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TRANSFER OF FLUE-CURED TOBACCO ACREAGE ALLOTMENTS

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HEARING

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON
AGRICULTURE AND FORESTRY

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

S. 700

BILL TO AMEND THE AGRICULTURAL ADJUSTMENT
ACT OF 1938, AS AMENDED

MAY 13, 1975

Printed for the use of the
Committee on Agriculture and Forestry



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1975

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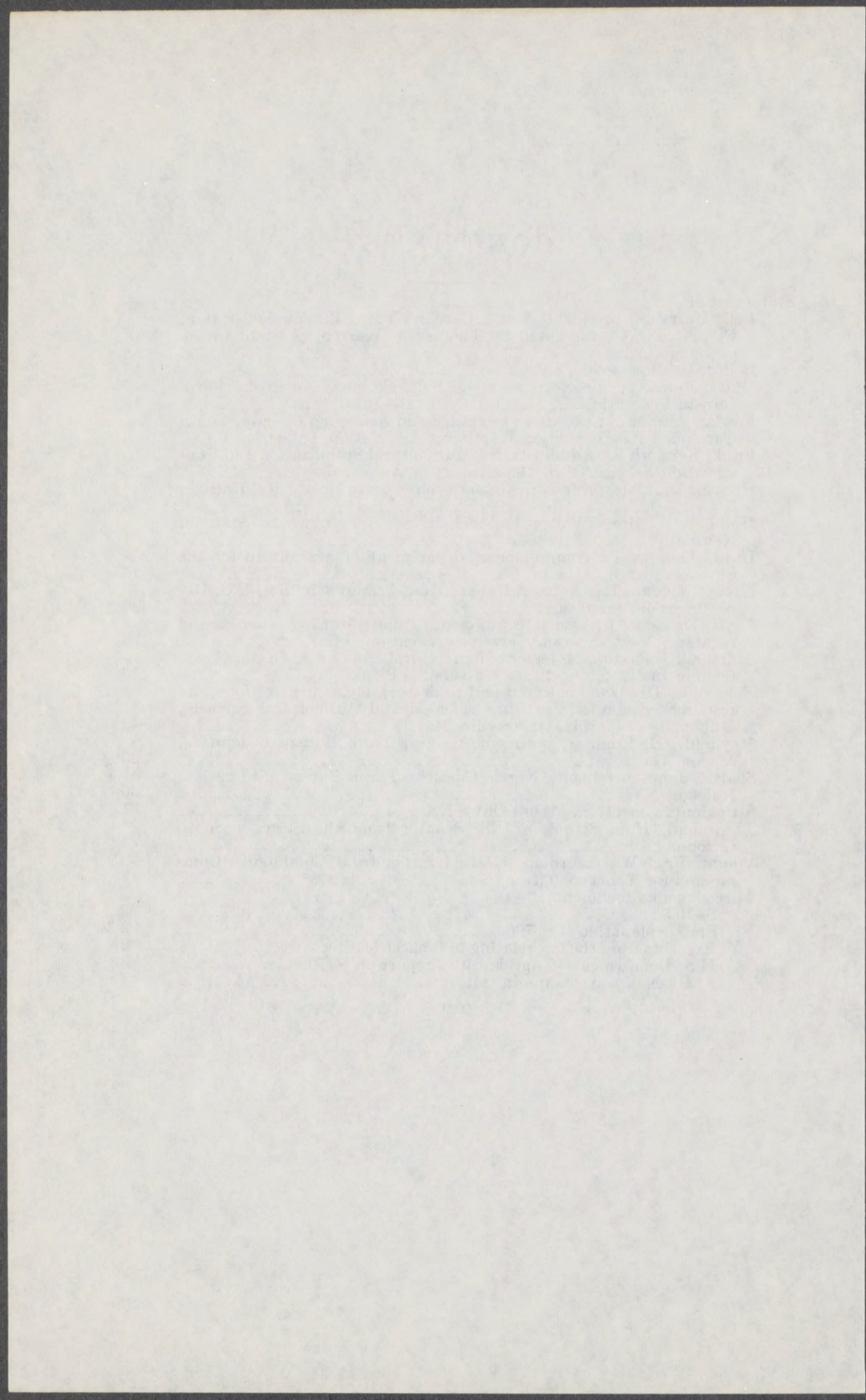
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TRANSFER OF FLUE-CURED TOBACCO ACREAGE ALLOTMENTS

TUESDAY, MAY 13, 1975

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES
OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:07 a.m., in room 324, Russell Senate Office Building, Hon. Walter D. Huddleston (chairman of the subcommittee) presiding.

Present: Senators Huddleston, Clark, and Helms.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM THE STATE OF KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order.

We are holding hearings on S. 700, a bill to amend the Agricultural Adjustment Act of 1938, as amended, to permit leasing across county lines within the same State of type 13 tobacco quotas. This subcommittee will consider amending the bill to include types 11, 12, and 14 tobacco.

In 1961 special legislation was enacted to permit the transfer of allotments from farm to farm. It was recognized at that time that production efficiency varies between farms. Under the current program transfer of quotas is permitted between farms located in the same county.

At present there are separate rental markets in each county for tobacco quotas. This bill would allow rental prices to reach a statewide equilibrium. With cross-county leasing some type of central registry needs to be developed to bring potential renters and owners together.

The testimony presented today will aid in the determination of whether a graduated relaxation of limits on transferability such as leasing only to contiguous counties might be necessary to cushion adjustments among various areas. This subcommittee also needs to determine the desirability of statewide grower referendums to allow the producers themselves to decide on the issue of cross-county leasing.

I would like to insert at this point in the record a copy of the bill, S. 700, a staff explanation of that bill, excerpts from the law relating to tobacco leasing, and a copy of the Agriculture Department's report on S. 700.

[The material referred to follows:]

[S. 700, 94th Cong., first sess.]

A BILL To amend the Agricultural Adjustment Act of 1938, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act of 1938, as amended, is further amended by striking the period at the end of subsection (a) of section 316 and adding in lieu thereof the following: "*Provided*, That in the case of type 13 tobacco, any such lease may be made to a farm in another county in the same State where the same type of tobacco is produced."

SENATE COMMITTEE ON AGRICULTURE AND FORESTRY

STAFF EXPLANATION OF S. 700

S. 700 would amend the Agricultural Adjustment Act of 1938 to permit leasing of type 13 tobacco allotments or quotas across county lines within the same State for use on a farm having a current tobacco allotment or quota of the same kind.

Note.—Under existing law, such leases of tobacco allotments or quotas may be made only within the same county.

AGRICULTURAL ADJUSTMENT ACT OF 1938

SALE OR LEASE OF ACREAGE ALLOTMENTS

SEC. 318.⁴⁴ (a) Notwithstanding any other provision of law, the Secretary, if he determines that it will not impair the effective operation of the tobacco marketing quota or price support programs, (1) may permit the owner and operator of any farm for which a Fire-cured, dark air-cured, or Virginia sun-cured tobacco acreage allotment or acreage-poundage quota is established under this Act to sell or lease all or any part or the right to all or any part of such allotment or quota to any other owner or operator of a farm for transfer to such farm; and (2) may permit the owner of a farm to transfer all or any part of such allotment or quota to any other farm owned or controlled by him. (7 U.S.C. 1314d(a).)

(b) Transfers under this section shall be subject to the following conditions: (1) no allotment or quota shall be transferred to a farm in another county: *Provided*, That in the case of Virginia fire-cured tobacco type 21 and Virginia sun-cured tobacco type 37, any such transfer may be made to a farm in another county in the same State;⁴⁵ (2) no transfer other than by annual lease of an allotment or quota from a farm subject to a mortgage or other lien shall be permitted unless the transfer is agreed to by the lienholders; (3) no sale of a farm allotment or quota from a farm shall be permitted if any sale of allotment or quota to the same farm has been made within the three immediately preceding crop years; and (4) no transfer of allotment or quota shall be effective until a record thereof is filed with the county committee of the county to which such transfer is made and such committee determines that the transfer complies with the provisions of this section. (7 U.S.C. 1314d(b).)

(c) The transfer of an allotment or quota under this section shall have the effect of transferring also the acreage history and marketing quota attributable to such allotment or quota and if the transfer is made prior to the determination of the allotment or quota for any year the transfer shall include the right of the owner or operator to have an allotment or quota determined for the farm for such year: *Provided*, That in the case of a transfer by lease the amount of the allotment or quota shall be considered for purposes of determining allotments or quotas after the expiration of the lease to have been planted on the farm from which such allotment is transferred. (7 U.S.C. 1314d(c).)

(d) The land in the farm from which the entire tobacco allotment or quota has been transferred shall not be eligible for a new farm tobacco allotment or quota during the five years following the year in which such transfer is made. (7 U.S.C. 1314(d).)

(e) If the normal yield established by the county committee for the farm to which the allotment is transferred does not exceed the normal yield established by the county committee for the farm from which the allotment is transferred by more than 10 per centum, the transfer shall be approved acre for acre.

⁴⁴ Section 318 was added by Pub. L. 90-51, 81 Stat. 120, approved July 7, 1967. Subsection (b) was then amended by Pub. L. 90-387, 82 Stat. 293, approved July 5, 1968.

⁴⁵ This proviso was added by Pub. L. 92-144, 85 Stat. 393, approved October 23, 1971.

If the normal yield for the farm to which the allotment is transferred exceeds the normal yield for the farm from which the allotment is transferred by more than 10 per centum, the county committee shall make a downward adjustment in the amount of the acreage allotment transferred by multiplying the normal yield established for the farm from which the allotment is transferred by the acreage being transferred and dividing the result by the normal yield established for the farm to which the allotment is transferred. (7 U.S.C. 1314d(e).)

(f) Any lease under this section may be made for such term of years not to exceed five as the parties thereto agree, and on such other terms and conditions except as otherwise provided in this section as the parties thereto agree. (7 U.S.C. 1314d(f).)

(g) Under the provisions of this section not more than ten acres of allotment may be transferred to any farm: *Provided*, That the total acreage allotted to any farm after such transfer shall not exceed 50 per centum of the acreage of cropland in the farm. (7 U.S.C. 1314d(g).)

(h) The lease of any part of a tobacco acreage allotment or acreage-poundage quota under this section determined for a farm shall not affect the allotment or quota for the farm from which such allotment or quota is transferred or the farm to which it is transferred, except with respect to the crop year or years specified in the lease. The amount of the acreage allotment and acreage-poundage quota which is leased from a farm shall be considered for purposes of determining future allotments and quotas to have been planted to tobacco on the farm from which such allotment or quota is leased and the production pursuant to the lease shall not be taken into account in establishing allotments or quotas for subsequent years for the farm to which such allotment is leased. The lessor shall be considered to have been engaged in the production of tobacco for purposes of eligibility to vote in the referendum. (7 U.S.C. 1314d(h).)

(i) If the sale or transfer under this section occurs during a period in which the farm is covered by a conservation reserve contract, cropland conversion agreement, or other similar land utilization agreement the rates of payment provided for in the contract or agreement of the farm from which the transfer is made shall be subject to an appropriate adjustment, but no adjustment shall be made in the contract or agreement of the farm to which the transfer is made. (7 U.S.C. 1314d(i).)

(j) The Secretary shall prescribe such regulations and other terms and conditions as he deems necessary for the administration of this section. (7 U.S.C. 1314d(j).)

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., May 12, 1975.

HON. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry, U.S. Senate.

DEAR MR. CHAIRMAN: This is in reply to your request of February 20 for a report on S. 700, a bill "To amend the Agricultural Adjustment Act of 1938, as amended."

This Department would not be opposed to the passage of the bill if it is amended to authorize the sale and lease of farm acreage allotments and marketing quotas for all types of tobacco and transfer across state and county lines.

The bill provides for the lease and transfer of farm acreage allotments and marketing quotas for type 13 (flue-cured) tobacco to farms in other counties in the same state where the same type of tobacco is produced.

Present legislation authorizes the lease of farm acreage allotments and marketing quotas for all types (11-14) of flue-cured tobacco and for all other types of tobacco, except cigar-binder, types 54 & 55, and transfer to other farms in the same county. Fire-cured, types 22-24, and dark air-cured, types 35 & 36 tobacco acreage allotments can be sold as well as leased and transferred to other farms in the same county. Virginia fire-cured, type 21, and Virginia sun-cured type 37 acreage allotments can be sold or leased and transferred to other farms across county lines in the same state.

The Administration's farm policy is one that is market oriented, thus allowing the farmer to freely make decisions on what and how much to raise of a commodity. Under the new found freedoms in the Agricultural Act of 1970 and the Agriculture and Consumer Protection Act of 1973, large amounts of acreages were shifted to allow for production on the farms best suited for growing cotton, wheat and feed grains. Legislation governing our marketing quota crops, such as tobacco, should be reviewed by Congress in order to provide for greater efficiencies and market sensitivity.

The lease or sale of allotments and marketing quotas for all types of tobacco, and transfer across state and county lines would provide more flexibility in the tobacco marketing quota programs and thus enable those farmers who have the land, labor and equipment for producing larger acreages to increase their operations to more economic units. Larger and more economic production units would stimulate the mechanization of planting, harvesting, curing, and marketing of tobacco. At the same time, it would enable those farmers who may not wish to continue the production of tobacco to transfer their resources to other operations, and still receive some income from the lease or sale of their allotments.

The Department will be pleased to assist in drafting legislation to authorize the sale, lease and transfer of farm acreage allotments and marketing quotas across state and county lines for all types of tobacco. In this connection, it is also noted that the wording of the proviso is subject to the construction that, when a lease is made to a farm in another county, such farm need not be one "having a current tobacco allotment or quota of the same kind" as is now provided for leases in the same county. This ambiguity should be clarified.

The quality of the environment will not be affected by the adoption of this proposal or with the amendments.

The enactment of the proposed legislation will not result in any additional expenditure of administrative or CCC capital funds.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely,

J. PHIL CAMPBELL,
Acting Secretary.

Senator HUDDLESTON. We are pleased to have this morning as our first witness a gentleman who is very much interested in this particular topic, as well as many others, affecting his constituents, the distinguished Senator from South Carolina, Senator Thurmond.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman.

Mr. Chairman, Mr. Marion S. Fowler, secretary of the South Carolina Tobacco Auction Warehouse Association, has sent a statement. I would like for that to be inserted in the record.¹

Senator HUDDLESTON. Without objection.

Senator CLARK. Mr. Chairman, did you say these are hearings on a specific bill?

Senator HUDDLESTON. S. 700.

Senator THURMOND. Mr. Chairman, I am pleased to testify before this subcommittee in support of legislation I introduced on February 17, 1975, to amend the Agricultural Adjustment Act of 1938, as amended, to allow the leasing of type 13 tobacco allotments or quotas across county lines within the same State.

¹ See p. 8.

Recognizing that all of the tobacco belts may not favor leasing quotas across county lines, I intentionally restricted this bill to Flue-cured type 13 tobacco, which is grown in South Carolina and southeastern North Carolina. A precedent for this type of limited change was established in 1971 with the enactment of Public Law 92-144. This amendment to the Agricultural Adjustment Act of 1938 allowed leasing of tobacco allotments across county lines in the case of Virginia Fire-cured type 21 tobacco and Virginia Sun-cured type 37 tobacco.

Mr. Chairman, it is my understanding that the subcommittee will consider the possibility of amending this bill to include several types of Flue-cured tobacco grown in other States. I am also aware of suggestions for enabling legislation to allow tobacco growers, and landowners who own tobacco quotas, to decide, via a referendum within each State, whether or not leasing quotas across county lines within that State will be allowed. It seems to me that this concept has much merit, for it would allow the farmers themselves to decide whether or not they want to lease across county lines. I welcome a full discussion of all ideas before this subcommittee and sincerely hope that a bill can be reported which recognizes the diverse needs of tobacco farmers in regard to quota leasing.

As I stated, the tobacco growers themselves, if they have a referendum, would express themselves on this point.

Changes in the quota leasing provisions of the tobacco program have been discussed by persons in the tobacco industry on numerous occasions in the past. In 1973, the act was amended to allow the lease of allotments or quotas across county lines from certain counties in Georgia and South Carolina which had suffered at least a 30-percent loss in the number of acres planted to tobacco due to natural disaster. This modification in the tobacco program was done on a 1-year, emergency basis and applied only to eight counties in Georgia and four in South Carolina. In retrospect, most of those who were affected by this emergency change in the tobacco program agreed that it had worked well.

