approval by the Secretary, in consultation with the Attorney General.

- (3) Agreements to purchase these inventory stocks shall not be held to be in violation of the antitrust laws and such agreements shall be lawful.

*Cosmetic
for draft only.*

H. Grading Standards

- * Secretary must review grade standards periodically, but no less often than every 3 years as appropriate and make changes to reflect changes in production, curing, technology, etc.

I. Tax Treatment of Producer Assessments to Fund

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