
Information Asymmetry between Tobacco Farmers and Manufacturers

Implications for Future Public Health Advocacy Partnerships

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Objectives

- **To investigate** the underlying historical and present-day economic and political forces that have shaped the relationship between the tobacco manufacturing industry (TMI) and tobacco farmers (TFs)
 - **To examine** how this relationship influenced tobacco control policy
 - **To assess** implications for future public health and tobacco control advocacy.
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Method

- **Examine** tobacco documents obtained under the Master Settlement Agreement (MSA) in 1998.
 - Chronicle the evolving historical relationship between TFs and the TMI
 - Obtain evidence that the TMI distorted information provided to TFs in order to combat tobacco control efforts
 - **Examine** data from a recent longitudinal survey of NC TFs' attitudes toward the TMI
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Point of Departure

- TMI & TFs are not “natural” allies
 - TMI → “Buy low”
 - TFs → “Sell high”
 - The Tobacco Quota System dampened but did not eliminate “friction.”
 - Could friction have provided tobacco control advocates an opening through which to drive a wedge between the TMI and TFs?
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Buy Low, Sell High...

TF (1984)

“In times of surplus, growers were at the mercy of a few buyers who did what shrewd businessmen always do. They made purchases at no higher than the competition forced them to. And although the record is not clear, price fixing was often blamed for tobacco selling for little more than warehouse charges at the marketplace.”

1. Mackey R. Speech by Ray Mackey, President, Kentucky Farm Bureau Federation to the National Tobacco Council.. Bates No.: 88091342/1352.
<http://legacy.library.ucsf.edu/tid/IHL90E00>. February, 24, 1984
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Reducing the Friction: Agricultural Adjustment Acts (1933, 1938)

■ Quota System

- Stabilized output (TMI profits)
 - Stabilized price (TF profits)
 - Dampened friction between TMI & TF
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A Common “Enemy” Also Reduced Friction

- The 1950's:
 - 3 Studies published in 1950 demonstrated link between smoking & cancer
 - Wynder (1953) painted cigarette tar on mice linked to cancer
 - A common threat/enemy that further united TMI & TF during 1950's-1970's.
 - TMI manipulated information provided to consumers, regulators, potential regulators
 - TMI manipulated information provided to TFs to foster congruent interests will minimizing conflict
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The Wedge that Would (Eventually) Divide TMI & TFs: Liberalized Trade (1970's-1990's)

- TMI could “buy low” from foreign suppliers
 - US leaf → higher quality
 - TMI invested in education and other programs aimed at improving foreign leaf
 - TF political “currency” created counter force to keep purchases of domestic leaf high
 - Federal legislation (1993) required domestic cigarette mfrs to use at least 75% domestic tobacco
 - Eliminated by GATT 1994
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TMI (1984)

“The use of imported tobacco by domestic cigarette manufacturers has become a highly emotional issue among growers, a whipping boy on which to blame all their woes... However, curtailing tobacco imports will not solve the grower’s troubles. Philip Morris will join with other manufacturers to oppose efforts aimed at reducing leaf imports.” (PM Report)

TMI (1985)

“There is the harsh political reality that there are approximately one-half million of them [TFs] and approximately one-half dozen of us. And when it comes to political representation in the United States Congress, that Representative will opt for the interest of the half million versus the half dozen.” PM Briefing Book

TMI (1985)

“Assuming the deterioration of the grower-manufacturer alliance, and there is good reason to believe that it has already begun, we must concentrate immediately and intensely on the necessity for building new coalitions and alliances. ...we must further consolidate our strength with our congressional Representatives. We must impress upon those individuals that ours is one company, and an adverse action against any one branch will have a ripple effect that will ultimately impact against the others.” PM Briefing Book

Tobacco Farmers (1984)

“Tobacco producers, as individuals and through their leadership, have joined in what seems to be a never-ending battle—between the tobacco industry and its sworn and sometimes fanatical enemies. We never allow a harassing incident to pass without response if it threatens your business. We consider ourselves volunteer soldiers in a battle for survival. We know what the odds are; we know the battleground—we know the enemy. We have faithfully and fearlessly followed the leadership of the generals of this war—those who buy our golden leaf. However our following is not without an awareness that the generals of this war have recruited other soldiers—in faraway places—Korea, Zimbabwe, Brazil, Mexico, Honduras. Although they enjoy the spoils of victory as much as we—they do not know the enemy. They are oceans away from the heat of battle—their weapons are without ammunition—they will not fight our battles for us.”