In the opinion of many knowledgeable persons associated with the tobacco industry, including tobacco farmers, it would well serve the industry to allow quotas to be leased across county lines within the same State whenever the farmers may desire. Restricting the present program to county lines throughout the tobacco belts is somewhat arbitrary and unfairly penalizes counties which are more naturally suited to tobacco production.

For instance, it is my understanding that farmers in several of the key tobacco-growing counties in South Carolina leased all the available poundage quotas within their respective counties months ago, anticipating that they would plant more tobacco this year. At the same time, considerable poundage is still available for lease in adjacent or nearby counties and will likely go unused under the restrictions of the present law. To further illustrate the considerable variation in tobacco plantings among counties, I ask that a table prepared by USDA be included in the hearing record at this point.

Senator HUDDLESTON. Without objection, so ordered.

[The table referred to follows:]

EFFECTIVE QUOTA AND ACTUAL PRODUCTION OF TYPE 13 FLUE-CURED TOBACCO BY COUNTY

	1974			1973		
	Effective quota (pounds)	Actual production (pounds)	Actual/ effective percent	Effective quota (pounds)	Actual production (pounds)	Actual/ effective percent
North Carolina:						
Bladen	13,112,790	11,951,973	91.1	12,312,227	12,592,248	102.3
Brunswick	6,142,522	4,963,429	80.8	5,612,228	5,388,789	96.0
Columbus	34,485,682	32,536,123	94.3	32,202,220	33,382,064	103.7
Cumberland	9,866,230	8,098,621	82.1	8,723,279	8,110,469	93.0
Hoke	4,564,674	3,910,248	85.7	4,123,173	3,984,438	96.6
New Hanover	469,229	234,059	49.9	405,290	197,113	48.6
Robeson	40,909,049	38,656,585	94.5	37,803,621	38,647,600	102.2
Scotland	2,103,100	1,655,493	78.7	1,887,811	1,608,062	85.2
North Carolina total	111,653,276	102,006,531	91.4	103,069,849	103,910,783	100.8
South Carolina:						
Abbeville	447	0	0	402	0	0
Allendale	24,621	0	0	15,926	9,720	61.0
Bamberg	139,212	102,664	73.7	113,533	76,564	67.4
Barnwell	5,971	0	0	5,436	0	0
Berkeley	1,198,983	919,368	76.7	861,347	487,713	56.6
Calhoun	25,112	0	0	26,880	0	0
Chesterfield	1,640,791	1,132,239	69.0	1,338,067	938,084	70.1
Clarendon	10,249,046	10,291,531	100.4	7,599,055	4,021,446	52.9
Colleton	1,650,775	1,321,847	80.1	1,360,212	885,779	65.1
Darlington	13,587,939	13,562,985	99.8	11,636,820	10,748,046	92.4
Dillon	14,473,302	14,611,519	101.0	12,936,957	13,877,291	107.3
Dorchester	2,024,559	1,266,426	62.6	1,349,904	554,928	41.1
Florence	32,783,067	33,537,031	102.3	27,263,434	24,190,150	88.7
Georgetown	3,893,627	3,973,627	102.1	3,361,179	3,273,411	97.4
Hampton	43,281	24,878	57.5	46,870	29,951	63.9
Horry	45,174,892	45,635,597	101.0	39,935,030	40,194,043	100.6
Jasper	177,212	122,284	69.0	119,577	5,872	4.9
Kershaw	665,432	288,861	43.4	591,769	209,649	35.4
Lawcaster	104	0	0	782	0	0
Lee	2,942,531	2,599,791	88.4	2,478,194	1,884,089	76.0
Lexington	212	0	0	0	0	0
Marion	14,745,113	14,466,941	98.1	12,798,425	12,774,983	99.8
Marlboro	2,467,773	1,901,654	77.1	2,076,713	1,857,082	89.4
Orangeburg	475,052	382,630	80.5	338,562	186,053	55.0
Richland	8,769	0	0	15,211	0	0
Sumter	4,597,848	4,365,365	94.9	3,198,093	1,568,960	49.1
Williamsburg	21,240,559	21,463,355	101.0	17,057,193	15,183,505	89.0
York	6,224	0	0	9,211	0	0
Total, South Carolina	174,242,454	171,970,593	98.7	146,534,782	132,957,319	90.7
Total, type 13	285,895,730	273,977,124	95.8	249,604,631	236,868,102	94.9

Senator THURMOND. This table shows the effective quota and actual production of tobacco for 1973 and 1974, for all counties in the type 13 area. The data indicate that South Carolina tobacco farmers, as a whole, produced 91 percent of their effective quota in 1973 and 99 percent in 1974. Yet, in 1974, 6 counties in South Carolina grew more than 100 percent of their effective quota, while 16 counties grew less than 80 percent. This indicates that many farmers in counties which have a comparative advantage for tobacco production may have been unable to lease as much poundage as they desired. On the other hand, in counties where tobacco is not widely grown, or which are in a declining state, insofar as tobacco production is concerned, there is a surplus of poundage quotas, which are going unused because leases cannot be made across county lines under present law.

Now, Mr. Chairman, the past several years have seen a considerable expansion in the foreign demand for American tobacco, a healthy trend for the industry and the national economy. In response to the increased demand for our tobacco, the Secretary of Agriculture announced a 10-percent increase in the national marketing quota for the 1973 crop, another 10 percent for the 1974 crop, and a 15-percent increase for the 1975 crop. Granted, there are those of us who have questioned the wis-

dom of the Secretary's actions in this respect. However, it seems abundantly clear that many of our progressive tobacco farmers are adapting to changing marketing conditions and desire to grow more of this commodity to satisfy expanding world demand. Unfortunately, many of these farmers are unfairly constrained by the present leasing requirements.

We also know that agriculture is becoming more specialized. Farmers who rely on tobacco for the major portion of their agricultural income have found it necessary to increase the size of their farm units. They have also had to increasingly compete with industry for hired labor. Furthermore, even though tobacco prices reached record levels in 1974, prices received by farmers have not increased as rapidly as production costs, including farm labor expenses.

Because of these and other developments, tobacco farmers have found it necessary to mechanize their operations as much as possible in order to reduce labor costs, remain efficient, and achieve reasonable income levels. However, extensive mechanization of tobacco harvesting is only feasible for farmers who own, or can obtain through leasing, sufficient poundage quotas. Thus, additional flexibility in leasing quotas across county lines would aid farmers who desire to mechanize their tobacco operations.

Mr. Chairman, I am advised that allowing the leasing of tobacco quotas across county lines would generally benefit South Carolina tobacco farmers. Both the South Carolina Grange and the South Carolina Farm Bureau, two of our most prominent and respected farm organizations, are on record in favor of such a change. Certainly, the additional flexibility would aid the progressive farmers in good tobacco-growing areas who wish to expand production. Of great importance, it would also aid many small farmers and retired landowners who rent out part or all of their tobacco allotments.

If this change were enacted, most of these small farmers, and especially those in counties with lower quota rent values, would benefit because the lease value of their allotments would increase. There would be a greater number of farmers bidding for their poundage quota and, consequently, its market value would be greater. While this may not be the case for all farmers who desire to lease their allotment, on balance, the change would be generally beneficial.

Mr. Chairman, I have always been a strong supporter of the tobacco program. I very much desire that the program be continued, substantially in its present form, because it has benefited the tobacco industry and aided our tobacco farmers. However, we must continue to look for ways to improve the program in the face of changing market conditions and the modernization of agriculture. It seems that the time has come to allow the leasing of quotas across county lines. I sincerely hope the subcommittee will find a workable and reasonable mechanism to allow farmers, in areas where greater flexibility is desired, to have the right to lease quotas across county lines within the same State.

Mr. Chairman, I request that an analysis of tobacco quota transfers, outlined by Mr. Johnny D. Braden of USDA's Economic Research Service, be included in the record at the end of my remarks.¹

Senator HUDDLESTON. Without objection, so ordered.

Senator THURMOND. Mr. Chairman, I wish to thank you and the members of the subcommittee for the opportunity to appear before you

¹ See p. 8.

in support of this legislation. You have always been attentive to the changing needs of the tobacco industry and have staunchly supported a strong tobacco program. I commend you for your past efforts and trust you will continue to work for a farm policy that is in the best interest of our tobacco growers.

Mr. Chairman, that completes my statement. I will be glad to try to answer any questions if you have any, and I might say that I think this is the predominant thinking that I have presented here, on behalf of the tobacco farmers and tobacco warehousemen in South Carolina.

STATEMENT OF MARION S. FOWLER, EXECUTIVE SECRETARY AND MANAGING DIRECTOR,
SOUTH CAROLINA TOBACCO AUCTION WAREHOUSE ASSOCIATION, LAKE CITY, S.C.

Gentlemen: We wish to advise that our Association endorses S. 700 and urges its passage.

Our reasons for wholeheartedly supporting the S. 700 Bill are as follows :

1. Its passage would enable growers who, as a result of disaster due to fire in curing barns, adverse weather conditions such as extreme drought, excessive rain during growing seasons, hail storms, suffer losses of their crop, to receive at least some income through such rental, lease or transfer. In removing the present restriction of such transfer within a county, the affected grower would have a wider range of rental or transfer possibilities. Generally, losses by storm or adverse conditions cover areas beyond a county or major portions of a county. Thus, the transfer permitted across county lines offers more potential for the affected grower.

2. In "fringe" areas, where often the total crop might not be planted, the lease and transfer across county lines would prove beneficial to those growers who have been unable to plant or produce their poundage allotment.

3. Lease and Transfer across county lines within the same state would not produce any hardship or cause the loss of any poundage of allotment within the state.

4. Based upon our study of the history of production, we feel that this lease and transfer would provide more flexibility and overall incentive to have the total allotted crop planted in the State. This also would prove helpful to the purchasing interests in that they could more accurately plan in obtaining their requirements since a better estimate on total production could be ascertained.

5. Since this lease and transfer would involve each State separately, in event of any objection by any other State, a means of permitting those States desirous of making the change could be easily developed and placed in operation.

6. We feel that this change would be helpful to all types of Flue-cured Tobacco—No. 11 through No. 14. The passage of this legislation would, in our opinion, strengthen and improve the tobacco program itself. It would encourage full production of the Marketing Quotas, facilitate the administration of the program overall. Further, it would result in better planning for marketing through the Flue-cured Tobacco Advisory Committee with more effective sales schedules for orderly marketing of the crop.

It is our strong feeling the proposed legislation offers further opportunity to improve the efficiency and effectiveness of the program which over many years has meant so much to the growers.

We trust the Subcommittee will act favorably upon S. 700.

UNITED STATES DEPARTMENT OF AGRICULTURE

ECONOMIC RESEARCH SERVICE

Analysis of Tobacco Quota Transfers

(Talk by Johnny D. Braden, Economic and Statistical Analysis Division at the 1973 National Agricultural Outlook Conference, Washington, D.C., Thursday, February 22, 1973)

The Federal Government has operated programs to support and stabilize tobacco prices since the early 1930's. Many changes have been made in the programs to make them more effective and to allow growers to more effectively utilize available technology and resources.

In 1962, Congress first authorized lease and transfer of allotments for flue-cured, Maryland, fire-cured, dark air-cured, and cigar filler and binder tobaccos. Lease and transfer of burley quotas has been authorized only since 1971. Leases are between farms within the same county and the period can range from 1 to 5 years. In 1967, legislation provided for the sale and permanent transfer of fire-cured, dark air-cured, and sun-cured allotments between farms in the same county. Lease, transfer, and sale across county lines within the same State was authorized in October 1971 for Virginia fire-cured (type 21) and sun-cured (type 37).

Trends in allotment transfers suggest this flexibility apparently has been rewarding to many tobacco farmers. By 1972 about 30 percent of the effective flue-cured quotas were leased and transferred. Flue-cured leases averaged 3,620 pounds last year and burley was 811 pounds (1971).

As new technology is developed and economic change occurs in the growing areas, more flexibility may be needed for farmers to achieve desired efficiencies in their farm enterprises. Some proposed changes in the quota program are (1) sale of allotments and (2) transfer of tobacco allotments and quotas across county and State lines. Conditions vary widely throughout the different producing areas and do not necessarily follow county lines. So greater flexibility in transferring tobacco quotas would allow production shifts into areas of comparative advantage or into areas that have the least disadvantage.

In this era of specialized agriculture, tobacco growers need to increase the producing unit size if they are to compete against mechanized sectors for labor and other inputs. Even with record high tobacco prices, many growers cannot presently obtain a minimum family income solely from raising tobacco. Many farmers have reorganized their farm enterprises to obtain better returns from their land, labor, and capital. Costs have risen faster than prices received and in some cases farmers cannot afford the machinery and equipment necessary for efficient production.

With many tobacco farmers facing critical labor problems, especially at harvest-time, mechanization is becoming a necessity. A USDA survey of tobacco farms (1964) showed that 92 percent hired some labor. (3) Even farms with sales under \$5,000 depended on hired labor. But during the past decade the number of family workers on farms in the South Atlantic Region declined 41 percent. Hired workers fell 43 percent. So labor at prices producers can pay has become scarce.

Mechanized systems are being developed with the potential for substantially reducing the labor input for flue-cured, burley, and Maryland tobaccos. But mechanical equipment is costly. Unless producers are reasonably sure of increased efficiency at terms they can afford, most will be reluctant to change. For flue-cured tobacco, an economical mechanized operation with bulk curing barns, harvester, and support equipment requires a 20 to 40 acre production unit. (3, 5) This is substantially above the average fine-cured allotment—even in the Coastal Plain area of North Carolina where allotments are comparatively larger. Last year 69 percent of flue-cured allotments were less than 3 acres and only 1 percent exceeded 20 acres. About 47 percent of burley quotas are less than 2,500 pounds and 66 percent are less than 5,000 pounds.

In recent years wage rates have trended upward sharply. Over the past decade farm wage rates in the south Atlantic area have doubled. (\$1.53 per hour in 1972 compared to 76 cents in 1962). Higher paying and more desirable non-farm jobs are available in many tobacco producing areas. Even with tobacco prices at record high, many growers are barely receiving subsistence income. Some allotments are underproduced or idle. However, more widespread lease and transfer of quotas can alleviate that situation.

Researchers are continuing to develop and perfect machines, curing facilities, and new tobacco varieties adaptable to mechanized systems. A North Carolina State University goal is to reduce total labor per acre using mechanized harvesting from 246 hours to 35 hours. (5) This may be a long way off. As wage rates increase, adoption of these machines becomes more feasible. But the high initial cost makes larger acreages a necessity if growers are to mechanize. Thus, the tobacco allotment and quota system, insofar as it inhibits the formation of larger producing units, is a barrier to development and adoption of mechanization. (4)

A producer may be unable to justify a harvester for his own quota but may buy a harvester if he is reasonably sure that he can obtain additional quota and control it for several years. Lease and transfer for more than 1 year reduces uncertainty some, but outright quota purchase provides still more certainty.

With the conventional harvesting and curing method, few advantages accrue for units larger than enough to employ family labor and to fully use a curing barn and associated equipment. But problems with hand harvesting are mounting. Tobacco's highly seasonal demand for labor is more and more difficult to satisfy.

If leasors or sharecroppers are not available within a county the allotment may be unplanted. Yet, owners still may pay real estate taxes reflecting the capitalized allotment value in the land. Underplanting of allotments means some farms and business communities are losing potential income. So if such allotments were leased, transferred, or sold the local community would probably not suffer. And allotment sellers would receive additional income.

Lease and transfer across county and/or State lines would tend to increase the allotment supply in areas most suited to mechanization and thus enhance the possibilities for the adoption of mechanization. The traditional view that land and allotments must be tied together impedes allotment sales but this view seems to have softened since cotton allotments were made salable in 1965.

A North Carolina State University survey (6) indicated three-fourths of the farmers responding favored sales of flue-cured tobacco allotments. Of those favoring sales 39 percent favored restricting sales within the same county, 45 percent favored Statewide sales, and 16 percent favored interstate sales. A Senate Agriculture Subcommittee held hearings in North Carolina in July 1972, and many growers favored sale or lease across county lines. (7)

Last November the 29-member National Advisory Committee opposed the sale of allotments but generally agreed that legislation should be sought that would allow the transfer of tobacco allotments between farms within States. Department officials and committee members were in agreement that such legislation would facilitate greater efficiency of production. On several occasions the Department of Agriculture had recommended to Congress changes in legislation that would allow greater flexibility in transferring allotments. (8, 9)

If present restrictions are removed and quotas shift, certain groups may gain and others may lose. Perhaps the most relevant questions are (1) who gets the advantage of the increased efficiency, (2) who is injured (3) and what is the net result?

