

US Tobacco Growers: Now and into the Future

Blake Brown, Professor
Agricultural & Resource Economics
College of Agricultural and Life Sciences
North Carolina State University

Burley Outlook

Will Snell

Agricultural & Applied Economics
University of Kentucky

Average Post-Buyout Price ??? (#2 Quality)

Grade	% of Crop	Contract Price
X2	10%	1.60
C2	25%	1.45
B2	50%	1.52
T2	15%	1.65
AVERAGE	100%	1.53

- Cost of Production-
\$3150/acre
- 2100 lb Yield
(State Avg.) --
\$1.50/lb COP
- 2500 lb Yield
\$1.25/lb COP

Post Buyout – Number of Farms/Growers

In recent years over 2/3 of KY's tobacco farms with quotas have leased out their base

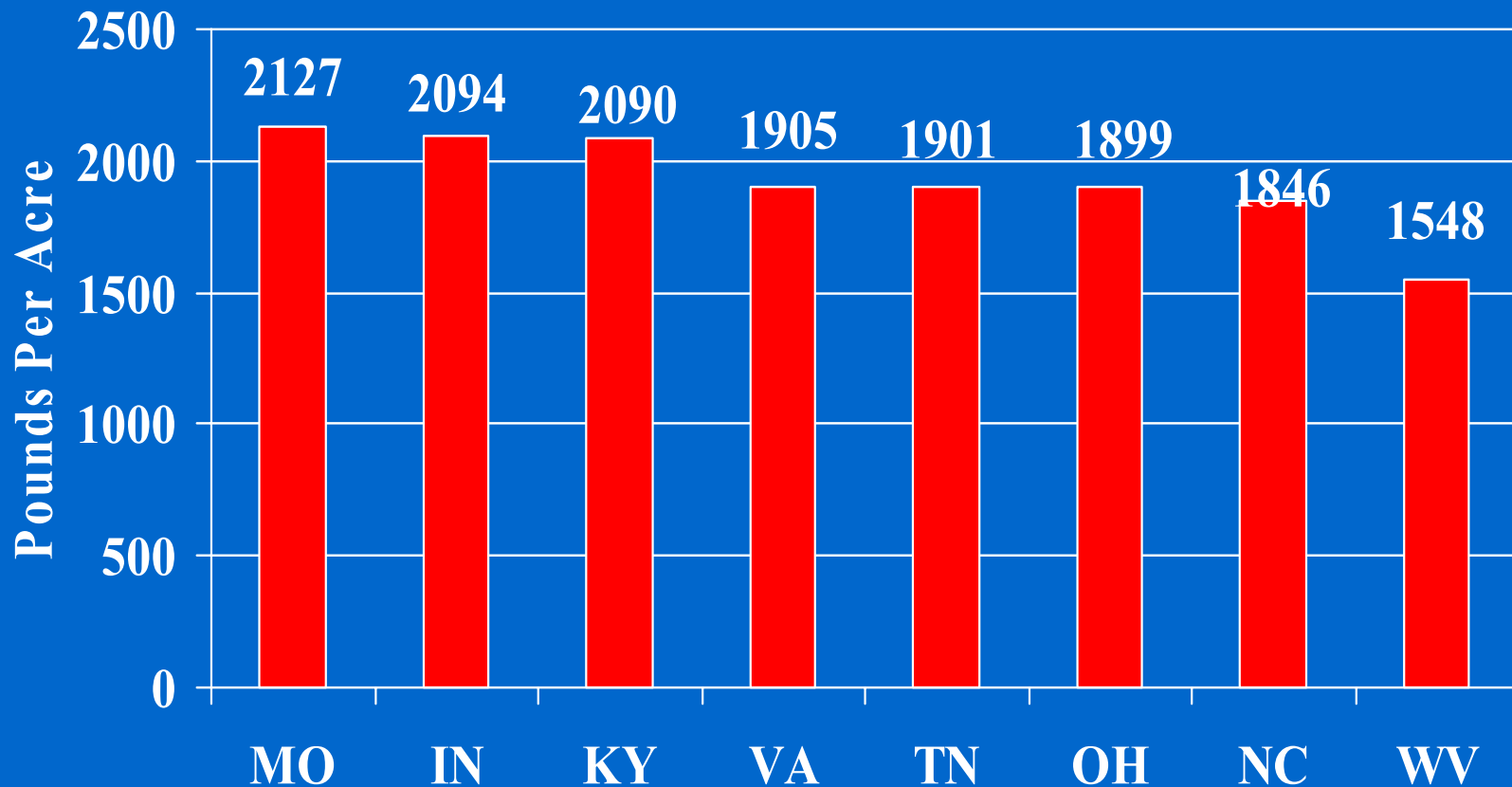
+ retirees

+ those who can't compete in a post-buyout environment

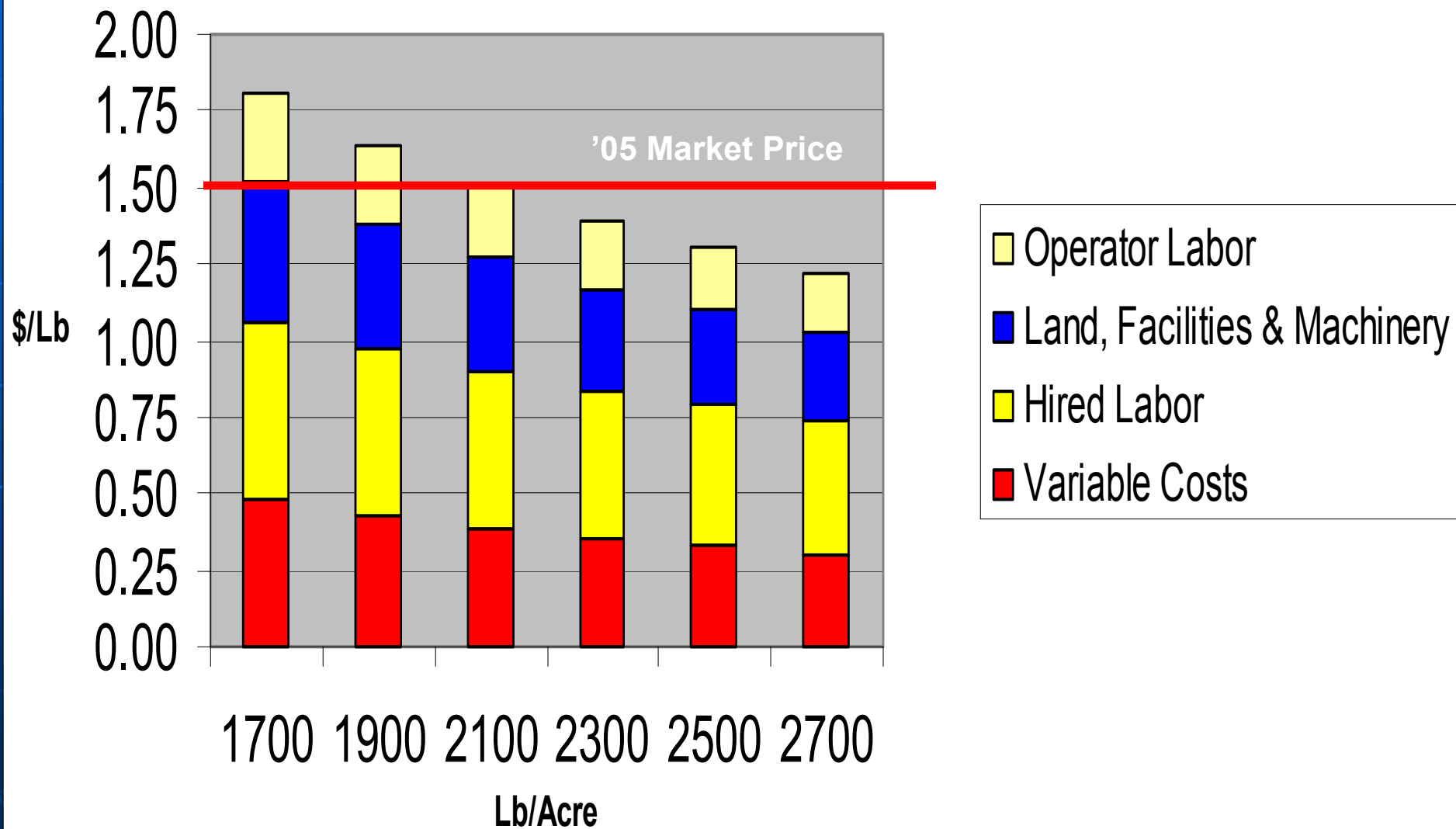
+ those who can't rent land/barns ...

