

US Flue-Cured Tobacco Outlook and Situation
A. Blake Brown, Professor and Extension Economist
Agricultural and Resource Economics, North Carolina State University
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2004 Flue-Cured Tobacco Crop

U.S. flue-cured production for 2004 was estimated at 513 million pounds, up slightly from 2003. The 2004 flue-cured basic quota was 471 million pounds and the effective quota was about 499 million pounds. Consequently, many flue-cured producers expected to have extra tobacco to carry over to 2005. The Flue-cured Tobacco Cooperative Stabilization Corporation (Stabilization) was took about 19 percent of the crop, about 95 million pounds, under loan. About 80 percent of the 2004 crop was sold via contracts. Stabilization had 81 million pounds of old crop tobacco in inventory. With 95 million pounds going under loan in 2004 the total flue-cured inventory under loan at the end of the season is about 176 million pounds. Use of U.S. flue-cured by U.S. cigarette manufacturers has declined from over 500 million pounds in the mid-1990's to about 332 million pounds in 2003. Unmanufactured exports of U.S. flue-cured have declined from close to 400 million pounds to an estimated 215 million pounds during the same period.

World flue-cured production for 2005 was projected at 8.35 billion pounds, about the same as the 2004 crop according to the October, 2004 "World Leaf Production Summary" by Universal Corporation. The report predicted Brazil's 2005 flue-cured production to be 1.613 billion pounds. While world flue-cured producers are not in an over-supply situation, supplies are ample.

Flue-Cured Outlook

In 2004 95 million pounds of the U.S. flue-cured crop went under loan out of 499 million pounds marketed. This means that companies purchased about 404 million pounds. Given that the flue-cured crop for Brazil for 2005 is slightly larger than the 2004 crop in Brazil, companies will likely not be interested in increasing the US flue-cured crop beyond the 2004 level of purchases of 400 million pounds. With most of the U.S. and Brazil crops under contract, changes in production after a buyout will be largely coordinated by international leaf and cigarette merchants. Some farmers will grow

tobacco under arrangements other than company contracts, but the quantity is not expected to be large.

Most cigarette companies and leaf merchants that contract directly with farmers had released price schedules at writing. Average prices across stalk positions ranged from \$1.36 per pound to \$1.50 per pound depending on the contract and the expected distribution of grades and stalk positions. At writing farmers and companies were in the midst of making decisions about contracts. The Flue-Cured Tobacco Stabilization Cooperative Corporation had indicated through a letter to growers that they would offer marketing agreements to growers not entering into contracts with buying companies. In the agreement Stabilization offered advances for certain stalk positions based on the farmer's effective quota for 2004. The advances were set below expected market prices and were designed to help insure that farmers at least recovered variable costs of production. Advances were not offered on all stalk positions. Tobacco from the marketing agreements was to be pooled by grade and offered at auction. Revenues above the advance amount were to be returned to the farmers according to their marketing agreements.

The Commodity Credit Corporation (CCC) and Flue-Cured Stabilization are charged with disposition of existing loan pool stocks. How loan stocks are disposed of could substantially affect purchases of flue-cured tobacco from farmers. At writing, no decisions concerning disposition of stocks had been made.

Many flue-cured farmers will exit production with the end of the program; particularly those close to retirement age. The pace of consolidation of production units will increase resulting in fewer but larger farms. Contracts will emphasize quality and producing tobacco to the buyer's specifications. While the prices of all stalk positions will decline, upper stalk positions will command large premiums over lower stalk tobacco.

After 2005, changes in global tobacco production are likely to occur with some production shifting toward the U.S. as a result of lower prices. Over period of 2 to 5 years U.S. flue-cured production could increase towards a level of 700 or 800 million pounds. The largest increases in production will occur in eastern North Carolina and southern Georgia. However, South Carolina and the piedmonts of Virginia and North

Carolina will remain important production regions. Interest is growing in trying to produce burley tobacco in piedmont Virginia and North Carolina. Considerable research and effort likely will be concentrated in attempting burley production in this region.

World production of flue-cured tobacco will not likely expand substantially. Increases in the U.S. will come as merchants shift some production from Brazil to the U.S. and move future decreases in Zimbabwe production to the U.S. Brazil will remain the dominant producer and exporter of flavor type flue-cured tobacco. However, merchants have expressed some nervousness about disease or weather risk associated with having so much of the world's flavor type flue-cured production concentrated in the small geographic production region of southern Brazil.