Presently each county is a separate quota market and leasing rates vary widely between counties. So one Statewide or beltwide allotment market could mean at any one time a more uniform price for each allotment type. Both buyers and sellers would need similar knowledge of the market situation.

Buyers in low-rent counties would be worse off after removing the county boundary restrictions as would allotment sellers in the high-rent counties. On the other hand, buyers in the high-rent counties would be better off as would sellers in the low-rent counties. Moreover, people involved in supplying production inputs and marketing facilities for tobacco such as warehousemen, hired farm laborers, farm supply, and machinery dealers would be affected. However, areas that would lose allotment would gain funds for investments in other enterprises.

North Carolina State studies show that if county restrictions were removed, allotments would tend to move from the North Carolina Piedmont to the Coastal Plains. (1, 2) Researchers expect that lease rental rates would decline in the Coastal Plains counties. Rates would increase in the Piedmont counties. Thus, farmers in the Coastal Plains who are "buyers" and farmers in the Piedmont who are "sellers" would benefit from such a change. Farmers who are sellers in the Coastal Plains and buyers in the Piedmont would lose. In areas gaining allotments, tobacco warehousemen and to some extent input suppliers would benefit, and those in areas losing allotments would lose.

Tobacco allotments represent a large part of the farm value on many farms. Thus, one can visualize that a farm mortgage holder might require approval before selling an allotment. Also, it might be necessary to alter the tax assessment system so that allotments are valued separately from the remainder of the real estate.

Many analysts assume that individual producers would be better off or at least as well off in both losing and gaining areas or otherwise they would not make the change. But it should be kept in mind that if a farmer does not have adequate market knowledge, he may not buy or sell at the established market price. Large owners of real estate would be in a much more favorable position to purchase allotments. Also, farmers may be pressured or misled and this could lead to speculators buying and selling allotments at a profit.

Allotment purchasers would likely share in any national quota increases or decreases. Also a quota is a franchise provided by Congress and ratified by growers to sell tobacco under a price support system. Consequently, program changes could alter its value substantially. Sale and transfer of allotments across county lines would tend to concentrate allotments with fewer owners and in few producing areas. This would reduce the geographic interest in tobacco production and could reduce the numerical support for the tobacco program.

Thus, sale of allotments and lease and transfer across county lines allows producers to make substantial shifts in production and move toward greater efficiency. As with any change, some persons will benefit and some persons may suffer economic hardship.

LEASE AND TRANSFER OF TOBACCO ALLOTMENTS BY TYPES, 1962-72

Year	Percent of allotments and quotas ¹				
	Fire-cured			Dark Air-cured, types 35-36	Virginia Sun-cured, type 37
	Flue-cured, types 11-14	Type 21	Types 22-24		
1962	3.2	5.9	5.5	2.7	1.5
1963	4.7	8.6	7.8	4.0	1.5
1964	6.5	10.2	11.0	5.5	1.8
1965	9.0	12.1	15.4	7.4	2.1
1966	13.2	8.6	13.4	7.3	.8
1967	15.4	7.7	11.9	7.6	2.3
1968	20.9	9.2	14.0	9.7	3.9
1969	20.6	9.2	15.7	10.9	3.7
1970	22.9	9.2	14.8	10.0	4.4
1971	29.1	8.0	17.6	11.7	5.7
1972 ²	30.0	13.8	16.1	12.5	7.5
					2.7
					7.0

¹ Acreage basis except poundage for burley.

² Preliminary.

DISTRIBUTION OF 1972 FLUE-CURED TOBACCO ALLOTMENTS BY SIZE GROUPS

Allotment size (acres)	Percent of—		
	Farms	Acreage allotted	Basic quota
0.01 through 0.50	11.3	1.0	0.9
0.51 through 1.00	14.0	3.6	3.2
1.01 through 2.00	25.6	12.7	12.0
2.01 through 3.00	18.6	15.3	15.0
3.01 through 4.00	10.0	11.6	11.6
4.01 through 5.00	6.2	9.2	9.3
5.01 through 6.00	3.8	6.9	7.0
6.01 through 7.00	2.5	5.4	5.6
7.01 through 8.00	1.7	4.3	4.4
8.01 through 9.00	1.3	3.6	3.7
9.01 through 10.00	1.0	3.0	3.1
Over 10.00	4.0	23.4	24.2

DISTRIBUTION OF 1972 BURLEY TOBACCO ALLOTMENTS BY SIZE GROUPS

Allotment size (pounds)	Percent of—	
	Farms	Quota
1 through 1,000	41.8	13.7
1,001 through 1,300	19.9	12.4
1,301 through 2,500	21.7	20.5
2,501 through 5,000	10.3	19.3
5,001 through 10,000	4.4	16.2
10,001 through 25,000	1.6	12.3
Over 25,000	.3	5.6

FLUE-CURED TOBACCO LEASE AND TRANSFER OF FARM MARKETING QUOTA BY STATE, 1972

States	Quota transferred		Farm transferring out	
	Million pounds	Percent	Thousand	Percent
Alabama.....	0.4	44.0	0.2	62.5
Florida.....	12.7	58.9	4.5	67.9
Georgia.....	50.0	43.4	15.3	61.2
North Carolina.....	187.4	27.2	49.2	43.4
South Carolina.....	40.1	30.3	10.6	45.1
Virginia.....	30.0	30.9	9.2	44.4
Total.....	322.2	30.5	89.0	46.9

BURLEY TOBACCO LEASE AND TRANSFER OF FARM MARKETING QUOTA BY STATE, 1972¹

[Pounds in thousands]

State ²	Quota transferred (pounds)	Percent of effective quota (percent)
Indiana.....	1,473	9.1
Kentucky.....	21,912	5.5
Missouri.....	405	7.8
North Carolina.....	2,397	9.9
Ohio.....	1,338	6.6
Tennessee.....	13,790	11.7
Virginia.....	1,482	5.9
West Virginia.....	242	4.1
Total.....	43,057	7.0

¹ Transfers recorded through Dec. 31, 1972.² Total includes 18,000 lb in 6 other States. Subject to change.

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- (4) Shuggars, Owen K., "Dollar and Sense: The Economics of Mechanization," talk at the National Tobacco Advisory Committee Meeting, Wash., D.C., Feb. 25, 1971, 5 pp.
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- (6) Waters, F. W., Hoover, D., and Mangum, F., "The Opinion of North Carolina Flue-cured Tobacco Producers on the Possibility of Buying and Selling of Tobacco Quotas Separate from the Buying and Selling of Land," FPD 70-1, Dept. of Econ., N.C. State Univ., Raleigh, N.C., July 1970, 12 pp.
- (7) U.S. 92nd Congress, 2nd Session, Senate Committee on Agriculture and Forestry, *Farm Program Administration*, 1972, 28 pp.
- (8) U.S. 92nd Congress, 2nd Session, House Rep. 92-957, *Tobacco Quota Transfers*, 1972, 5 pp.
- (9) ———, Subcommittee on Tobacco, Hearings, *Lease, Sale, and Transfer of Tobacco Acreage Poundage Quotas*, 1972, 59 pp.

Senator THURMOND. There is a gentleman here from my State who is a very fine man, Mr. Dick Bell. Now, Mr. Harry Bell, the President of the Farm Bureau, is testifying I believe in favor of this bill.

Mr. Dick Bell, here from Dorchester County, who is a good friend of mine and a big tobacco grower who takes an adverse view to this

bill. If there is no objection, and in fairness to him, I do feel his views should be presented to the committee, and he will make a very brief statement. Could you hear him at this time? I will ask him to come around and we will hear him.

Mr. Bell, come around. You can have a seat right here.

Senator HUDDLESTON. Will you please identify yourself for the record.

STATEMENT OF J. R. BELL, HARVEY LLE, S.C.

Mr. BELL. I am Dick Bell, tobacco farmer from South Carolina.

Senator THURMOND. This is a very fine gentleman and I am anxious for his views to be heard.

Mr. BELL. I wasn't expecting, Mr. Chairman, to appear before the committee, and at the hotel room I jotted down a few notes on a pad I had.

Senator HUDDLESTON. Very good. We will be glad to have your testimony.

Mr. BELL. I will read it.

Mr. Chairman, and honorable members of the committee, I want to thank you first for allowing me to give you my views of the tobacco farming situation as it is in my section of South Carolina.

I am Dick Bell, a farmer, and I plant—I have planted between 80 and 90 acres of tobacco this year. I lease most of it from farmers who have stopped planting tobacco. These people will never farm tobacco again. I work on the clock. I just don't look at it. I get dirty, greasy, and tired. I should be in the tobacco field right now. We will begin harvesting next month.

I am opposed to leasing out of Dorchester County, which is my home, that is, across county lines. I feel that all counties south of the Santee River will have a greater economy by retaining their respective allotments. If these nonfarmers who have allotments leased to farmers in, say, Darlington County, which is in the Pee Dee, all the Dorchester County people will get out of it is the amount of rent. So what about the people I have working for me? Most of my employees are young or old or unemployed. They need the jobs.

If we transfer the acreage out of Dorchester County, yes, it will benefit the landlord, but the fertilizer, the insecticides and herbicide, oil and gas dealers will lose their businesses in this area along with the laborers—their wages.

I, too, think that all allotments should be somehow placed in the hands of the farmer on the farm, the one who is planting it. I have to pay thousands of dollars for the privilege of growing tobacco each year. I have invested in the latest farming equipment which has cost many thousands of dollars. My individual allotment will not support one bulk barn. I have 10 and will have from 12 to 14 by harvest time. Each barn costs approximately \$7,500.

In our county in 1973 most of the tobacco was drowned by a 20-inch rain. I had to carry over all of my 1973 crop to 1974 which I made, harvested, and sold last year. I am now growing my 1974 crop. I have already leased allotments enough to cover me for 1975.

I know you want to know about the future. I am on the First National Bank loan committee of Saint George, and the loan committee

of the Coastal Production Credit Association of Walterboro, S.C. We have been encouraging young people to get into tobacco farming. We have made some progress. One young man from Marion County is planting 100 acres of rented land and leased tobacco near my farm in Dorchester County. I know of another farmer planting about 80 acres of leased tobacco and leased land in Colleton County under the same circumstances and about 50 acres likewise in Jasper County. This gentleman is also from Marion County.

I want to go back to my statement about allotments south of the Santee River. A large percentage of the tobacco grown in the area, in this area, is sold in Statesboro, Ga. I do not feel that I am a part of the South Carolina tobacco farmers. I feel very close and more close to the Georgia tobacco growers.

So I would like to make this recommended addition. In my feeble way I would recommend that the Pee Dee Area in South Carolina be allowed to cross county lines if that is what they wish and that you allow us to stay as we are.

Thank you, Sir.

Senator HUDDLESTON. How many people do you employ to raise 90 acres of tobacco?

Mr. BELL. At the peak time we employ about 30.

Senator HUDDLESTON. Per season.

Mr. BELL. Yes, sir. We employ right along about this time of year about 20.

Senator HUDDLESTON. What indications are there that the allotments now in Dorchester County would be leased into other counties if it were permitted?

Mr. BELL. Well, for instance, this gentleman from Marion County, that is planting there now, he would take his allotment and carry it back to Marion County because it would be his home, so the people he is employing, they are doing a good job, so our people, the business people would lose their sales and the employees there would lose their living.

Senator HUDDLESTON. Wouldn't you have an opportunity to go to other counties, though, and lease allotments and bring them back to your operation?

Mr. BELL. You say would I have it?

Senator HUDDLESTON. Yes.

Mr. BELL. Oh, yes, I would have it, yes.

Senator HUDDLESTON. This would provide a competitive situation.

Mr. BELL. Competitive situation.

Senator HUDDLESTON. What is your feeling about a referendum that would give the growers an opportunity to decide for themselves the leasing issue?

Mr. BELL. That would be added to it.

Senator HUDDLESTON. In order to let them make the decision.

Mr. BELL. That would be all right.

I think what we need—see, I am in the lower part of South Carolina. I can't sell in some of the markets in South Carolina because I am too far. We only have the 100-mile radius and we have been selling in Georgia for a long time, and we are just a little over 100 miles by road, but I am just as near to the markets there by easy transportation, good roads, as I am to the nearest markets in South Carolina.

Senator HUDDLESTON. Thank you very much, Mr. Bell. I appreciate your testimony.

Mr. BELL. Thank you.

Senator THURMOND. Thank you, Mr. Bell.

Mr. Chairman, I might just mention that I would have no objection, and in fact, I think it would be the wholesome thing to do to amend this bill to provide a referendum by the farmers.

Senator HUDDLESTON. On a State-by-State basis?

Senator THURMOND. On a State-by-State basis would be all right. There are a few farmers, as I say, who feel like Mr. Bell. Mr. Bell is a very fine citizen, but he sells his tobacco in Georgia, you see, and he is not near the Pee Dee Area. That is the tobacco growing section of our State. It joins North Carolina. But I think if the farmers had a referendum, that would be a very fair way to do it.

Thank you very much, Mr. Chairman. I appreciate your consideration.

Senator HUDDLESTON. Thank you.

At this time I would like to insert in the record a statement from Mr. Thomas Irvin, Commissioner of the Department of Agriculture for the State of Georgia, a statement by Mr. J. Paxton Marshall, professor of agricultural economics at the Virginia Polytechnic Institute, a statement of the American Farm Bureau Federation relative to leasing of tobacco allotments, and a statement from Fred Voight, chairman of the Georgia Agricultural Commodity Commission for Tobacco.

[The above-referred-to statements follow:]

STATEMENT OF THOMAS T. IRVIN, COMMISSIONER, DEPARTMENT OF AGRICULTURE
FOR THE STATE OF GEORGIA, ATLANTA, GA.

Senator Huddleston and members of the committee: For almost two hundred years the producing, harvesting and marketing of flue-cured tobacco has been mainly a family-type operation. Every phase of tobacco production and preparation for market was a complete hand operation. Therefore, large acreage units of production were not needed or desired.

This began to change in a fast and dramatic manner with the advent of bulk curing and all belt loose leaf sales in the early to mid 1960's.

At the present time all flue-cured tobacco is sold loose leaf and a large percentage is cured in some type of bulk curing barn. The last three years have seen several types of tobacco harvesting combines appear in the tobacco fields. These combines are operated by two or three people and do twice as much work in a day as was formerly done by twelve to fifteen workers.

If the domestic and export users of flue-cured leaf completely accept combined, tangled leaf tobacco for use in cigarette manufacturing, during the next few years we will see this type harvesting and some type of bulk curing handle a very large part of our entire flue-cured acreage.

As this happens, it will be of paramount importance for growers to assimilate larger units of production so as to be able to afford these costly combines and bulk curing units. It will be beneficial to the tobacco-producing areas and to the tobacco industry as a whole if the cost of enlarging these units of production can be kept at a reasonable level.

At the present time in each flue-cured producing state there are marginal areas in counties on the fringe of the main-producing section where tobacco acreage is not in great demand and lease prices are very low. In the main-producing areas the opposite is true and often lease or rental prices are higher than they should be.

If tobacco allotments or quotas could be leased across county lines within a state, a leveling of lease cost would occur across the state and more of the total flue-cured tobacco effective quota would be produced to help meet an increased world demand for tobacco.

I, therefore, request that this Subcommittee give favorable consideration to an amendment to S. 700 to allow the leasing of Type 14, Flue-Cured Tobacco Acreage Allotments or Marketing Quotas Across County Lines Within the Same State.

STATEMENT OF J. PAXTON MARSHALL, PROFESSOR OF AGRICULTURAL ECONOMICS, VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY, BLACKSBURG, VA.

Mr. Chairman, I am J. Paxton Marshall. I am a member of the faculty of Virginia Polytechnic Institute and State University, Blacksburg, Virginia, and a professor of agricultural economics.

My remarks this morning concern bill S. 700, which would amend subsection (a) of section 316 of the Agricultural Adjustment Act of 1938, as amended, to permit leasing of Type 13 flue-cured tobacco quota across county lines in the same state to farmers producing the same type of tobacco.

It is just a modest step from proposing to permit leasing Type 13 across county lines within the same state, Mr. Chairman, to proposing to permit leasing of other types of flue-cured across county lines within the same state. It is for this reason that testimony on S. 700 is deemed appropriate at this time.

Mr. Chairman, an analysis of data on farm marketings and effective quota in all flue-producing counties in Virginia made available by the State Office of the Agricultural Stabilization and Conservation Service (ASCS) shows that the percentage of quota that is not leased and not produced is greatest in those counties that lie outside Virginia's primary flue-cured tobacco producing region.

