

How the Co-op operates the Burley Price-Support Program

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Of the Burley Tobacco Growers Co-operative Association LEXINGTON — Prior to the establishment in 1941 of the Burley Tobacco Growers Co-operative Association, there were several attempts to create burley co-ops. But those efforts encountered rocky roads and many failures.

Since 1941, though, the BTGCA has worked very effectively to provide a price-support program for tobacco growers in five states — Indiana, Ohio, Kentucky, Missouri, and West Virginia.

For burley farmers in Tennessee, Virginia, and North Carolina, the price-support program is handled by another organization, the Burley Stabilization Corporation, in Knoxville.

Annually, the BTGCA in Lexington handles about three-fourths of America's burley quota, while the remaining fourth is covered by the Knoxville Co-op. Although the BTGCA's primary function is to administer the price-support program, it also makes frequent recommendations to the U.S. Department of Agriculture.

These recommendations are on related issues such as the size of quotas for upcoming years, the amount of the price support, the price support for individual grades of tobacco, and other USDA decisions that affect burley. The price-support program, established by congressional legislation and regulated by the USDA, operates in the following manner.

The Auction Phase

1 The farmer presents his tobacco on a warehouse floor in the Burley Belt, and the tobacco is displayed in a basket or on skids.

2 Government employees of the Agricultural Marketing Service place a particular grade on the displayed tobacco.

3 The warehouseman has a schedule of rates that the BTGCA will apply to each grade of burley, based on the average support price for 1990 of \$1.5588 per pound.

For example, the BTGCA may support a particular basket of this farmer's tobacco at \$1.65 per pound, or nearly 10 cents above the average price. Then during auction walks along rows of displayed tobacco, buyers from the various tobacco manufacturers will offer bids on the burley.

4 If a company's bid is at least 1 cent more than the \$1.65 support for this farmer's burley, then the company bidding the highest is awarded that tobacco.

5 But if no company's bid is at least 1 cent above the support price, then that tobacco is assigned to the co-op representing farmers in that state.

6 At that point, the warehouseman deducts any assessments and pays the farmer on the day of sale for his tobacco.

7 Less deductions, the farmer's check will be either for the amount paid by the tobacco manufacturer, or if no bid for his tobacco was at least 1 cent above the support price, then for the amount set by the support price.

8 If the BTGCA is assigned that farmer's tobacco, then the co-op will return that amount of money to the warehouseman on the same day.

9 The whole purpose of this process is to ensure that growers receive their funds on the same day that their tobacco was auctioned.

The Loan Phase

1 In order to purchase "pool" tobacco, take it under loan, and protect it until a buyer is found.

2 The BTGCA borrows its funds from the Commodity Credit Corporation, a lending arm of the USDA.

3 Using those funds, the BTGCA purchases tobacco under loan and sends it to one of the many processors that remove the stems from the leaves and place the leaves in wooden barrels, or hogheads, at a predetermined moisture content.

4 This "pool" tobacco is then stored in approved storage warehouses.

5 Since tobacco can be stored almost indefinitely, the co-op can hold this tobacco until a buyer is found — in a year or in half-years.

6 These storage warehouses are secure, featuring sprinkler systems, fire alarms, fire walls, usually concrete floors, metal walls, and many other precautions to protect the tobacco from fire, theft, and other perils.

7 Meanwhile, the BTGCA not only uses its funds borrowed from the CCC to pay these processing and storage costs but also to insure and manage the "pool" until a buyer for that tobacco can be found.

8 In addition, the BTGCA keeps tobacco from each crop year separate from the others so that when any tobacco is bought and paid for, the BTGCA can pay off the CCC loan for that particular crop year.

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