

# U.S. TOBACCO COOPERATIVE SCOOP...

...A newsletter from  
U. S. Tobacco Cooperative  
[www.ustobaccofarmer.com](http://www.ustobaccofarmer.com)

## ATTENTION: CALLING ON ALL COOPERATIVE MEMBERS

On March 4, 2009, by a vote of 39-13, the *Family Smoking Prevention and Tobacco Control Act* (Waxman) bill number H.R.1256 was marked up. The term "marked up" means the bill will be sent to the full body of the U. S. House of Representatives for a vote. If the bill is passed, it will be sent to the Senate committee chaired by Senator Kennedy. Once this bill is marked up from Kennedy's committee, the bill will be sent to the Senate floor for a vote. If the procession of the bill is successful, then the FDA will begin regulating all aspects of the tobacco industry. The House and Energy and Commerce Committee Chairman Rep. Henry Waxman (D-California) said, "Regulating tobacco is the single most important thing that we can do right now to curb the deadly toll of tobacco."

### FDA Tobacco Regulations On Your Farm:

1.) The FDA will have the power to prescribe "good manufacturing practices" and "tobacco products standards," prohibiting manufacturers from buying your tobacco leaf that does not meet FDA's specifications.

2.) In the Bill's current form, the Food and Drug Administration will require tobacco product manufacturers to regulate and document all aspects of the growing and curing of tobacco in order to produce ingredients for tobacco products that are satisfactory under FDA guidelines.

3.) Record keeping and certification procedures, from seed to sale, will be required. It's much like Country of Origin Labeling requirements; following a single leaf from the field, to barn, to Marketing Center, right through to the point of sale will be required.

4.) Nicotine reduction and ingredient restrictions will directly impact you the grower. FDA will regulate growers indirectly through its power over manufacturers, who are growers' customers, by imposing nicotine, tar, or nitrosamine requirements. For example, FDA would use its standard-setting authority to regulate tobacco products blends or require specific reductions in specified smoke constituents.

5.) Pesticide restrictions and requirements will increase your fixed costs and increase liability exposure. The FDA and EPA will impose regulations on what pesticides can be used, how much can be used, and when they can be applied. These requirements will be imposed on your leaf and imported leaf and these requirements can be imposed arbitrarily at the discretion of the FDA.

6.) Mandatory changes in seed type, possibly including genetically modified organisms (GMO) may be required. Constituents and ingredient reduction in finished tobacco products will immediately impact you on the farm as many of the suggested FDA changes are not technically achievable through the manufacturing process.

7.) FDA regulations regarding your leaf cultivation and curing are inevitable. The FDA will require tobacco product manufacturers to buy only certain types of tobacco grown or cured in specific ways. The agency

will exercise its powers to require manufacturers to control the growing and curing of your tobacco leaf, in order to affect the yields of nicotine and other constituents when tobacco products are consumed.

U.S. Tobacco Cooperative needs your help. We are requesting that you call your U. S. congressman or congresswoman, and U. S. Senators to express to them how this bill will impact your livelihood. Do not have the attitude that you are powerless and your call means nothing to your congressional representatives because that could not be further from the truth. In conversations with congressional representatives, the overall consensus from them is that they don't hear from you concerning farming issues. Their offices are flooded daily with lobbyists proposing the opposing view on this Bill. They want, appreciate, and value your opinions. They represent you. Your Cooperative is directly engaged in the process in Washington, D.C. and will continue to politically fight for fair tobacco farm bills, but we need your congressional phone calls to go forward. Also, please tell them that the Buyer-McIntyre Bill (H.R. 1261) or the Burr-Hagan Senate Bill (S.579) is a better piece of legislation than the Waxman Bill (H.R. 1256).

The *SCOOP* has been following these federal bill developments for years and will continue to follow any bill(s) that attack your farm livelihood. The SCHIP Bill is now law; most of you have felt the direct impact of this law through your 2009 tobacco contract reduction. You will feel the direct impact from this bill, too. The U.S. Tobacco Cooperative's Board of Directors and its staff have heard from you and even though the Board's directive has been (continued on page 2)

Flue-Cured Tobacco Cooperative Stabilization Corporation is the grower owned and supported cooperative that serves flue-cured tobacco growers in Virginia, North Carolina, South Carolina, Georgia, Alabama and Florida.

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not to reduce its tobacco contract volume, we know the Cooperative cannot absorb the excess volume in the market place due other companies cutting your tobacco contracts. There are four things slamming the tobacco industry right now and are having a direct impact on your contract volumes. Here they are: 1.) SCHIP; 2.) FDA Tobacco Regulatory Bills; 3.) Individual States raising their state taxes on tobacco products; and 4.) Individual States initiating laws are banning smoking in public and private facilities. We call for your direct involvement in this process, fight for your tobacco heritage! You may contact your representative by calling the main telephone number for the House of Representatives (202) 225-3121 and the U.S. Senate (202) 224-3121, and then ask the Capitol Operator for your Congressman or Senator.