It is well-known that this condition exists all over the flue-cured tobacco producing region. Also in Virginia, as in other states, the lease rates for quotas are lower in counties that lie outside the primary producing region than those in counties that lie within the primary producing region. This occurs, as Professor Dale Hoover of North Carolina State University has pointed out, because under the current rule of not permitting leasing across county lines each county is an individual market.

If an amendment is made to the legislation to allow leasing across county lines, the leasing rates will become more uniform throughout the production area within each state. Initially, lease rates will rise in the counties outside the major producing area, and decline in counties within the major producing area until an equilibrium is attained.

A research project being carried out in Virginia's Planning District 12 obtained, with permission of the State ASCS Office, data on all 1974 allotments and quotas within the four counties comprising the District—Franklin, Henry, Patrick, and Pittsylvania. The data reveal several useful facts.

In 1974, quotas were leased out by 40.4 percent of all allotment owners in District 12. The District had 6,495 allotments in 1974 and 58.8 percent of these were in Pittsylvania County, which produces about 75 percent of flue produced in District 12 and 25 percent of all flue produced in Virginia.

In 1974, the District had 38,338,341 pounds of quota, and 489 owners of allotments did *not* lease and did *not* produce any part of their quota. Only 244,649 pounds or eight-tenths of one percent, of the 28,877,789 pounds of quota in Pittsylvania County was not leased and not produced. But owners of 893,225 pounds, or 12.0 percent, of the 9,460,552 pounds of quota in the remaining three counties did not lease and did not produce any part of their quota.

This situation exists at a time when flue-cured prices are at record levels and after three successive years of quota increases. Some movement toward concentration of the production area is already underway. Further movement toward concentration may be expected with leasing across county lines. But there is no reason to believe that producers will act to the detriment of their individual interests should leasing across county lines be permitted.

In fact, Mr. Chairman, the continuing competitive advantage of producers and the entire industry is closely associated with producers' ability to expand production units to a size that will enable producers to adopt economic mechanization of production. Research carried out in the flue producing region indicates that units producing from 25 to 40 acres of tobacco are needed to make mechanization economical. Only 2.8 percent, or 181, of all producing units in the District produced 20 acres or more in 1974. Although these units produced 13.7 percent of all 1974 marketing in the District, it is clear that only a few producing units are of a size where mechanization is economic.

Mr. Chairman, leasing across county lines within states clearly offers a potential for assisting producers of flue-cured tobacco to increase the percentage of the total quota grown, their incomes, and their industry. It is to be expected that production will move toward the areas of greatest comparative advantage. This trend is already in progress. It has long been considered a desirable goal in agriculture.

One closing comment, Mr. Chairman, I would like to express my thanks to Mr. James E. Pratt and Mr. Donald P. Groover, both of whom are students in our department, for their assistance in preparing this statement.

TABLE 1.—DATA ON FLUE-CURED TOBACCO ALLOTMENT OWNERS AND QUOTA AND OWNERS NOT LEASING AND NOT PRODUCING ANY PART OF QUOTA IN 1974, VIRGINIA PLANNING DISTRICT 12

Item and unit	County of—				District total
	Franklin	Henry	Patrick	Pittsylvania	
Total:					
Allotment:					
Owners (number).....	1,069	571	1,002	3,823	6,465
Quota (pounds).....	4,436,620	1,708,061	3,315,871	28,877,789	35,338,341
Quota per farm (pounds).....	4,147	2,991	3,309	7,815	5,466
Owners not leasing or producing any part of—					
Allotment:					
Owners (number).....	168	91	145	85	489
Percent.....	7	11	12	0.8	7.6
Quota per farm (pounds).....	1,786	1,958	2,821	2,878	2,326
Total (pounds).....	300,067	184,043	409,115	244,649	1,137,874

STATEMENT OF JOHN C. DATT, DIRECTOR, CONGRESSIONAL RELATIONS, AMERICAN FARM BUREAU FEDERATION

At the most recent annual meeting of the American Farm Bureau Federation, the voting delegates of the member State Farm Bureaus adopted the following policy in regard to the sale or lease of acreage allotments: "Producers should be authorized to lease, sell, or otherwise transfer allotments to other farms in the same state or administrative area."

More specifically with regard to tobacco, the Board of Directors of the American Farm Bureau adopted the following recommendations of its Advisory Committee on Tobacco: "We recommend that tobacco growers in each state be allowed to determine by referendum whether allotments may be leased across county lines within the traditional producing areas."

We urge the Committee to amend S. 700 (1) to cover all types of flue-cured tobacco, and (2) to direct the U.S. Department of Agriculture to conduct referenda among tobacco growers in each state where flue-cured tobacco is produced to determine whether or not allotments may be leased across county lines.

STATEMENT OF FRED W. VOIGHT, CHAIRMAN, GEORGIA AGRICULTURAL COMMODITY COMMISSION FOR TOBACCO, TIFTON, GA.

Senator Huddleston and members of the committee: The major problems facing flue cured tobacco growers today is the steady and progressive decline in the tobacco production labor force.

As in all other farm commodities flue cured tobacco growers are being forced into huge capital outlays for mechanical equipment in order to compensate for this labor shortage, and to attempt to reduce unit production costs. In order to justify these large investments in labor saving machinery tobacco farmers must control certain minimum production quotas and there is considerable disparity in the leasing of tobacco quotas under the present regulations.

There is a rather serious imbalance in the effect of present regulations for both lessors and lessees in the leasing and transferring of flue cured tobacco quotas. These regulations are preventing to a considerable degree our cherished system of free enterprise. Farmers in one county, in many instances need additional quotas not available in their county, and yet, another grower in another county has no opportunity to lease his quota within his own county. If, because of a lack of labor or other reasons he cannot produce his quota the entire tobacco industry loses because tobacco is in the position of a steadily increasing worldwide demand. It is also a most important commodity to our country in world trade balance.

The Georgia Tobacco Commission has long advocated the leasing and transferring of flue cured tobacco quotas across county lines within the state. To do so we believe would alleviate many of the problems heretofore set forth and would be of further benefit to the entire tobacco industry by, (1) assuring a higher degree of total flue cured tobacco quota production in which world demand is increasing yearly, and, (2) by assuring greater continuity of supplies to world customers, and, (3) by granting more opportunities for fair and equitable dealings between contracting growers, and, (4) by giving greater stability to flue cured tobacco quota lease costs.

For the above stated reasons the Georgia Tobacco Commission, official voice of our 25,000 flue cured tobacco growers, earnestly requests that this Committee give favorable consideration to an amendment to S700 to include and allow the leasing of Type 14, Flue Cured Tobacco Acreage Allotments or Marketing Quotas Across County Lines Within the Same State.

Senator THURMOND. Incidentally, what is the view of those people?

Senator HUDDLESTON. The commissioner from Georgia is in support of the program, including a referendum, I believe. The professor is also in support of the program. And the Farm Bureau's position is favorable to the proposed legislation with the amendment on the referendum.

Senator THURMOND. Thank you very much.

Senator HUDDLESTON. I might point out to those here that we have some distinguished foreign visitors in the room today. They represent our biggest export customer, Japan, and are visiting here with Mr. Bob Minor.

Bob, do you want to introduce your guests?

Mr. MINOR. Thank you.

These gentlemen, as stated, are representatives of the Japanese tobacco monopoly and they are stationed at the Raleigh office full time. As staff they are stationed in the United States full time and these gentlemen are Mr. Nishimoto and Mr. Onishi.

Senator HUDDLESTON. We are happy to have you gentlemen with us. Thank you, Bob.

Senator THURMOND. Mr. Harry Bell was unable to be here but a representative of the farm bureau of South Carolina is here to present his statement whenever you want him. He is sitting right back here.

Senator HUDDLESTON. Thank you. We will get to him in just a few minutes.

Mr. Kenneth Frick.

I might say there is no way to relate for the record, Mr. Frick, the appropriateness of the necktie that you are wearing today. Being from Kentucky, the largest burley producing State in the country, I appreciate it.

STATEMENT OF KENNETH E. FRICK, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. FRICK. Mr. Chairman, I thought it was the least I could do today. I think it is a very pretty tie myself and does display tobacco as it should.

Mr. Chairman, I have with me Mr. Lanier, Director of the Tobacco and Peanut Division, and Mr. Harris, of the General Counsel's staff.

Rather than read the whole statement, I would like to submit the statement and just make a couple of comments relating to it.

Senator HUDDLESTON. The entire statement, of course, will be included in the record, and we are happy to have you summarize it.

Mr. FRICK. I would like to point out to begin with, so that it is understood in a little broader context, that all crops that we have today in our programs that are not under quota are moving freely without the necessity of lease and sale across county lines. And, of course, we have a lot of figures indicating that shifts that have gone on which we think is very healthy at this point in time, but we realize with quota crops that they should be reviewed and put in a position where greater efficiencies can be taken advantage of.

The Department is not opposed to the passage of this bill if it were amended to authorize both sale and lease across not only county lines, but across State lines and for all types of tobacco. We just think while you are discussing it, it should be discussed in its broadest context, particularly with the information of the other commodities that have had success in leasing programs.

Now, this one is directed toward type 13 and my understanding is that all types of Flue-cured are really thought of as one kind of tobacco, and we think that it should be allowed for all types.

The present legislation, of course, does provide for lease of farm acreage allotments for all types within the same county and the same way with burley, allows for it within counties. I think it is interesting, though, to note that it does—present legislation does provide for the sale of fire-cured and dark air-cured tobacco allotments to farms in addition to lease and transfer. So you have this already on sale and then for type 21 and type 37—it can be sold or leased to other farms in another county. So you already have some precedents for this.

I think it is also interesting to note what use is made today already in the lease within counties; 31 percent of the total poundage, 48 percent of the Flue-cured farms, last year did lease.

Lease and sale of allotments in other commodities show that it does provide the flexibility you are after, where farmers can adapt their lands, labor, and equipment to get a better job done, and as we move into more mechanization, this is certainly essential for tobacco. And it also gives the opportunity for growers that no longer have the ability to grow tobacco, the opportunity to receive some income from the leasing.

We also feel the transfers should not be limited to farms having a current allotment. We think that when transfers are made that any farmer within that State or another county should have the opportunity if he so desires to lease into his farm the tobacco allotments.

Senator HUDDLESTON. Does the law now require a farmer to have an allotment of his own before he can lease other allotments?

Mr. FRICK. That is true on both burley and Flue.

Mr. LANIER. No, sir. True on Flue, but not burley.

Mr. TODD. We are considering a change for burley for 1975.

Mr. FRICK. We have the authority within the law to make that change for burley.

Senator HUDDLESTON. Is there mechanism within the law to permit leasing across State lines?

Mr. FRICK. Not at this time on either Flue or burley.

Senator HUDDLESTON. What is your feeling on a referendum requirement?

Mr. FRICK. We have had the experience of some of the other commodities. At one time cotton required a referendum within a county. We noticed very little activity under that program as compared to a later program under the law in which the county committee decided whether it would be leased out or not, and the activity in leasing increased dramatically under that. So a referendum seems to do two things. Certainly there will be some leasing, but it will not allow the free flow of leasing that would be allowed under another method. It allows the majority to make a decision that may be contrary to the individual farmer's needs. I think it subverts the individual farmer's decision.

We have nothing against the referendum except I don't think it quite gets at what you are trying to accomplish in this bill.

Senator HUDDLESTON. It would do it if you were to go the route of across State line leasing. Would that have—the referendum would affect all potential States, presumably.

Mr. FRICK. If you voted it that way, I have noticed that with the county committee having the say-so in the cotton program, that they seemed to be more apt to allow leasing than if you had a referendum. Some people say, well, that is county committee, local control by county control is a very healthy thing without having to go through the more cumbersome method of the referendum, but we have nothing against the referendum, if that is desired.

Senator HUDDLESTON. Do you believe there would be more tobacco raised if cross-county line leasing were permitted?

Mr. FRICK. Yes; I am sure there would be, because some of the counties do not raise their quota today. I am sure some of that would be leased into an area which would be more interested in raising the tobacco, yes, sir.

Senator HUDDLESTON. We have some fear, similar to what was expressed by Mr. Bell, that if cross-county line leasing were permitted that many of the counties that have small allotments would lease to counties with larger allotments. The result would be to take out of a county the economic activity associated with the production of the crop, even though the income would still be coming to the county.

In Kentucky, if you are looking at burley, the big allotments are in the section of the State where the property is more valuable for purposes other than raising tobacco. Is there anything to indicate there might be a tendency for the allotments to flow toward the areas where the property is not so desirable and expensive?

Mr. FRICK. May I ask Mr. Lanier to respond to that?

STATEMENT OF WILLIAM L. LANIER, DIRECTOR, TOBACCO AND PEANUT DIVISION, U.S. DEPARTMENT OF AGRICULTURE

Mr. LANIER. I think it would depend on the desire of the grower, Senator. The wealth of the particular county would not necessarily determine whether or not tobacco would move there because there is tobacco within the State that one farmer in the poorest county could be leasing from the most prosperous county in the Commonwealth of Kentucky. So I don't think you could put it on a wealth versus poverty basis because it could flow both ways.

Senator HUDDLESTON. It just occurred to me—there might be a situation where producers in a high production area, like Fayette County, Ky., might look for a low-cost production area, where the labor is cheaper and the land is cheaper, to raise their tobacco.

Mr. LANIER. I think the most appealing part of this, Senator, is if we are going to stay in the tobacco production on flue or burley or any other type, we are going to have to mechanize the harvesting and this is more pronounced in the burley area than it is even in the flue, because of the size of the allotments there are such that no one can afford mechanization. So I think if we are going to continue to be the world's leader in the production of quality tobacco and volume, we are going to have to get this in economical units where these farmers can afford total mechanization.

Senator HUDDLESTON. Do you see any logic at all in going part way by requiring that it only be leased into the contiguous counties?

Mr. FRICK. Yes, I certainly do. This has been pretty well the history of it all. I don't think any of our other leasing arrangements, whether it be rice, cotton, or peanuts, are allowed across State lines at this point in time, so I think it is very logical as a step.

Senator HUDDLESTON. That would tend to keep the economic benefits in the general area.

Mr. FRICK. Yes, sir.

Senator HUDDLESTON. Should there be any limitation on the amount of the leasing that one person can accomplish or the number of leases he can secure?

Mr. FRICK. I don't see any real benefit to limiting a man to a certain number of allotments or acres. I think it is very difficult for any of us to determine what is the proper unit in a specific commodity in a specific location, and I don't believe any of the others have such limitations upon them and we have never heard any comments that they have been detrimental without limit.

Senator HUDDLESTON. No danger that you might create some sort of a monopolistic production?

Mr. LANIER. I don't fear corporate farming because the track record of corporate farming, and I could cite some examples—their track record has been rather poor. Seemingly they wound up with more chiefs than Indians and the cost of production was really high. I don't think that—although it has been flagged on numerous occasions—I really don't think that is a genuine fear.

Senator HUDDLESTON. Gentlemen, I believe that is all the questions I have. Thank you very much.

Mr. FRICK. Thank you, Mr. Chairman.

[The prepared statement of Mr. Frick follows:]

STATEMENT OF KENNETH E. FRICK, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Committee, I am Kenneth E. Frick, Administrator, Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture. I have with me Mr. William L. Lanier, Director of our Tobacco and Peanut Division, and Mr. John Harris of our General Counsel's Staff. We are pleased to give the Department's views on S. 700, a bill to amend the Agricultural Adjustment Act of 1938, as amended.

The Administration's farm policy is one that is market oriented, thus allowing the farmer to freely make decisions on what and how much to raise of a commodity. Under the new found freedoms in the Agricultural Act of 1970 and

the Agriculture and Consumer Protection Act of 1973, large amounts of acreages were shifted to allow for production on the farms best suited for growing cotton, wheat and feed grains. Legislation governing our marketing quota crops, such as tobacco, should be reviewed by Congress in order to provide for greater efficiencies and market sensitivity.

The Department, then, would not be opposed to passage of this bill if it were amended to authorize the sale and lease of farm acreage allotments and marketing quotas for all types of tobacco and for their transfer across state and county lines.

The bill provides for the lease and transfer of farm acreage allotments and marketing quotas for type 13 tobacco to farms in other counties in the same state where the same type of tobacco is produced. Type 13 tobacco is the type of flue-cured tobacco which is grown principally in the coastal plains sections of South Carolina and the southeastern counties of North Carolina, south of the South River.