75% of former program participants will exit

Average Burley Yields (1980-2004)

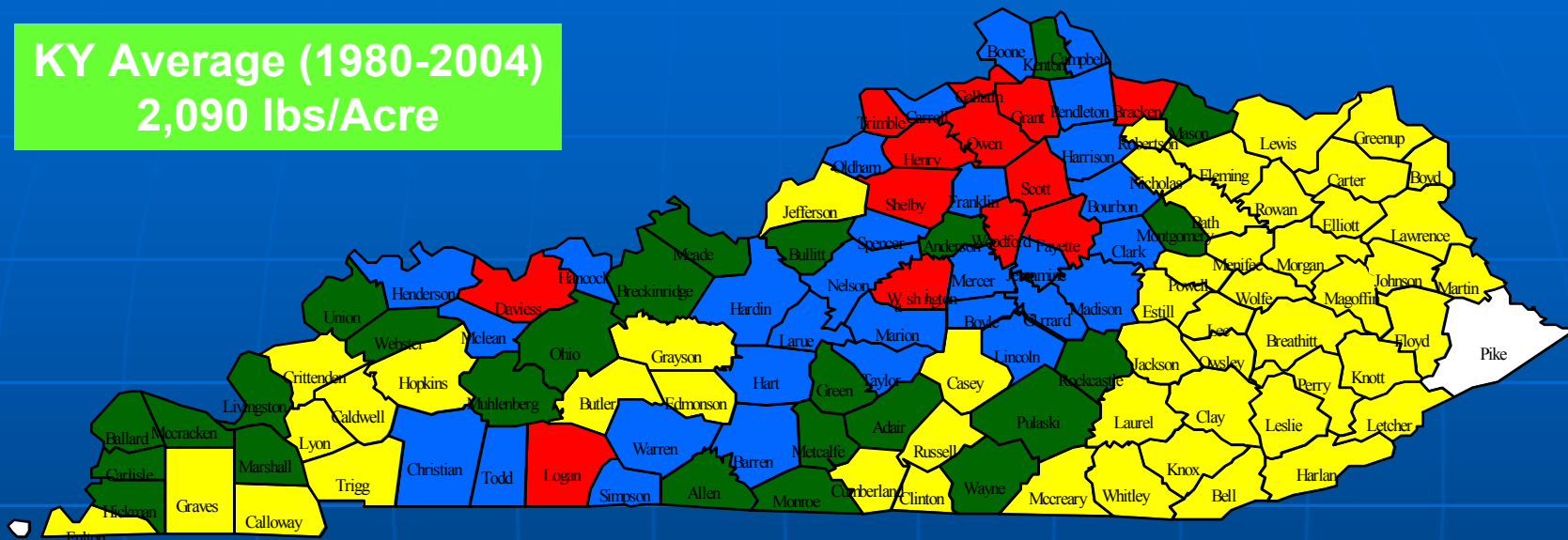


Cost of Production at Various Yield Levels



Average Burley Yield (1980-2004)