Tobacco Farmers (1984)

***“As a leader of your loyal faithful American troops — I call upon the generals of this industry to discharge your foreign mercenaries — and rely instead upon those of us who have both the will and weapons to win.*”**

Mackey R. Speech by Ray Mackey, President, Kentucky Farm Bureau Federation to the National Tobacco Council.. Bates No.: 88091342/1352. <http://legacy.library.ucsf.edu/tid/IHL90E00>.
February, 24, 1984

The Nineties

- **GATT & NAFTA opened world markets**
 - Real price of tobacco fell
 - Cigarette Prices rose
 - Tobacco taxes as share of price fell
 - **TMI claimed it generated new U.S.-leaf exports through increasing exports, overseas manufacturing, and promotion of American-blend cigarettes**
 - Trends were offset by lost U.S. tobacco sales caused by the TMI's use of foreign leaf in their U.S. and foreign manufacturing.
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1993

“Historically, there has been a basic antagonism between tobacco farmers and manufacturers. Tobacco buyers, including those of the manufacturing companies, buy as low as possible. Growers, universally, have always felt they didn’t get enough for their crops. And, this economic struggle between producers and manufacturers has been going on for years.”

(RJR internal memo)

Tobacco Farmers (1995)

“Astounded! I guess this best describes my reaction and that of other burley tobacco growers to the most recent announcement of a price increase in cigarettes by three of the major cigarette manufacturers.

This announcement comes during the exact week that members of Senator Ford’s Tobacco Task Force was setting out to convince growers of burley tobacco of the need to take less money for their product.... These grower representatives met...in good faith over the past three months to try and work out solutions to problems facing our industry.... Now, today, to go out and talk to growers and ask them to take less money while the manufacturers want more on top of already astronomical profits is a bit hard to do and even harder for the grower to swallow.

For the past years, and particularly 1994, growers spent not only their money but more importantly their time, effort, and good will to fight an increase in excise taxes at local, state, and federal levels. Taxes that were going to increase the retail price of cigarettes and, as we were told by all manufacturers, in the end decrease profit for all of us in the industry.... I am astounded!”

Survey Results: A Sample of NC Tobacco Farmers (2005)

- Slightly more than 50% either agreed or strongly agreed that “if the TMI does well, TFs do well.”
 - This percentage had declined from 80% in 1997.
 - A majority of TFs (68%) thought that the TMI had hurt their ability to be profitable “somewhat” or “a great deal.”
 - TMI purchases of foreign tobacco were viewed as a threat by 93% of the TF sample.
 - 80% of TF self-identified as politically conservative
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What can Tobacco Control Advocates Learn from This?

- There are intrinsic, economic conflicts in the TMI/TF relationship
 - External events and changing economic and political forces may provide opportunities for driving wedges and fostering alliance building even when such alliances had been historically closed
 - Unity of purpose & early anticipation of TMI responses to changing economic & political context may aid successful opposition to TMI and promotion of tobacco control
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What about developing countries?

- Political structure will influence relative political power of economic stakeholders (TF, retail interest groups, TMI)
 - Balance of trade and other economic considerations that determine access to foreign capital will be relevant
 - Alignment of tobacco control objectives with TF sentiments and values will aid opposition to TMI
 - Alignment of tobacco control objectives with political leaders' broader political and economic objectives will advance tobacco control
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