Other types of flue-cured tobacco are: type 14, which is produced principally in Georgia, Florida and Alabama; type 12, which is produced principally in the coastal plains section of North Carolina; and type 11, which is produced principally in the piedmont sections of North Carolina and Virginia. All types of flue-cured tobacco are considered as one "kind" of tobacco under the marketing quota provisions of the 1938 Act, and under the price support provisions of the Agricultural Act of 1949.

Present legislation provides for the lease of farm acreage allotments and marketing quotas for all types of flue-cured tobacco—and transfer to other farms in the same county having flue-cured allotments and quotas. Similar provisions apply to burley tobacco farm poundage quotas and to acreage allotments for most other kinds of tobacco.

In addition to the lease and transfer of allotments and quotas, present legislation provides for the sale of fire-cured and dark air-cured tobacco allotments—and transfer to other farms in the same county. In the case of types 21 and 37—the fire-cured tobacco produced in Virginia and Virginia sun-cured tobacco—allotments can be sold or leased to other farms in another county in the same state.

Tobacco producers have made extensive use of the provisions for the lease and transfer of farm acreage allotments and marketing quotas. For example, quotas were transferred from 48 percent of the flue-cured farms last year—with 31 percent of the total poundage being transferred. The lease or sale of allotments and marketing quotas for all types of tobacco, and transfer across state and county lines would provide more flexibility in the tobacco marketing quota programs and enable those farmers who have the land, labor and equipment for producing larger acreages to increase their operations to more economic units.

Larger and more economic production units stimulate the mechanization of planting, harvesting and curing of tobacco. At the same time, lease and sale enables those farmers who may not wish to continue the production of tobacco to transfer their resources to other operations, and still receive some income from the lease or sale of their allotments and quotas.

The Department will be pleased to assist in drafting legislation to authorize the sale, lease and transfer of farm acreage allotments and marketing quotas across state and county lines for all types of tobacco. In this connection, we also noted that the wording of the proviso in S. 700 is subject to the construction that, when a lease is made to a farm in another county, such farm need not be one "having a current tobacco allotment or quota of the same kind" as is now provided for leases in the same county. The Department feels that transfers should not be limited to farms having a current allotment or quota of the same kind of tobacco. Therefore, we suggest that section 316(a) be amended to remove this transfer limitation. This will be consistent with the legislation providing for transfer of allotments or quotas for burley, fire-cured and dark air-cured allotments and quotas which does not contain this restriction.

The enactment of this legislation will not result in any additional expenditure of administrative or CCC capital funds.

That concludes my statement, Mr. Chairman; we will be pleased to respond to any questions you may have.

Senator HUDDLESTON. Mr. Reynolds. Please identify yourself for the record and proceed with your statement.

**STATEMENT OF H. EMMETT REYNOLDS, PRESIDENT, GEORGIA
FARM BUREAU FEDERATION, MACON, GA.**

Mr. REYNOLDS. Mr. Chairman and members of the committee, I am H. Emmett Reynolds, president of the more than 90,000 member Georgia Farm Bureau Federation that represents all phases of agriculture in our State. In our membership we have more than 30,000 tobacco farmers who produce the major portion of the Flue-cured tobacco grown in Georgia.

Tobacco represents the second largest cash income for farmers in Georgia. There are more than 30,000 farmers producing Flue-cured tobacco which generates considerable job opportunities and economic activities for other segments of Georgia's population. Tobacco, raised on farms with allotments, represents a sure source of income and on numerous farms, represents a difference between maintaining the farm operation and the family having to move elsewhere for a living.

At our annual meeting on Jekyll Island in December 1974, the following policy statement was unanimously approved by 800 voting delegates representing all county farm bureaus of the State:

We urge that legislation be introduced and passed by the National Congress to enable tobacco allotments to be leased and transferred across county lines within the State.

This policy statement has been approved by the voting delegates at each annual meeting for the past 4 years. Tobacco growers in fringe producing counties with small allotments have found it almost impossible to lease their allotments so that the much needed Flue-cured tobacco can be grown. Producers in the major producing counties have been unable to lease enough tobacco allotment to bring together units large enough for present day economic production of tobacco.

Over a period of the last 4 years tobacco production quotas have been increased by a total of 35 percent due to the world demand for high quality American grown Flue-cured tobacco. During this period we in Georgia have not produced 100 percent of our quota due to this particular problem of fringe counties versus major tobacco-producing counties. With the change in the Tobacco Act permitting lease and transfer of tobacco across county lines within the State, this problem of underproduction of effective quota can and will be eliminated. This change would be economically sound for both the small fringe county producer and the producer in the major tobacco-producing counties.

Tobacco farmers in Georgia urge you to pass out Senate bill 700 by Senator Strom Thurmond of South Carolina that would permit the needed lease and transfer across county lines within a State. Senate bill 700 as introduced affects only type 13 tobacco grown in South Carolina and the border belt of North Carolina. The Georgia Farm Bureau representing all tobacco producers urges the committee to amend this proposed legislation to include type 14 tobacco grown in Georgia, Florida, and Alabama. The provisions of this legislation would increase and improve production of Flue-cured tobacco in Georgia and Florida and Alabama in the same manner it would improve production practices in type 13 tobacco.

At the past session of the Georgia General Assembly a resolution was unanimously adopted by our house agricultural committee supporting the proposed change in the Tobacco Act. I understand this

resolution was coauthored by virtually all representatives from the tobacco-growing areas of Georgia. I ask permission to have this resolution appear as part of the hearing record following my statement.¹

Senator HUDDLESTON. Without objection, it will be included in the record.

Mr. REYNOLDS. Mr. Chairman, I appreciate very much the opportunity to appear before this distinguished committee, and if there are any questions I might be able to answer, I will be happy to do so. Thank you.

Senator HUDDLESTON. Thank you. How does the Georgia Farm Bureau feel about a grower referendum on the issue of leasing?

Mr. REYNOLDS. We would have no objections to the referendum, sir, if it were statewide with a majority vote.

Senator HUDDLESTON. Do you think the majority of the growers would approve?

Mr. REYNOLDS. Yes, I think so because each grower finds himself identified in one position or another. He is a small allotment holder who would enjoy some income from it if a larger allotment holder would lease it, and he could economically phase it into a larger production and make it more economically feasible to obtain these more expensive machines he is now having to use to produce it.

Senator HUDDLESTON. Is there any chance that leasing across county lines to different areas of the States would affect the marketing system that now exists?

Mr. REYNOLDS. No, sir, I don't think so because we don't have an oversupply of available markets as such. In other words, a market is something that is very specialized in its intent to put together a facility and for the short length of time that they exist, there is just not an oversupply of available markets, and I don't think there would be any significant change. I think they would all be used as they are now.

Senator HUDDLESTON. Would there be a tendency for these leases to gravitate toward the markets that now exist?

Mr. REYNOLDS. Sir, I don't know if they would gravitate toward the markets that exist, but I think they would gravitate toward the richer, more economical opportunities to produce tobacco feasibly.

Senator HUDDLESTON. How do you feel about the proposition that leasing might be restricted to just contiguous counties?

Mr. REYNOLDS. Well, it would not really serve the purpose for us in Georgia, because if you limited it to some counties and not include them all, I as a representative of all the tobacco growers would have to speak in behalf of all the counties rather than some few. I don't understand the meaning of this or—I am not aware of this at this point, sir, so therefore, I cannot speak against it nor for it. I just would speak for all the tobacco growers in my State.

Senator HUDDLESTON. Do you see any way where a present allotment holder could be damaged by cross-county leasing?

Mr. REYNOLDS. No, I don't. I think the allotment holders now would be helped because there are so few in these fringe area counties as I referred to that have small allotments that cannot be transferred over to a county that has larger allotments and nobody is leasing those within those counties, but under this situation, then, they would have available lessees for all of these allotments.

¹ See p. 25.

Senator HUDDLESTON. It would improve the market, so to speak, for leasing allotments.

Mr. REYNOLDS. Yes, sir. I think so. So it would do two things really. It would stabilize the payments for leases because you would not be so competitive within the better, more affluent growing counties, and it would include all of the counties' production and we would not have to continue to increase the quota, and it would also give those marginal counties with small allotments some income from their leases.

Senator HUDDLESTON. Is there currently wide variation in the prices paid for allotments?

Mr. REYNOLDS. Yes, sir, I think so. I am not really speaking authentically but I hear that there is because some of these in a county where you have a small number of allotments that are small, you only have a person that is maybe not as interested in growing and he is not fitted with the mechanical devices that he cannot pay as much as the ones with the higher specialized equipment.

Senator HUDDLESTON. Thank you very much.

Mr. REYNOLDS. Thank you, sir.

Senator HUDDLESTON. I appreciate your testimony.

[The following resolution was referred to on p. 24.]

Resolution adopted by Committee on Agriculture and Consumer Affairs of the Georgia House of Representatives at its 1975 Session :

A RESOLUTION

Relating to the leasing of tobacco allotments or quotas in another county in the same state in which Type 14 tobacco is produced ; and for other purposes.

Whereas in the opinion of many knowledgeable persons associated with the tobacco industry, including tobacco farmers, it would well serve the industry to allow allotments or quotas to be leased across county lines within the same state whenever the farmers may desire ; and

Whereas restricting the present program to county lines throughout the tobacco belts is somewhat arbitrary and penalizes counties which are more naturally suited to tobacco production, i.e., farmers in several of the key tobacco growing counties in Georgia have already leased all the available poundage quotas within their respective counties while at the same time, considerable poundage is available for lease in adjacent or nearby counties which will likely go unused under the restrictions of the present law ; and

Whereas allowing the leasing of tobacco allotments or quotas across county lines would generally benefit tobacco farmers, and it would certainly aid the progressive farmers in good tobacco growing areas who wish to expand production ; and

Whereas there is an imperative need for tobacco growers to obtain additional allotments of tobacco across county lines within the same state to enable them to more economically mechanize the production, harvesting and curing of tobacco ; and

Whereas Senator Strom Thurmond of South Carolina has recently introduced a bill (S. 700) to allow farmers to lease tobacco allotments or quotas in another county in the same state in the case of Type 13 tobacco. Now, therefore, be it

Resolved, That the undersigned members of the General Assembly of Georgia from the tobacco producing areas of this State do hereby urge Senator Herman E. Talmadge, Chairman of the Senate Committee on Agriculture and Forestry, to amend S. 700 or introduce a new bill to allow tobacco farmers to lease tobacco allotments or quotas in another county in the same state in the case of Type 14 tobacco.

(Signed)

(Rep. Dorsey R. Matthews of the 45th,
Chairman and other members of the Committee and the House.)

Senator HUDDLESTON. Our next witness is Dr. Max Loyd.

STATEMENT OF DR. MAX I. LOYD, ASSOCIATE PROFESSOR OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY, CLEMSON UNIVERSITY, CLEMSON, S.C.

Senator HUDDLESTON. Will you identify yourself for the record and proceed.

Dr. LOYD. I am Max Loyd, associate professor of agricultural economics and rural sociology, Clemson University.

Senator HUDDLESTON. Before you start, I have to attend another committee meeting. I am going to ask my colleague, Senator Helms, from North Carolina, who has a great interest in tobacco, to chair the hearing during my absence.

Senator HELMS [presiding]. You are Dr. Loyd?

Dr. LOYD. Yes, sir.

Senator HELMS. If you will proceed. Needless to say, we appreciate your appearing here today.

Dr. LOYD. Mr. Chairman, members of the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices of the Senate Committee on Agriculture and Forestry, ladies and gentlemen. Flue-cured tobacco is an important crop to the economy of South Carolina. Farm income from tobacco was about \$180 million in 1974, amounting to about one-fifth of the State's total farm income. More than 11,000 farms in South Carolina are involved in the production of type 13 Flue-cured tobacco. Additional descriptive information is shown in table 1 and figure 1.

TABLE 1.—SOUTH CAROLINA TOBACCO PRODUCING FARMS, 1975 EFFECTIVE QUOTA AND PERCENT OF TOTAL

County	Producing farms	1975 effective quota	Percent of total, effective quota
Berkeley.....	199	1,239,998	0.7
Chesterfield.....	108	1,898,626	1.0
Clarendon.....	661	9,766,001	5.2
Colleton.....	149	1,603,300	.8
Darlington.....	753	14,501,926	7.8
Dillon.....	758	16,594,444	8.9
Dorchester.....	142	2,215,516	1.2
Florence.....	2,195	33,431,281	17.9
Georgetown.....	481	4,215,619	2.3
Horry.....	2,570	50,767,968	27.2
Kershaw.....	31	759,165	.4
Lee.....	228	3,289,588	1.8
Marion.....	771	16,538,602	8.9
Marlboro.....	124	3,048,709	1.6
Orangeburg.....	33	466,245	.2
Sumter.....	360	4,451,671	2.4
Williamsburg.....	1,877	21,631,958	11.6
Others.....	18	416,369	.2
Total.....	11,458	186,836,986	100.0

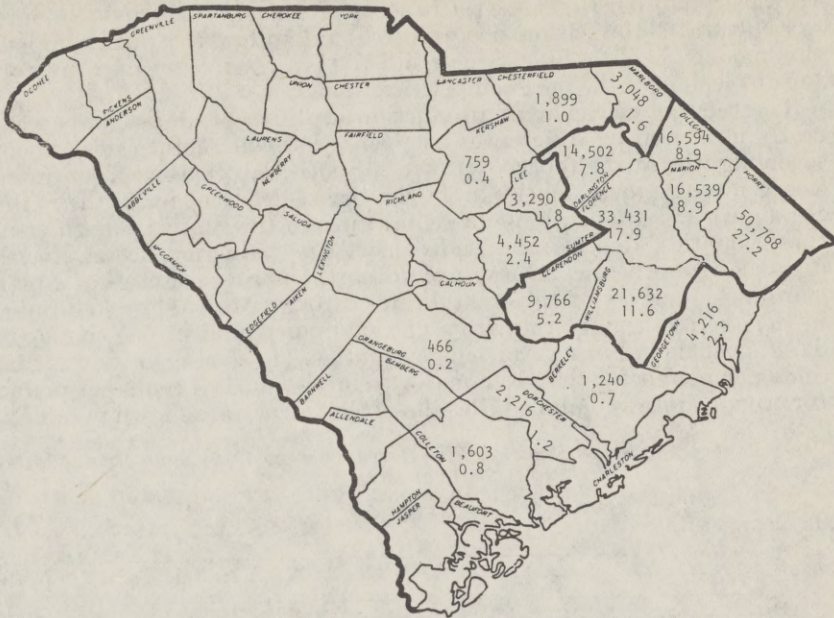


FIGURE 1.—Location of tobacco production in South Carolina, 1975 effective quota (1,000 pounds) and percent of total

My comments will be limited to the South Carolina type 13 situation.

South Carolina farmers have been near unanimous in support of the Flue-cured price stabilization program and believe that this program has been an important part of the growth and success of the Flue-cured tobacco industry. In the 1973 referendum, 99 percent of farmers voting in South Carolina voted in favor of the price stabilization program. Domestic and foreign manufacturers recognize that U.S. producers offer a relatively stable supply of high quality Flue-cured tobacco. Manufacturers have continued to depend on this source of supply even in circumstances when potential temporary gains could have been realized by substituting other tobaccos or materials.

The purpose of these comments is not to evaluate the success of the Flue-cured stabilization program. However, it is generally recognized that previous adjustments such as the provision for transfer of quotas, the carryover pool, and changes in acreage restriction have contributed to the viability and the continued effectiveness of the program. It is evident that a substantial majority of South Carolina farmers believe that the provision of Senate bill 700 would further improve the effectiveness of the stabilization program.

The primary economic argument favoring leasing across county lines is that this would permit tobacco to be grown in the areas of most efficient production. This would eliminate one of the most serious grounds for criticism of supply controls. Economists acknowledge that pure competition is virtually nonexistent in the real world. That is the primary justification for farm price stabilization activities.

However, in order to realize the benefits of a market oriented economy, agricultural stabilization programs should follow the pure competition model where feasible. Senate bill 700 is a feasible means of restoring an element of the pure competition model.

The relative efficiency of production in different areas can be generally measured by differences between allotment rental rates. About seven-eighths of the tobacco grown in South Carolina is concentrated in seven contiguous counties in the Southeast Pee Dee area of the State. See figure 1. In general, quota rental rates in the State are highest in these counties. Rental rates and density of production decrease with distance from these counties—excluding the border counties of North Carolina. A survey of 1975 rental rates through May 5 showed a range in the average county rate from 25 cents per pound in one county to 8 cents per pound in several fringe counties. The average rate was 21.1 cents per pound for the seven major counties and 11.4 cents per pound for other counties combined. Results of this survey are shown in table 2.