## U.S. TOBACCO COOPERATIVE HOLDS 2009 MARKETING AGREEMENT MEETINGS

On Thursday, January 22, 2009, the U.S. Tobacco Cooperative Inc. held the first of six Marketing Agreement Meetings. Wayne Crawford, Senior Vice-President Leaf Department conducted each meeting. Wayne began the meetings by addressing the company's name change. He explained that at the Annual Meeting held on November 14, 2009, the members of the Cooperative approved board recommendations to amend the Cooperative's Articles of Incorporation and Bylaws, including changing the Cooperative's name to U.S. Tobacco Cooperative Inc..

Wayne outlined the Cooperative's 2009 objectives for the growers. They are:

- Price structure with emphasis on high quality grades (desirable) and reduction of low quality grades (undesirable)
- Implement a crop throw to regulate grower pounds sold by stalk position
- A 3 yr. / 2 yr. average pounds sold history ( applies to growers that sold less than 75 percent of their contracted pounds in 2008)
- Moisture Incentive payment (\$0.05 per pound)
- Malcam Moisture Unit
- NTRM Inspection Program (Non-Tobacco Related Material)
- USDA Farm Service Agency Form 578

### 2009 Price Increase

The Cooperative increased the price for the following grades: X1, B1, C1 and B1D. Wayne explained these grades are in demand by our customers. The following grades received a price reduction: C3, C4, B3, B4, B5, B2D, B3D and B4D, as they are more difficult to sell and had a higher Cooperative inventory probability.

### 2009 Crop Throw

Wayne stated a new leaf policy implemented for 2009 will be the crop throw. An eight percent cap for grades X3, X4 and X5; a seven percent cap for grades C3, C4 and C5; a five percent cap for grades B4, B5 and B6 and an eleven percent cap for grades B2D, B3D, B4D and B5D. The Marketing Center individual member's delivered pounds cannot exceed the percent caps. The crop throw percents will be applicable to each member's 2009 contract pounds. Wayne used the example of a 100,000 pound member contract. Under the new policy, the cooperative would accept the following crop throw pounds; eight thousand pounds combined, of grades X3, X4 and X5; seven thousand pounds combined of grades C3, C4 and C5; five thousand pounds combined of grades B4, B5 and B6 and eleven thousand pounds combined, of grades B2D, B3D, B4D and B5D.

**3 Year / 2 year Average Pounds Sold Cooperative History**

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- The growers that sold seventy-five percent or above their 2008 contract pounds are exempted from the three / two year average pounds sold Cooperative history.
- The growers that sold less than seventy-five percent of their 2008 contract pounds are offered 2009 contract pounds based on their three year / two year average pounds sold or a maximum of their 2008 contract pounds whichever is greater. Also, he said crop loss / disaster would be considered with satisfactory insurance documentation.

#### **Moisture Incentive Payment**

A five cent incentive payment per pound would be paid by the Cooperative on all grades that meet the required specifications. The specifications are each bale must have Malcam moisture between eleven percent (11%) and sixteen percent (16%) inclusively and each bale must weigh between five hundred pounds and seven hundred fifty pounds. Wayne pointed out the board had reduced the 2008 minimum moisture of twelve percent (12%) to the 2009 minimum moisture limit of eleven percent (11%). The minimum bale weight was reduced from five hundred fifty pounds to the 2009 minimum bale weight of five hundred pounds. Also, there would be four bales accepted (one per stalk position) under five hundred pounds under this year's contract. The 2008 contract allowed for one bale weighing below five hundred pounds to be accepted. Wayne explained that average moisture content above sixteen percent (16%) increased the risk of spoilage and had a tendency to darken or stain tobacco. This bale condition can cause the customer to reject large volumes of tobacco on our factory's blending line. The quality tobacco baled at a weight greater than seven hundred fifty pounds had a tendency to bruise or stain within the bale because of bale compression.

#### **Malcam Moisture Units**

Marketing Center Agreement Meeting attendees were told Malcams would be in all marketing centers. Every Malcam would be set to factory



#### **Sr. Vice President, Leaf Operations addresses a question posed at the Williamston Marketing Agreement Meeting**

specifications. Every Malcam would be serviced by factory technicians. The Cooperative staff would not have the ability to change Malcam measurement parameters. The Malcams would be checked daily to ensure proper setting would be periodically checked by the manufacturer. Eighteen percent (18%) average Malcam moisture would be the maximum moisture accepted by the Cooperative and bale runarounds would not be allowed.

#### **NTRM (Non-Tobacco Related Material) Inspection Program**

Wayne explained NTRMs are divided into two types, organic NTRMs (weeds, grass, suckers, stalks, paper, etc. and non-organic NTRMs (plastics, insulation, Styrofoam, rubber, etc.). Wayne explained neither type of NTRMs was accepted by any customer and NTRMs negatively impacted factory efficiencies. He said the Cooperative would aggressively address NTRMs in 2009. The Marketing Centers would again randomly inspect bales and if NTRMs were detected, the entire load could be rejected. The factory detection of NTRMs would invoke a three step procedure.