KY Average (1980-2004)
2,090 lbs/Acre



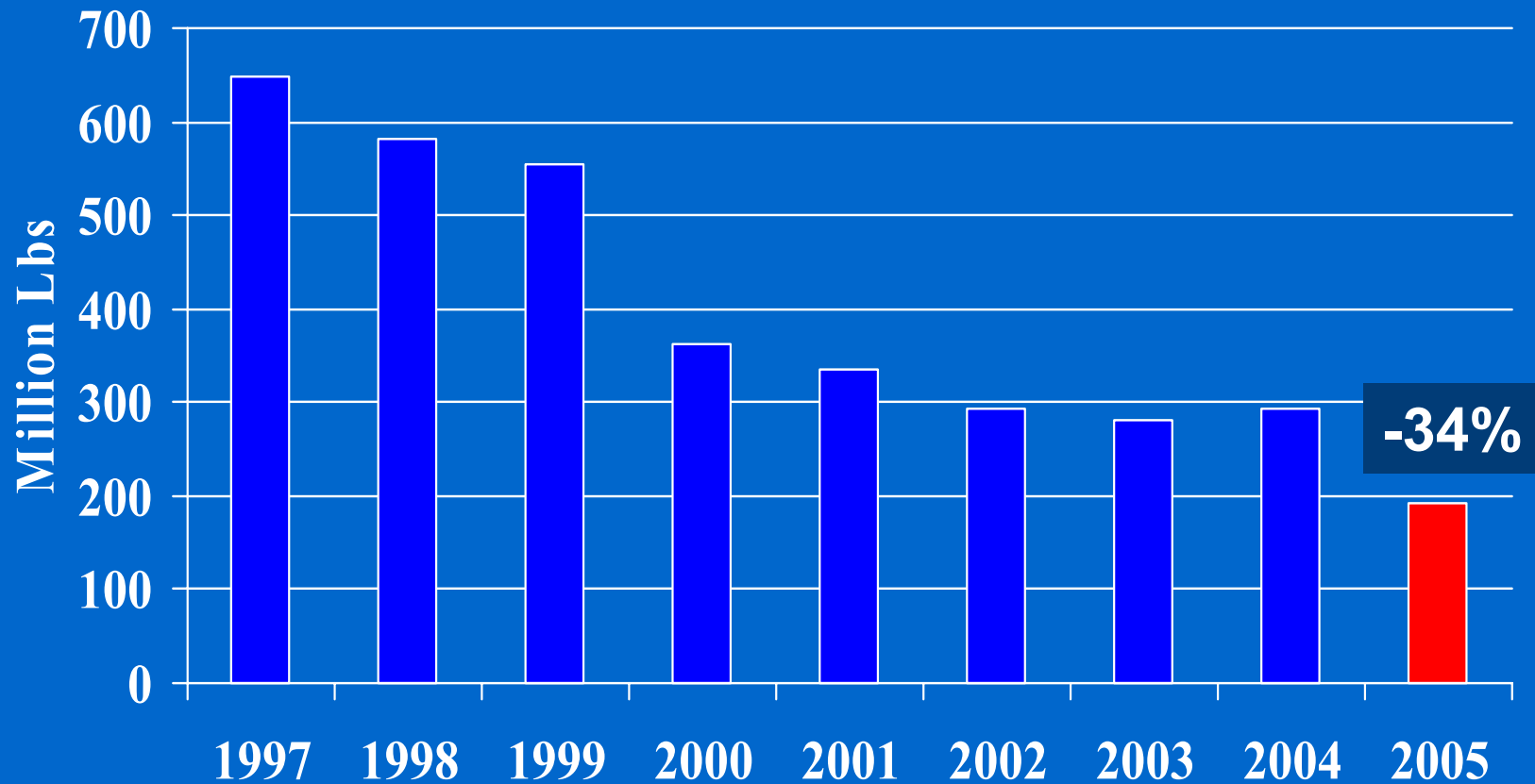
2005 Burley Acres

**March 1st Planting
Intentions – 30%**

**June Acreage Report -
30%**

... But Increase in Yields **Were Expected** to Partially
Offset Some of the Decline in Acreage