TABLE 2: *Average South Carolina Flue-Cured Tobacco 1975 Quota Rental Rates Through May 5*

Major producing counties :	Rate per pound
A -----	18
B -----	19
C -----	20
D -----	20
E -----	22
F -----	23
G -----	25
Weighted average -----	21.1

Other counties : Rate per pound, range 8 to 16 cents per pound, weighted average, 11.4 cents per pound.

The subcommittee is fortunate to have Prof. Dale M. Hoover testify. He has conducted and directed extensive research on allotment rentals and is recognized as the most knowledgeable researcher in the Flue-cured area on the economic implications of this subject. A study by Professors Hoover and Todoulos showed that transfer across county lines within South Carolina would have resulted in net imports of 13.363 million pounds to six counties from 16 remaining counties in 1968. Adjusting this figure by the increase in effective quota since 1968 would result in estimated net transfer of about 18 million pounds for 1975. This adjustment of the 1968 estimate is justified by the fact that differences between county rental rates remain near constant from year to year even though the overall level fluctuates.

The above study by Hoover and Todoulos presented the economic effects of cross-county leasing in detail. Generally lessees in importing counties and lessors in exporting counties would gain by cross-county leasing. Lessors in importing counties and lessees in exporting counties would lose, as was pointed out by Mr. Bell. Farm suppliers and marketing firms would also be affected. Production remaining in exporting counties would be on the more efficient farms. Since quota rent is essentially a residual between total returns and total costs, the reduced rental rates in importing counties would imply that some of the imported quota would be produced less efficiently than local quota production.

It would be logical to conclude that the seven major producing South Carolina counties would absorb all quota available for leasing from the lower producing counties. Rental rates are highest in the major counties and interfarm transfer within these counties is already greater than the total quota in the remaining counties. It could also be concluded that leasing across county lines would result in a State equilibrium rental rate somewhere between the current highest and lowest rates. The most likely equilibrium rate, based on 1975 figures, would be between the 18-cent-per-pound rate for county A and the 20-cent-per-pound rate for counties C and D—see table 2.¹ Likewise, the pivot between quota importing and exporting counties would most likely occur at one of the four counties in this range, with one or more of these counties remaining near neutral in terms of net imports. More specifically the lowest importing county would establish the equilibrium rental rate. The rental rate in this pivot county would be near the rental rate that would occur in that county without cross-county leasing. In fact, the rental rate in the pivot county would not be affected if net imports to this county were zero. That is, imports and exports to and from this county would be competitive with internal transfers.

The method of determining the change in producer surplus as outlined in the 1973 study by Hoover and Todoulos was used to estimate the economic benefits to cross-county leasing in South Carolina. Due to time limitations, two simplifying assumptions were made in order to make this computation manually. First, it was assumed that the segments of the aggregate supply curves involved in each county are linear. This assumption was considered reasonable for the segments of the supply curves involved. Second, it was assumed that each exporting county would export the same percentage of its total quota and each importing county would import the same percentage of its total quota. This assumption tends to underestimate the net increase in producer surplus since imports would tend to be proportionally higher in counties with initially higher rental rates and exports would tend to be proportionally higher in counties with lower rental rates.

The above procedure resulted in estimated net benefits to South Carolina of \$1.75 million using 1975 effective quota and rental rates. This figure is slightly less than 1 cent per pound of total quota and slightly less than 1 percent of expected total returns. These results are consistent with Hoover and Todoulos' evaluation of benefits for North Carolina, though somewhat conservative. A more sophisticated estimate would not be justified without more detailed data and further research.

In addition to increasing production efficiency, cross-county line transfer of quotas would also be expected to improve the efficiency of managing the Flue-cured stabilization program. This procedure would provide an incentive for producing a larger percentage of the effective quota. During years of low price expectations, quota value approaches zero on some farms, resulting in underplanting. With cross-county leasing, needed changes in quota could be made with the expectation that plantings would be more directly affected by total effective quota.

A comment is in order concerning intrastate versus interstate transfer of quota. Interstate transfer of quota is an unpopular subject with

¹ See p. 28.

producers since they generally feel that this would eventually jeopardize the stabilization program. Benefits would be increased by interstate transfer. However, additional benefits to interstate transfer would not likely be as great as initial benefits to intrastate transfer. The Hoover-Todoulos study showed a range of intrastate equilibrium rental rates of only 2.19 cents per pound for 1968. This study also showed that interstate transfer would only increase total transfer activity by about 10 percent over intrastate transfer.

In summary, South Carolina tobacco producers strongly support the Flue-cured stabilization program. They have shown much concern about other current major commodity programs. South Carolina producers believe that the Flue-cured stabilization program can continue to be the best means of stabilizing production and prices while meeting the objectives of current national farm policy, including market orientation, increased exports, and minimum Government expense. They also generally believe that passage of Senate bill 700 would result in increased effectiveness of this program. It should be emphasized that these are value judgments expressed by individual South Carolina farmers and farm organizations through random contacts. This report of these views does not represent an official position of Clemson University. However, the evaluation of the economic effects of cross-county leasing presented above does indicate overall benefits to South Carolina Flue-cured tobacco producers.

Senator HELMS. Dr. Loyd, the subcommittee thanks you for a fine statement.

I have a statement by John Sledge which I am going to put in the record. Mr. Sledge is president of the North Carolina Farm Bureau Federation. He includes the text of a resolution approved by the voting delegates of the North Carolina Farm Bureau Federation in December 1974 relating to this question. The Farm Bureau Federation in my State suggests a referendum among tobacco growers.

How do you think such a referendum would come out in South Carolina?

Dr. LOYD. Well, as I indicated in my statement, I think it would come out favorable and I think a referendum would be a good idea because I mentioned, my comments were based just on random contacts, and a referendum, of course, would permit each farmer to express his views, and I think that would be a preferable way of approaching this issue.

Senator HELMS. Well, I thank you for your statement.

[The statement of Mr. Sledge follows:]

STATEMENT OF JOHN SLEDGE, PRESIDENT, NORTH CAROLINA FARM BUREAU
FEDERATION, RALEIGH, N.C.

Mr. Chairman, and members of the Committee, as President of the North Carolina Farm Bureau Federation, I wish to express my appreciation for this opportunity to relate the flue-cured tobacco grower views of our organization.

The North Carolina Farm Bureau has historically supported the program for flue-cured tobacco since its beginning over 37 years ago. We were strong supporters and advocates for the current acreage-poundage program. More recently in 1974, we urged the development and adoption of the grower warehouse designation plan which has been widely accepted by growers and warehouses alike.

Our organization has demonstrated that we want to keep a progressive tobacco program that is second to none and is amply meeting all domestic and export demands of our buyers.

Optimism prevails generally among tobacco growers and we are interested in the perfection of a program at all times that increases its acceptability.

We are aware that the demand for flue-cured tobacco looks encouraging for 1975 and future years. Under these conditions we are challenged to meet the production requirements.

Under our current tobacco lease and transfer program, we have been informed that most grower requirements for poundage has been met for 1975. There are, however, a few reports from two or three counties that more poundage could be utilized for the 1975 season, if available.

At our last Annual North Carolina Farm Bureau Convention in December, 1974, the following resolution was passed by the Voting Delegates:

"We oppose the transfer of tobacco allotments across county lines."

1. Could pose a threat to the tobacco program since in the beginning tobacco could be transferred across county lines, then how long before across state lines.

2. Possibly affect the agricultural economy, as well as total economy in some areas, since tobacco could move out of area.

3. Could possibly reduce number of small family-type growers who have traditionally been known to produce high quality tobacco.

Since our Annual State Farm Bureau Convention in December our American Farm Bureau Tobacco Advisory Committee, which we have grower representation, met and made the following recommendation:

"We recommend that tobacco growers in each state be allowed to determine by referendum whether allotments may be leased across county lines within the traditional producing areas."

This recommendation was presented to the American Farm Bureau Board of Directors during the March, 1975, Board Meeting and was approved for implementation.

We feel that under the current circumstances that a referendum will best enable growers to truly express their individual views and give them an opportunity through this public expression to reconcile the many views being voiced over this issue. A vote by tobacco growers to decide this issue of transferring tobacco allotments is sound as well as American. Mr. Chairman, and members of the Committee, Thank you for allowing us to make this a part of the record.

Senator HELMS. Next scheduled is a good friend of mine, a constituent from Mount Olive, N.C., Gary S. Strickland. If Mr. Strickland will come forward.

Delighted to see you, Gary.

STATEMENT OF GARRETT S. STRICKLAND, MOUNT OLIVE, N.C.

Mr. STRICKLAND. Thank you, Senator. Very good to see you.

I would like to give you that and you can look it over while I state a few things which are ball park figures. I suppose they attempted to be ball park figures.

I am Gary Strickland, a tobacco farmer and tobacco warehouseman from Sampson County in eastern North Carolina.

The practice of lease and transfer of tobacco is a very vital part of the tobacco program as we know it today. In my home county of Sampson and the adjoining county of Wayne, in which I also grow tobacco, about 40 percent of the tobacco grown is leased and transferred from one farm to another. Changes in growing practices, especially in harvesting, have caused this percentage figure to grow over the years. Mechanical harvesting, in particular, has caused a need for larger tobacco farming units, thereby expanding the use of lease and transfer.

I have been interested in the possibility of lease and transfer of tobacco across county lines for the past several years. In 1973, I had the privilege of serving on Secretary Butz' special tobacco task force. This Committee was charged with the responsibility of framing new ideas to improve the process of tobacco sales.

From this committee came the basic idea for and the recommendation to implement the tobacco warehouse designation system as we know it today. It was also the feeling of the majority of the members of this committee that the possibility of implementing lease and transfer across county lines but inside State boundaries should be looked into.

Since 1973 I had personally remained in favor of transfers across county lines, but with the yearing increasing in allotments, the need had not seemed so great.

Prior to and during the warehouse designation period, which this year was the month of March, I traveled Sampson and the surrounding counties very extensively while soliciting tobacco to be sold at my warehouses. During this time, many of the tobacco farmers I came into contact with complained that they were unable to lease as much tobacco as they wished to grow because it was unavailable in their particular counties. During the same period, I came into contact with people from other counties who said that there was a lot of tobacco in their counties that was not going to be grown.

After contacting people involved in one position or another with ASCS, I developed a map identifying the counties in North Carolina that had excess tobacco and also the counties that needed additional tobacco and the amounts involved. I am sure Professor Hoover, when he makes his statement, is going to get into this particular item in more depth and probably with more accurate figures than what I have represented here. This was done with the assistance of the representatives of the individual ASCS officers in the individual counties.

The extremes go from Wake County, which has 1,500,000 pounds which has not been leased, to Pitt County, which needs an additional 1,500,000 pounds of tobacco. In my own county of Sampson, it is the estimate of the chairman of the ASCS committee in my county that we could use an additional 1 million pounds of tobacco.

It is obvious to me from these figures that lease and transfer of tobacco across county lines would put the tobacco poundage into the hands of the farmers who wish to grow it, thereby making the quotas more meaningful.

It is the opinion of the majority of the tobacco farmers that I have talked to in my area that they are in favor of lease and transfer across county lines inside State boundaries as the Senate bill states, and also with the stipulation that it be transferred to farms with existing tobacco allotments, and also with the further stipulation that it be on a year-to-year basis.

Through the efforts of the USDA and the Flue-Cured Stabilization Corp., the tobacco program over the year has, in my opinion, proven to be one of the most successful ventures the Federal Government has ever become involved in, both in controlling production, stabilizing prices, and assistance to the farmers it was designed to assist. I think lease and transfer across county lines would be a step in the right direction in making this program more successful.

Mr. Chairman, I would like to make one further comment because it has been brought up several times to people who made their statements prior to me, and that is on the possibility of a referendum and, of course, I would like to say that I, personally, would be in favor of a referendum. I would go one step further. The representatives of

the Department of Agriculture—Mr. Lanier, who is a good personal friend of mine—I would like to disagree with one thing they said and that is on the—I understood them to recommend that lease and transfer across State lines and without the stipulation that it be to farms with existing tobacco allotments. I, personally, would be strongly against that and I would say it is my opinion that any referendum with that particular stipulation would be defeated very soundly in North Carolina.

Senator HELMS. You have answered the question I was going to ask. Would you like this map to be made a part of the record?

Mr. STRICKLAND. I would, and I would say the figures—the circled figures are of counties that need additional tobacco. The uncircled figures are figures that exist in counties that will not be grown this particular crop year. The small figures underneath are the cents per pound that was the existing price of lease and transfer in the particular counties and I believe the question was brought up once before and the map shows here that the price in North Carolina varies from 3 cents a pound in Davidson County, which has an additional $1\frac{1}{2}$ million pounds to lease, to 22 cents a pound in Pitt County, which needs an additional $1\frac{1}{2}$ million pounds.

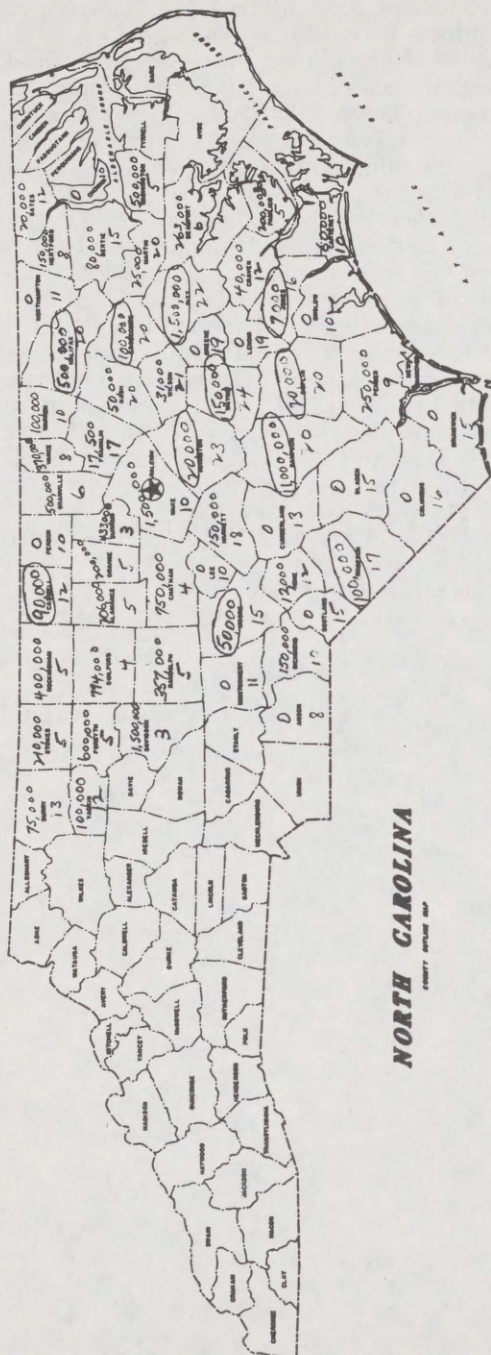
Senator HELMS. Very well. Without objection, the map will be made a part of the record.

[The map referred to follows:]

FC. TOB. LEASE AND TRANSFER SITUATION-5-9-75

BLACK = SURPLUS-LBS.

CIRCLED FIGURES=SHORTAGE-LBS.



Senator HELMS. Thank you, Mr. Strickland, and again I welcome you to Washington. We appreciate your testimony here today.

Mr. STRICKLAND. Thank you, Senator.

Senator HELMS. Our next scheduled witness was Mr. Harry S. Bell, president of the South Carolina Farm Bureau Federation of Columbia, S.C. However, Mr. Bell is unable to be here today because of a death in the family and speaking for him is Mr. Thomas A. Warren, assistant to the president.

Good to see you, Mr. Warren. You may proceed.

STATEMENT OF HARRY S. BELL, PRESIDENT, SOUTH CAROLINA FARM BUREAU FEDERATION, COLUMBIA, S.C., PRESENTED BY THOMAS A. WARREN, ASSISTANT TO THE PRESIDENT

Mr. WARREN. Thank you, Mr. Chairman, and I wish to extend our regrets on the part of Mr. Bell. He was unavoidably unable to attend because of a death in his family, and he asked me to come and read his statement.

My name is Thomas A. Warren, and I am assistant to the president of the South Carolina Farm Bureau Federation.

Farm Bureau represents 42,000 farm families in South Carolina, and a large portion of these families live in the tobacco-producing area of our State. In fact, some 33,000 farm families are engaged in producing tobacco in South Carolina, and it is very important to the overall economy of the State. Tobacco is our leading cash crop, and accounts for approximately 25 percent of all cash crop receipts.