- First offense is a warning letter.
- Second offense will result in a one hundred dollar (\$100.00) penalty.
- Third offense or intentionally "nested" bales will result in the suspension of the grower's right to market tobacco until the matter is resolved. The Member will have the right to inspect the tobacco.

- An intentionally "nested" bale is an automatic suspension of the marketing agreement until the matter is resolved.

#### **USDA Farm Service Agency Form 578**

Wayne stressed at each meeting that Form 578 must be provided to the Cooperative by the grower in order to sell his contracted poundage. He explained that this form verified the person or authorized representative of a corporation or partnership that signed a marketing agreement was a bona fide grower of tobacco.

The following Marketing Center locations were given:

- Nashville, Georgia
- Mullins, South Carolina
- Clinton, North Carolina
- Williamston, North Carolina
- Rural Hall, North Carolina
- South Hill, Virginia

In closing, Wayne Crawford stated, "The Board of Directors and Staff takes this time to thank each of our Members for their efforts on the farm this past season. This 2009 tobacco season will be challenging, but with your help, the Cooperative will continue to have positive growth and success with our customers, factory processing and in your tobacco growing communities." He thanked everyone for attending the meetings.

## **PRESIDENT OBAMA SIGNS SCHIP INTO LAW**

On February 4, 2009, the House voted 290 – 135 to pass the SCHIP bill and sent it to the President. The SCHIP law expands coverage from 7 million children to 11 million children and extends the program through 2013. Earlier on the same day, President Obama signed the States Children's Health Insurance Program (SCHIP) bill into law. The SCHIP law gives medical coverage to 11 million children in (continued on page 4)

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working poor families who don't qualify for Medicaid.

The SCHIP law allows coverage for children of legal immigrants as soon as they arrive in the United States, instead of having to wait five years as was the previous requirement. The Republican lawmakers tried but failed to maintain the five year exclusion. The Congressional Budget Office estimated that the expanded coverage will add \$32.8 billion to the cost of SCHIP from year 2009 to 2013. How will the expansion of the SCHIP law be financed? Congress has deemed tobacco products to bear the total increased cost for this legislation. On March 31, 2009, the new federal taxes on tobacco products will become effective. The current and future federal taxes on some of the various tobacco products are:

1.) Cigarettes 39 cents per pack to \$1.0066 per pack, a 158 percent increase.

2.) Small cigars 3.7 cents per pack to \$1.0066 per pack, a 2620.5 percent increase.

3.) RYO (Roll Your Own) 4.5 cents per pack to \$1.0066 per pack, a 2137 percent increase.

4.) Cigars: 25 cent manufacturer's wholesale price per cigar from 4.9 cents to 13.2 cents, a 169 percent increase.

5.) 50 cents manufacturer's wholesale price per cigar from 4.9 cents to 26.4 cents, a 438.8 percent increase.

6.) \$1.00 to \$10.00 manufacturer's wholesale price per cigar from 4.9 cents to 40.26 cents, a 721.6 percent increase.

7.) Smokeless tobacco (Moist Snuff) from 4.4 cents to 11.3 cents per can, a 156.8 percent increase.

8.) Pipe tobacco federal tax increased 156 percent..

According to an article, "SCHIP's tobacco taxes: An Economic Disaster" in StatesmanJournal.com on January 29, 2009, by Scott Ramminger and others describes the direct impact this law will have on the sales of tobacco products and to the livelihood of tobacco manufacturers' employees, wholesalers and retail merchants. Inclusively, there are 1,172,179 union and non-union employees employed by tobacco manufacturers, wholesalers and retailers. This figure comes from the 2002 U.S. Census Bureau. The tobacco industry estimates with a 10 percent sales decline of their tobacco products, an estimated 117, 000 jobs will be lost. Plus, numerous wholesalers and retailers will be forced to close. Naturally, any jobs losses in our current economy are painful to the affected individuals and hurt our national economy.

Already many tobacco growers are feeling the effects of the SCHIP law with 2009 reductions from manufacturers and company contracted pounds. It is a logical supply and demand cycle with reduced tobacco product sales equating to less tobacco pounds

needed from the growers. Again, the timing of the passage of the SCHIP law is painful to tobacco growers and to the U.S. economy with fewer 2009 contracted pounds equating to less cash revenue to individual tobacco growers, which in turn means less revenue to purchase farm equipment, and other goods and services from their communities.

## **DISTRICT 4 ELECTION RESULT**

At 2:00 pm, on March 4, 2009, the Cooperative's board representative election was held at the O.P. Owens Agriculture Center in Lumberton, N.C. Mr. Jimmy Pate, from Rowland, N.C. was re-elected by acclamation.

## **DISTRICT 6 ELECTION RESULT**

At 2:00pm, on March 16, 2009, the Cooperative's sixth district Board representative election was held at the Pitt County Agricultural Center in Greenville, N.C. Mr. Blythe Casey, from Kinston, N.C., was re-elected by acclamation.

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