U.S. Burley Production (1997-2005)



Source: NASS/USDA

Flue-Cured Outlook

Flue-Cured Supply: (million pounds)

	2004	2005
US	519 ¹ 500 ²	389 ¹ 473 ²
NC	344 ¹	272 ¹
Brazil	1,545 ²	1,543 ²

¹ USDA-NASS Crop Estimate

² Universal Corp. Estimate of Marketings

Expected Prices (Contracts for 2005)

- Flue-Cured Contracts:
 - \$1.34 - \$1.48 average across stalk positions
- Burley Contracts:
 - \$1.50 - \$1.56 average across stalk positions

Comments from Extension Agent Survey (Sept 2005)

- PM farmers are generally satisfied.
- PM prices and grades are generally as expected.

- RJR Growers are disappointed with prices.
- RJR Growers are feeling impact of knocking off lower leaves.

Comments from Extension Agent Survey (Sept 2005)

- Alliance One growers are unhappy with prices.
- Growers are most dissatisfied with prices at stabilization markets.
- Not much is being sold through stabilization markets.

Comments from Extension Agent Survey (Sept 2005)

- Acres in most counties are down
- Acres in some eastern counties are up

Comments from Extension Agent Survey (Sept 2005)

- Number of tobacco farmers has declined significantly in most counties.
- All extension agents expect a large decline in number of growers for 2006.

Increased Oil Prices : Increased Tobacco Cost of Production

- Curing fuel costs: Up \$60 per acre from last year
- How much will fertilizer prices increase for the 2006 crop?

Simulated Tobacco Production and Price after Deregulation

Brown and Thurman

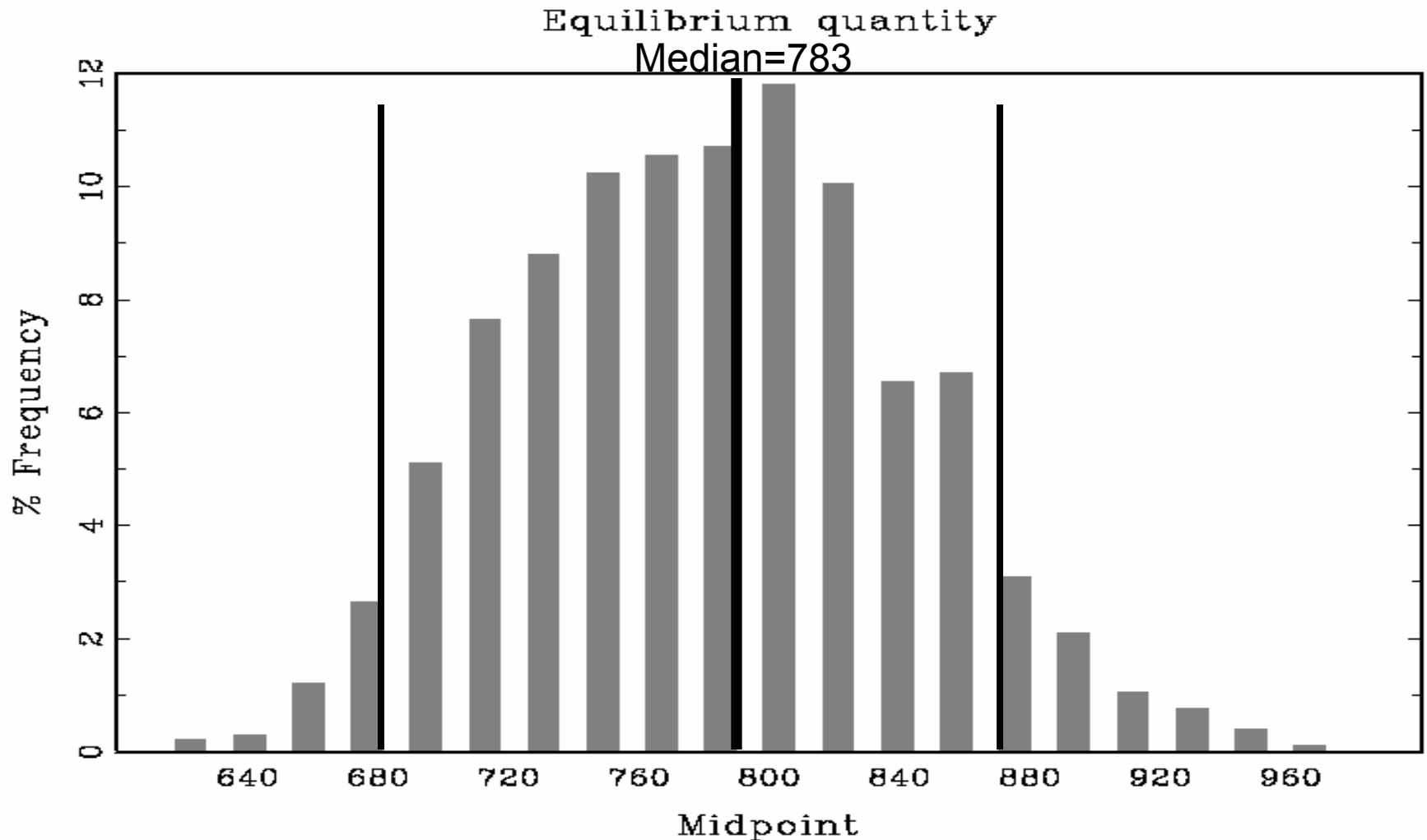
Flue-Cured Tobacco 2003 Production and Post-Program Simulated Production (million pounds)