To begin, I would like to state South Carolina Farm Bureau policy on this matter, which is: "We recommend that it be made permissible for tobacco farmers to lease tobacco allotments within the boundaries of this state."

Policy of the American Farm Bureau Federation on this matter reads thusly: "Producers should be authorized to lease, sell, or otherwise transfer allotments to other farms in the same State or administrative area."

This policy was developed at the grassroots level by producers, and we feel very strongly that the matter of leasing quotas across county lines should be determined by producers on a State-by-State basis by farmer referendum, as was recommended by the Butz study committee.

We fully realize that there might be objections from other States, but under this type determination, that is, a State-by-State referendum, farmers of each State would have the opportunity to express their preference and convictions on the matter. We feel that this is only fair to everyone involved.

Now, very briefly, allow me to enumerate the reasons for our policy on this matter:

One: Many small allotments in fringe areas of our tobacco producing counties that presently are not being planted could be put into production if transfer across county lines was permissible.

Two: There is a shortage of farm labor, and with the necessity of mechanization in the area of tobacco harvesting, efficiency, and profit dictate the combining of allotments into larger units.

Three: The rental of tobacco allotments or poundage is a factor in the tobacco-producing area of South Carolina. The leasing of quotas across county lines would do much to stabilize rental prices, and help create order and reliability in this area of the industry.

Four: The leasing of quotas or poundage across county lines would do much to insure that a higher percentage of the total poundage of tobacco would be planted in South Carolina, thereby enhancing the economic condition of the entire tobacco growing area of the State, which includes 29 of the 46 counties.

Mr. Chairmap, with these factors in mind, we urge this subcommittee to give favorable consideration to the matter of allowing South Carolina producers of Flue-cured tobacco, as well as producers of tobacco in any other State who so desire, an opportunity of deciding for themselves whether or not they be allowed to lease quotas across county lines within their respective States.

Mr. Chairman, I wish to express my appreciation to you and each committee member for your interest in this vital agricultural industry, and also thank you for the opportunity of appearing before you today.

Senator HELMS. The subcommittee thanks you for an excellent statement, and please extend our sympathy to Mr. Bell.

Mr. WARREN. Yes, sir.

Senator HELMS. The next witness will be another resident of my State, Dr. Dale M. Hoover, professor of economics and business at North Carolina State University.

Welcome, sir. Have a seat and proceed.

STATEMENT OF DR. DALE HOOVER, PROFESSOR, NORTH CAROLINA STATE UNIVERSITY, RALEIGH, N.C.

Mr. HOOVER. It has been suggested that I might read my statement so that a later witness will have a chance to arrive here.

I am Dale M. Hoover, professor of economics and business, North Carolina State University, Raleigh, N.C. Because of the importance of Flue-cured tobacco production in our State and the responsiveness of the Agricultural Experiment Station to producers' adjustment problems, we have been engaged in the study of allotment lease and transfer for more than 10 years. We have analyzed farmer participation in the within-county program at several points since its inception in 1962 and have estimated probable farmer response to hypothetical programs which would allow transfer across county lines [Bradford and Toussaint, 1962; Bordeaux, Hoover, and Toussaint, 1966].

The leasing and transfer of Flue-cured tobacco quota has become an extremely important activity throughout the Southeast. In North Carolina, more than one-fourth of total quota was transferred under program provisions in 1974 [table 1].

TABLE 1.—NORTH CAROLINA FLUE-CURED LEASE AND TRANSFER PROGRAM EXPERIENCE

Year	Acres leased and transferred from lessors' farms	Acres transferred as a percent of total effective allotment	Number of operators transferring allotment	Units transferring as a percent of operating units
1962	13,439	2.7	7,700	9.0
1963	18,436	3.6	10,012	12.4
1964	23,887	5.7	12,892	16.8
1965	32,854	8.2	15,903	21.5
1966	46,290	11.6	21,429	30.0
1967	56,363	14.1	24,963	36.2
1968	72,116	18.0	26,214	39.4
1969	73,538	17.2	26,235	41.0
1970	84,189	20.1	27,937	44.8
1971	96,430	25.9	28,721	47.3
1972	107,244	24.9	29,652	50.2
1973	118,826	25.7	30,758	53.6
1974	136,730	29.7	30,640	55.0

Source: North Carolina ASCS annual reports and mimeographed summaries. Last column derived from census of agricultural estimates of the number of farm producing tobacco.

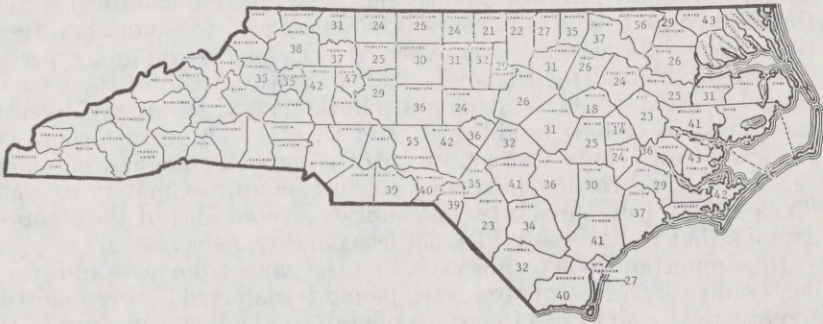


FIGURE 1.—Percent of effective quota leased and transferred, 1974.

Source: North Carolina ASCS mimeographed summaries.

Mr. HOOVER. More than 30,000 North Carolina farmers augmented their production base in this manner last year. More than one-half of producers leased and transferred quota. Lease and transfer is about equally important in all North Carolina belts with the greatest activity in counties on the periphery of each belt [fig. 1].

Flue-cured production units historically have been very small. As mechanization has proceeded, farmers have sought means of increasing the size of their tobacco production operations to fully utilize new machines and techniques. There has been relatively little consolidation of operating units through the purchase of tobacco allotment land. The primary means of developing an efficient operating unit has been to: (1) Lease tobacco allotment land; or (2) lease and transfer quota. Managerial units are now several times larger than ownership units, reaching an average size of over 9 acres in 1972.

Slightly more than 70 percent of tobacco quota in production units in 1972 was rented. While no data have been published on the relative

importance of various rental arrangements, lease and transfer probably accounts for between 35 and 40 percent of all rental tobacco. The financial significance of lease and transfer exceeds its importance as a rental form for several reasons:

First, it allows small units to be combined with other units to create efficient field sizes. This is particularly important for the owners of small allotments. Without lease and transfer provisions, these parcels might go unproduced.

Second, the lease and transfer provision allows quota to be moved from relatively high-cost to low-cost areas within a county. In the process, resources are saved and net incomes are increased.

Looking to the future the question is: What can lease and transfer among producers within a State contribute to production efficiency and what problems might it create. The answers which I will support in this paper are: (1) That production efficiency can be increased measurably; but (2) that some parties will gain at the expense of others.

To answer the question about production efficiency more fully, consider what would happen if quota were transferred from a county in which the rental rate has been 7 cents a pound to a county in which the rental rate has been 17 cents. The rental rate for quota is a function of the difference between expected price per pound and expected cost of production for the added unit of tobacco. Under the current program each county is a separate market in which a single rental rate tends to become established each year. The high-rent county is the lower-cost county and a transfer of a pound of quota from one to the other would reduce the cost of production approximately 10 cents. Thus, rental differences between counties give an idea of the resource savings that can be realized from lease and transfer.

It is important to note, however, that the gains from lease and transfer would not be 10 cents for every pound transferred between our two hypothetical counties. After some quota left the low-rent county, the rental rate in that county would go up as quota with a lower cost of production came up for leasing. That is, the highest cost production—lowest rent units—would leave a county first. Because the cost of production varies by soil type, the skills of the manager, and the cost of inputs, the potential rental rate for quota in a county varies by the amount of quota that is transferred.

The rental rate that would be paid in the low-cost county would not stay at 17 cents as more quota was imported. The first quota transferred would be produced in the cheapest possible fashion; additional quota would require more resources which would lead to lower rent. As in the exporting county, the rental rate would depend on the amount of quota. As a consequence, at some rental rate between 7 and 17 cents there would be a rental rate that would prevail in both counties consistent with a redistribution of quota away from high-cost to low-cost areas, but probably with some quota produced in both counties. After quota is redistributed and rental rates are equated in the two areas, the two counties would be expected to have equal costs of producing an additional pound of tobacco.

Mr. Chairman, if my statement is too long, I can summarize some pieces of it, but I will continue until you give me the signal.

Senator HELMS. You may proceed.

Mr. HOOVER. All right. Rental rates in the various counties can be used to estimate net resource savings which would result from lease and transfer. Consider a situation in which different costs of production among units of quota within and between counties exist for an initial distribution of quota [fig. 2]. By moving quota from county A to county B, rent could be equalized in the two [fig. 3]. Resource expenditure in county A is lowered because of reduced output in county A by an amount roughly equal to the price of tobacco minus rent. Resource expenditure in county B is raised because of increased output in county B by a similar amount. Assuming the price of tobacco is the same in the two counties, the net savings would be equal to rent added in county B less the rent foregone inside county A because of transfer.

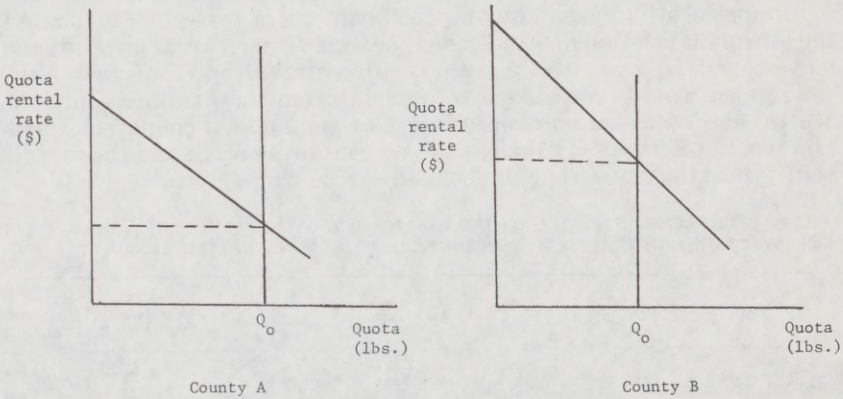


FIGURE 2.—Rent schedules for two hypothetical counties.

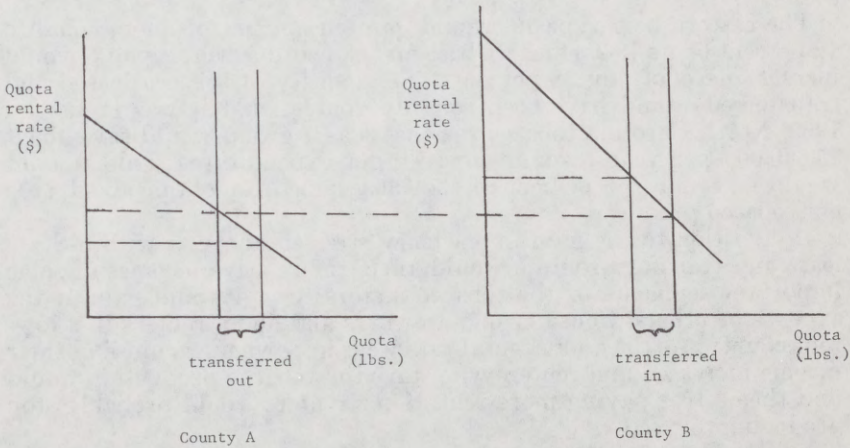


FIGURE 3.—Equal rent after lease and transfer.

By estimating the rent schedules for each of the counties involved in lease and transfer, it is possible in principle to estimate the amount of quota which would be leased and transferred as well as the equilibrium rental rate and resource savings. In practice this is not an easy task, but we have been able to obtain estimates of rental rates for the years 1966 through 1969 through the cooperation of the ASCS. Using these rates with data on wages, yields, tobacco prices, and other economic forces, we formulated and estimated rent schedules for 185 Flue-cured producing counties located in 6 Southeastern States. From this analysis we estimated what would happen under several lease and transfer provisions.

Assuming that quota could be transferred among all farms within North Carolina and that production in high-rent counties could be doubled and that all quota could be transferred from low-rent areas to more efficient areas, and using 1969 base quota prices, we estimated the optimum location of Flue-cured tobacco. In each area the predicted movement was from the periphery toward the center of each belt. There also would be a strong movement from the piedmont into the central and southern portions of the Coastal Plain. The old belt, type 11a, would be expected to release 58 percent of its base; and the middle belt, type 11b, 23 percent of its base (table 2).

TABLE 2.—EQUILIBRIUM RENTAL RATES, NET TRANSFERS ACROSS COUNTY LINES BY BELTS IN THOUSANDS OF POUNDS FOR A HYPOTHETICAL FREE-EXCHANGE PROGRAM OF QUOTA WITHIN NORTH CAROLINA FOR 1969

Area	Percent of base transferred	Thousands of pounds transferred
Old belt.....	-58	-87,545
Middle belt.....	-23	-27,931
Eastern belt.....	19	76,435
Border belt.....	38	39,038

Source: Hoover and Todoulos (1973), regression identified as $R_{2,2}$ in work of Efstratoglou.

The eastern belt, type 12, would gain an amount of quota equal to 12 percent of its 1969 effective base and the border belt, type 13, would increase its quota by 38 percent. The quantity of tobacco leased and transferred would have been roughly double what it was in fact in 1969. North Carolina tobacco producers as a group would save about \$5,640,000 per year through lower input expenditures. This amount would be equal to 5 percent of the 1969 value of quota or about \$100 per tobacco producer.

In addition to the gain in efficiency stressed above, a within-State lease and transfer program would affect the relative incomes of some important segments of the tobacco sectors: Some would gain at the expense of others. Consider quota owners and quota renters in a low-rent county. As the quota rental rate went up, owners would find their income increased and renters who stayed in tobacco production would find themselves paying more rent. Some renters would probably stop producing tobacco.

In a high-rent county the gainers and losers would be reversed. As the rental rate fell, landowners would find themselves with lower incomes and renters would incur lower cash outlay for quota rental.

To be sure, on balance gains would exceed losses because of increased efficiency but the transfer among tobacco sector participants would be sizable. We estimate that the transfers—offsetting gains and losses—flowing between renters and owners would be on the order of 30 to 40 percent as large as the net gains from the program. This means there will be both farmer support and farmer opposition to the proposed change in the law.

Other gainers and losers need to be mentioned. Wage workers would find less employment in counties losing quota. The going wage rate would fall or fail to advance as fast in the future as it has in the past in those areas. The inverse would occur in areas gaining quota. If mechanization occurs rapidly, lease and transfer would tend to preserve jobs in areas gaining quota.

Similar to laborers, suppliers of fertilizer and other inputs as well as warehousemen would find reduced business in areas losing quota, with the converse in areas gaining quota. It is hard to estimate what the net transfers—offsetting gains and losses—among laborers and agribusinesses might be, but they would probably be smaller than the transfers estimated among quota owners and renters. For example, with a gain-loss transfer rate at half a penny a pound—\$10 an acre—on projected 1969 quota movement across belt lines, transfers among input owners would be close to \$2 million. This would lead to both political support for and opposition to the proposed amendment.

These results outlined above are tentative. Some of our models suggested that more quota would be leased and transferred than the work reported above. We have to be cautious in presenting our estimates because a cross-county transfer program simply goes beyond our experience. At best our work only illustrates a likely response to a statewide lease and transfer program. Several important changes have occurred since our work on 1969 data. Quota has been increased in 3 successive years. The price of tobacco and costs of inputs have increased substantially. To test the possible applicability of our 1969 work to current conditions, we compared the rent differentials among counties in 1969, 1974, and 1975 (table 3).

TABLE 3.—ESTIMATED LEASE AND TRANSFER RENTAL RATES OF SELECTED NORTH CAROLINA COUNTIES FOR 1969, 1974, AND 1975

Area	1969	1974	1975
Old belt:			
Davidson	5	3	3
Guilford	7	5	4
Stokes	11	5	5
Middle belt:			
Durham	5	5	3
Wake	10	15	8
Warren	13	15	10
Eastern belt:			
Beaufort	10	11	5
Pitt	14	21	15
Wilson	15	21	17
Border belt:			
Columbus	17	18	17
Cumberland	12	17	15
Robeson	16	17	17

Source: Informal estimates prepared by ASCS county executive officers and the North Carolina ASCS administrative staff.

By pairing low- and high-rent counties either between or within belts for 1969 and later years, it appears that the differentials may

have widened some but the basic pattern remains. Consequently, on this score it appears that changes in the total quota and prices have worked out to yield the same pattern of rental rates, and about the same statewide level in 1975 as in 1969.

It seems quite certain that mechanization of the harvest would be speeded by lease and transfer across county lines within States because it would be easier to obtain quota for growth of the production unit needed to fully utilize the mechanical harvester. It is also possible that mechanization will increase the amount of quota a low-cost area can absorb at a given rental rate. The mechanical harvester will probably also increase the cost advantage of the southern and eastern coastal plain. Both of these factors would tend to increase the volume of quota that would respond to a within-State lease and transfer program.

While it is true that the potential gains from a projected statewide lease and transfer program are not overwhelming, it is likely that the economic advantages of such a program will grow over the years. Experience with the cotton allotment transfer program was basically favorable. Farmers and administrators have had experience with this kind of program and will be able to cope with the adjustment problems.

Senator HELMS. I wonder if you have any further comments you would like to offer.

Mr. HOOVER. Well, just by way of summary, the gains and losses between farmer—between landlords and renters would, we think, approximate 30 percent of the net gains which occur in the program. There is a similar transfer between laborers and agribusiness suppliers in the gaining and losing areas of another 10 to 20 percent.

Now, we can't—we have to be careful. We cannot extend the 1969 results perfectly to 1975. We think they hold reasonably well, but in any event, I am sure you and the other people realize that there is an extension of or an estimation of reality that goes beyond our experience, and consequently is an extrapolation.

Senator HELMS. Well, thank you very much on behalf of the subcommittee for an excellent statement. We appreciate your coming.

I have been advised that the distinguished Senator from Florida, Mr. Stone, is engaged in an important markup session with another committee and I know that he will very much regret, Dr. Polopolus, his inability to greet you.

Dr. Polopolus is chairman of the Department of Food and Resource Economics, Institute of Food and Agricultural Sciences at the University of Florida, Gainesville, Fla.

You may proceed, sir.

**STATEMENT OF DR. LEO POLOPOLUS, CHAIRMAN AND PROFESSOR,
DEPARTMENT OF FOOD AND RESOURCE ECONOMICS, INSTITUTE
OF FOOD AND AGRICULTURAL SCIENCES, UNIVERSITY OF
FLORIDA, GAINESVILLE, FLA.**

Dr. POLOPOLUS. Thank you, Senator. It is a pleasure to be here representing the University of Florida today.

I have a very brief prepared statement that I will read. The title of the statement is, "The Economic Effects of Leasing Flue-Cured Tobacco Quotas Across County Lines Within Florida."

While Flue-cured tobacco quotas are presently available in 23 north Florida counties, 6 counties—Alachua, Columbia, Hamilton, Lafayette, Madison, and Suwanee—accounted for approximately 84 percent of Florida's 1974 marketings. There were 7,001 allotments in 1974 representing almost 17,000 allotted acres and a poundage quota of 30.8 million pounds. Thus the average poundage quota was about 4,400 pounds per allotment or roughly 1,820 pounds per allotted acre. However, the actual average yield of Flue-cured tobacco in Florida in 1974 was 2,145 pounds of marketings per harvested acre. Considerable variability in yield per acre exists among Florida's Flue-cured tobacco-producing counties. These data are presented in table 1.

TABLE 1.—STATE SUMMARY OF 1974 FLUE-CURED TOBACCO DATA, FLORIDA¹

County	Number of allotments	Allotted acreage ² (acres)	Poundage quota ² (pounds)	Harvested acreage (acres)	Total marketings (pounds)	Yield per acre based on marketings (pounds)
Alachua.....	711	2,244.61	3,894,621	1,395.36	2,687,194	1,926
Baker.....	202	303.91	480,747	151.66	261,463	1,724
Bradford.....	106	317.47	500,009	88.00	154,256	1,753
Calhoun.....	1	.82	569	0	0	0
Columbia.....	898	1,874.48	3,342,702	1,325.36	2,562,947	1,934
Dixie.....	77	117.43	237,903	72.80	207,511	2,850
Gadsden.....	208	284.88	431,753	186.34	300,044	1,610
Gilchrist.....	295	460.19	692,642	274.88	584,784	2,127
Hamilton.....	520	2,075.60	4,373,023	1,797.86	4,094,546	2,277
Holmes.....	38	70.98	112,931	46.30	81,627	1,763
Jackson.....	120	195.04	270,620	137.82	254,947	1,850
Jefferson.....	244	408.67	635,394	275.04	531,416	1,932
Lafayette.....	417	1,251.35	2,678,670	832.33	2,287,373	2,748
Leon.....	19	37.83	56,207	31.50	43,704	1,387
Levy.....	135	190.09	265,651	108.46	173,856	1,603
Liberty.....	2	3.31	3,817	1.32	622	471
Madison.....	1,027	2,040.63	3,485,658	1,486.77	3,064,586	2,061
Marion.....	11	25.05	38,433	16.00	26,270	1,642
Nassau.....	44	101.65	169,218	36.90	72,328	1,960
Sumter.....	46	62.95	69,071	47.07	35,978	764
Suwanee.....	1,438	3,986.49	7,581,965	2,764.44	6,472,487	2,341
Taylor.....	215	346.66	580,971	203.72	472,238	2,318
Union.....	227	515.50	898,367	399.66	682,160	1,707
State total.....	7,001	16,915.59	30,801,942	11,679.59	25,052,337	2,145

¹ Source: Annual Reports, Florida ASCS; USDA.

² Total effective allotments and poundage quota after adjustments for undermarketings and overmarketings in 1973.

Leasing of quotas within county boundaries is quite common in Florida. Leasing provisions of the Flue-cured tobacco program have contributed to a decrease in the number of producers and a concomitant increase in the average size of tobacco acreage per farm. Flue-cured tobacco is currently produced on fewer than 1,800 farms and the average farmer who grows tobacco in Florida does so on about 6.8 acres—considerably above the 2.42 acres per average allotment.

In the 1970-74 period, between 59 and 69 percent of Florida's Flue-cured tobacco allotments were leased or transferred. And while there has been a slight decrease in both the number and percent of farms engaged in leasing quotas since 1970, the absolute poundage of quotas transferred has increased from 11.53 million pounds in 1970 to 14.74 million pounds in 1974. Those data are provided in table 2.

TABLE 2.—TRANSFERS OF FLORIDA FLUE-CURED TOBACCO ALLOTMENTS AND QUOTAS ¹

Year	Number of allotments	Allotments transferred out	Percent transferred out	Number farms leasing	Percent of farms leasing	Pounds of quota transferred	Percent of poundage transferred
1970.....	6,928	4,099	59	1,348	19	11,525,685	45
1971.....	6,875	4,444	65	1,319	19	12,126,747	55
1972.....	6,893	4,680	68	1,232	18	12,671,655	58
1973.....	6,918	4,803	69	1,171	17	14,719,636	57
1974.....	7,001	4,231	60	1,079	15	14,744,593	48

¹ Source: Annual reports, Florida ASCS; USDA.

In 1973, the leased or transferred poundage represented 57 percent of the total poundage quota and 70 percent of actual marketings.

Flue-cured tobacco marketings in Florida have lagged aggregate quotas since 1972, particularly as quotas were increased.

TABLE 3.—SUMMARY OF FLUE-CURED TOBACCO DATA, FLORIDA ¹

Year	Number of allotments	Allotted acreage ² (acres)	Poundage ² quota (pounds)	Harvested acreage (acres)	Total marketings (pounds)	Yield per acre based on marketings (pounds)
1970.....	6,928	13,810.47	25,392,158	12,156.55	24,566,807	2,021
1971.....	6,875	11,964.64	21,931,699	10,773.63	21,873,147	2,030
1972.....	6,892	11,854.10	21,853,384	10,075.86	19,770,311	1,962
1973.....	6,918	14,019.44	25,713,718	11,605.35	20,966,558	1,807
1974.....	7,001	16,915.59	30,801,942	11,679.59	25,052,337	2,145

¹ Source: Annual Reports, Florida ASCS; USDA.

² Total effective allotments and poundage quota after adjustments for undermarketings and overmarketings in the previous years.

Growers' uncertainty regarding prospective prices and the effects of the cost-price squeeze in agricultural production were particularly noteworthy restraints on the decision to increase planting in 1974. Although the poundage quota in Florida has been increased to 35.5 million pounds for 1975, it is believed that most of this quota will be produced under normal production conditions, particularly if a favorable outlook on prices and labor supply is realized.

Tobacco prices have followed an upward trend over the period of the 1970's, increasing from 75 cents per pound in 1970 to slightly over \$1 per pound in 1974.

Table 4. Season average prices, 1970-74 ¹ Florida Flue-cured tobacco (Type 14)

Year:	Average price per pound
1970.....	\$0.76
1971.....	.77
1972.....	.85
1973.....	.88
1974.....	1.01

¹ Source: "Flue-Cured Tobacco Market Review," USDA, Agricultural Marketing Service, Tobacco Division, Washington, D.C.

Fortunately for tobacco producers, the big jump in prices between 1973 and 1974 served to offset rising production costs.

On the basis of the general economics of the situation, plus the available data and information, enactment of Federal legislation to permit leasing of Flue-cured tobacco quotas across county lines within Florida would have the following effects:

1. The trend towards fewer and larger farms seems likely to continue, even without any change in the leasing provisions. This has been the historical case both in the production of Flue-cured tobacco and other crops.

2. Cross-county leasing would accelerate somewhat the trend toward larger acreage of Flue-cured tobacco per average farm. Production will become increasingly concentrated in the major producing counties, with some possible shifting to the western counties of Florida, if permitted under statute. That is, there are some counties in Florida presently not producing Flue-cured tobacco that might like to produce it if given an opportunity to do so.

3. Cross-county leasing should make it more likely that the allowable quotas would be produced. It is expected that the more efficient, low-cost growers will be leasing and planting additional acreage.

4. Quotas would tend to shift from low-rent areas to high-rent areas. Rental rates in Florida vary presently from 7 cents per pound of quota in the low-rent areas to 23 cents per pound in the high-rent areas. Rental rates would tend to equate to the same level in all areas, if Senate bill 700, taking into account type 14 tobacco, were enacted.

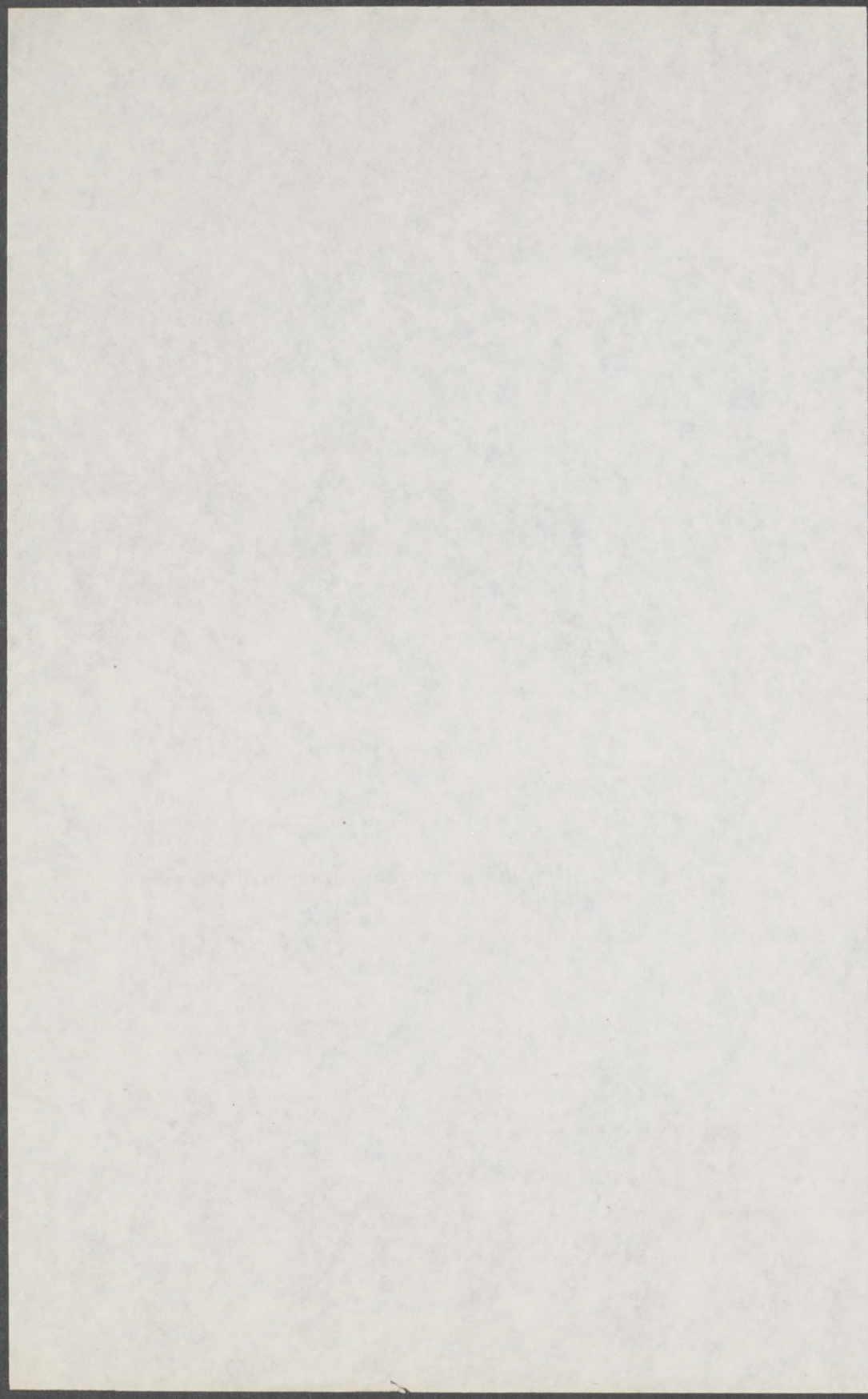
5. Quota owners in low-rent areas and quota renters in high-rent areas would benefit. Conversely, growers in low-rent counties would experience higher cash outlays for production rights while people who presently rent out quotas in areas with currently high rents would face lower rental income with a liberalized transfer program.

6. There would be some improvement in the overall efficiency of tobacco production by allowing the crop to be produced on the farms with the lower costs.

7. Over the near to immediate term an adequate supply of farm labor will dampen the otherwise increased interest in mechanical harvesting and bulk-curing processes. By 1985, however, it is expected that bulk curing and the mechanical harvester will become significant factors in the industry. Herbicides in particular will find greater use as the industry becomes more mechanized. I refer you to a report of the University of Florida entitled, "Agricultural Growth in an Urban Age", which makes projections for Florida agriculture in all industry areas for the year 1985. These changes in production and curing technology will occur with or without the provision of cross-county leasing, although cross-county leasing will have a stimulative effect in the long term. It is interesting to note that approximately 12 percent of the Florida Flue-cured tobacco crop was mechanically harvested in 1974, up from zero 3 years ago.

8. The provision of cross-county leasing of Flue-cured tobacco quotas is just one of many factors influencing farmer decisions. The farm prices for competing crops, particularly soybeans, the proximity to a metropolitan area, such as Gainesville, the expected price of Flue-cured tobacco in relation to production costs, and the prospective supply and quality of farm labor are only a few of the major factors which can influence the size, location, and nature of Flue-cured tobacco production in Florida.

For my last point, the effect of the cross-county leasing provision per se is difficult to estimate. It was estimated by Leo Polopolus and Robert D. Emerson that 17,836 workers were employed in 1969 on Florida's tobacco farms. In the near term not much adverse impact



is expected on the rate of employment on tobacco farms due specifically to cross-county leasing. Even with the gradual movement toward mechanical harvesting and bulk curing by 1985, the dislocation of seasonal laborers via technological change is not expected to present serious problems in an otherwise growing urban State of Florida.

Thank you, Senator Helms.

Senator HELMS. Dr. Polopolus, we thank you for an interesting statement. Do you have any comment on the proposal made here earlier today, not only to cross-county lines but to cross-State lines?

Dr. POLOPOLUS. Well, liberalizing the provisions to permit leasing across State lines we believe would have the effect of increasing the production of Flue-cured tobacco in Florida, other things being equal.

I might say on that point that already Georgia producers are leasing in Florida and there is some capital moving from Georgia into Florida for the production of tobacco.

Senator HELMS. I believe that completes our list of witnesses. The Chair will state that the record will remain open for a week for additional statements and comment. If there be no further business to come before the subcommittee we stand adjourned.

[Whereupon, at 11:40 a.m., the subcommittee adjourned subject to call of the Chair.]