	2003 Quantity	Simulated Quantity	Implied % Change in Quantity
US	470.9	782.8¹ [684, 878]²	66.2%
NC	292.9	504.6 [437.8, 568.7]	72.3%
VA	36.5	58 [52.7, 64.2]	58.9%
SC	67.0	96 [84.8, 107.9]	43.3%
GA/FL	74.6	122 [107.6, 137.1]	63.5%

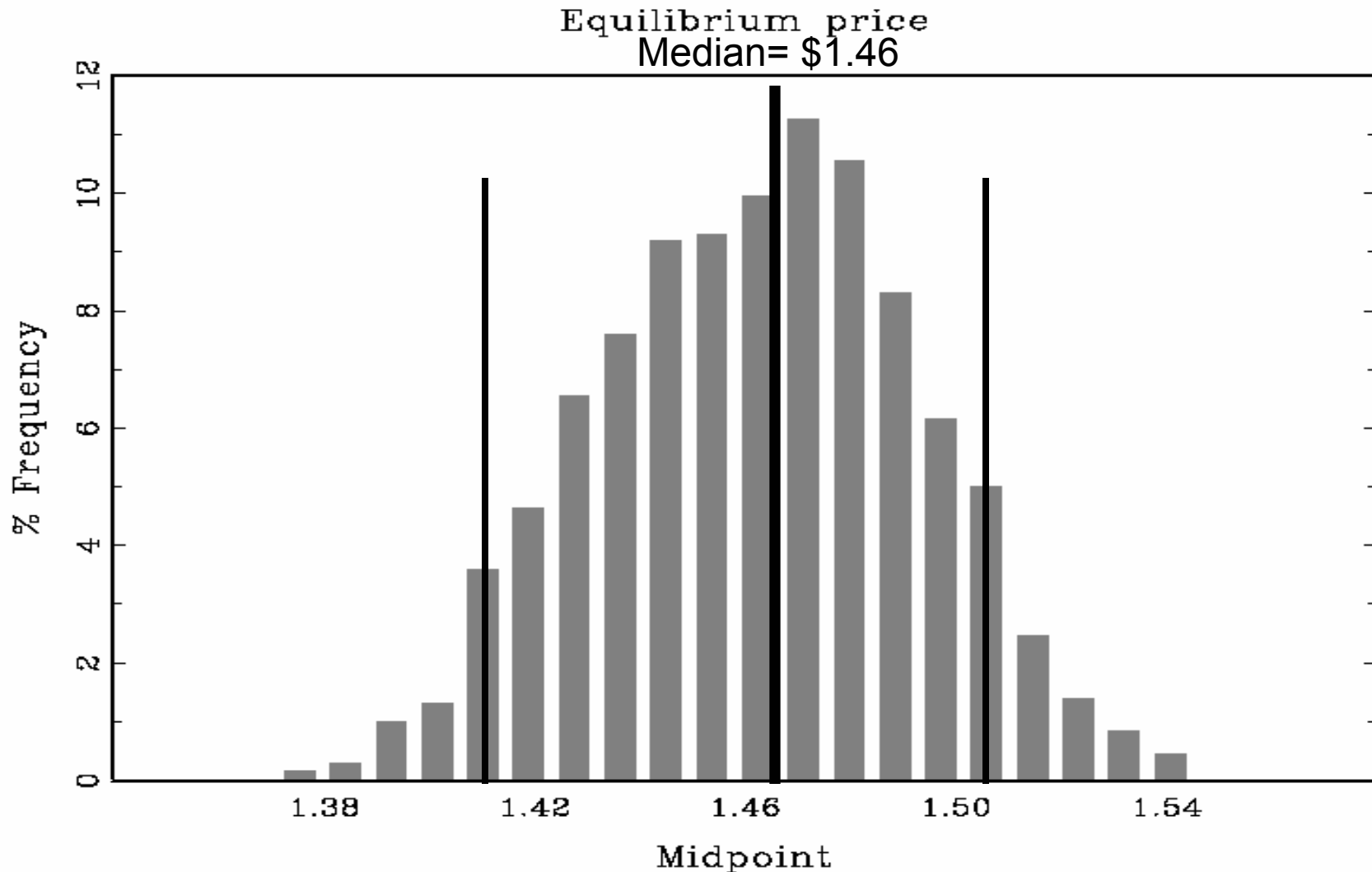
¹Median simulated quantity.

²Interval containing 90 percent of simulations.

Simulated US Flue-Cured Production after Program Elimination



Simulated Flue-Cured Price after Program Elimination



U.S. Flue-Cured Production:

How many growers are needed to grow 700 million pounds?

Size	75 acres	100 acres	125 acres	150 acres
Yield				
2600 lbs/acre	3590	2692	2154	1795
2800 lbs/acre	3333	2500	2000	1667

Future Number of NC Flue-Cured Producers: What if NC grows 490 million pounds of flue-cured?

Size	75 acres	100 acres	125 acres	150 acres
Yield				
2600 lbs/acre	2513	1884	1508	1256
2800 lbs/acre	2333	1750	1400	1167

Industry Structure

- Large cigarette manufacturers plus small fringe manufacturers and importers
- Leaf dealers process leaf and play limited role as intermediaries in production
- Contract commodity because of:
 - Accountability issues
 - Economies of scale

Gross Revenues from 2003 Sales, Simulated Post-Program Revenues and Simulated Change in Producer Surplus (million dollars)

	Estimated 2003 Quota Rents	Annual Quota Owner Payments from Buyout	Change in Producer Surplus	Annual Producer Payments from Buyout
US (flue- cured)	\$274.3	\$426.9	103.2¹ [62.5, 143.5]²	\$183.8
NC	\$172.2	\$275.8	64.1 [38.1, 89.9]	\$118.2
VA	\$26.2	\$45.8	6.06 [2.1, 9.2]	\$20.8
SC	\$34.0	\$50.8	12.8 [7.6, 18.0]	\$21.6
GA/FL	\$41.6	\$51.3	20.25 [13.7, 26.6]	\$21.8

So...

- Probably less than 2000 growers will be left in NC
- For the next 9 years tobacco farm families have substantial financial resources from the buyout
- **How can these resources be used to replace tobacco income?**