Tobacco - Marketing

ECONOMICS INFORMATION REPORT

LEASE AND TRANSFER OF FLUE-CURED TOBACCO MARKETING QUOTA AMONG FARMS
For the 1966 and 1967 Crop Year: A Preliminary Report

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ECONOMICS INFORMATION REPORT NO. 6
DEPARTMENT OF ECONOMICS
NORTH CAROLINA STATE UNIVERSITY AT RALEIGH

EIR-6 DECEMBER, 1967

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ACKNOWLEDGEMENTS

The basic data utilized in this study were provided by the Tobacco Policy Staff of the Agricultural Stabilization and Conservation Service, U. S. Department of Agriculture. The assistance of Claude G. Turner, Director of the Tobacco Policy Staff, in obtaining the data has been greatly appreciated. In addition to the compilation of data on production, marketing and quota, a survey of county ASCS office managers in flue-cured producing areas was conducted by the Tobacco Policy Staff requesting information on rental range and mean rent paid per pound in 1966 and 1967. This report would not have been possible without these data. Mr. Eugene Naylor of the North Carolina State Office of the ASCS made helpful comments on a review draft of the report. An additional report concentrating on the analysis of rental rates and transfer activity is currently being prepared.

A number of my colleagues in the Department of Economics made helpful suggestions concerning this study. The assistance of Joe S. Chappell was especially helpful.

RELATED PUBLICATIONS OF THE DEPARTMENT OF ECONOMICS

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SUMMARY AND CONCLUSIONS

Estimates of the average rental rate per pound of marketing quota were made by county office managers of the Agricultural Stabilization and Conservation Service in each flue-cured producing county. The average of these estimates was 17.0 cents per pound in 1966 and 15.9 cents in 1967. Average rent varied between belts and between counties within belts. In general the rental rate was higher where tobacco is an important crop and lower in the counties on the fringe of each belt. Rent appears to be related positively to the price of tobacco and to yield. It appears to be related negatively to wages.

There appears to have been no definite trend in rental rates in three North Carolina counties since the program began in 1962. It is possible that some counties have experienced substantial changes but there are no data generally available before 1966. If transfer of quota across county lines becomes possible, substantial changes in rent may be expected to occur. Rental rates will tend to rise in counties losing quota and fall in counties gaining quota. No estimate of the responsiveness of rental rates to changes in quota is available at this time.

Transfer has increased very rapidly since it was first allowed in 1962. Slightly over 80,000 acres were transferred from lessor farms in 1966. This is equivalent to 12.4 percent of total allotted acreage. Transfer activity measured as a proportion of total allotment has been greater in areas where tobacco is of less importance. The lowest rates of transfer occurred in North Carolina. The highest rates were in Florida. The geographic distribution of participants is probably strongly related to off-farm job opportunities and average allotment size.

More than 24 percent of all allotment holders leased their allotment under transfer program provisions in 1966. A grand total of 47,047 owners transferred acreage in that year. The number of owners transferring allotment has increased on an average of 7,700 each year over the past four years. If transfer restrictions are removed to allow unlimited transfer for farms and for transfer across county lines, the total volume and importance of transfer can be expected to increase substantially.

LEASE AND TRANSFER OF FLUE-CURED TOBACCO MARKETING QUOTA AMONG FARMS For the 1966 and 1967 Crop Year: A Preliminary Report

Introduction

The average flue-cured tobacco acreage allotment in the United States was about 3 acres in 1965. This is small relative to the amount of tobacco which many farmers wish to produce. Rental has been an important way for a farmer to expand his operations. It will increase in importance as more and more tasks become mechanized. In addition many allotment owners have nonfarm work activities they are able to pursue if they are able to rent their allotment to other farmers. In 192 flue-cured tobacco counties transferring sizeable amounts of allotment in the six southeastern states,[1] 32.5 percent of farmers worked off the farm more than 100 days in 1964 (U. S. Bureau of the Census, 1967, County Table 6).

Renting tobacco allotment to be produced on the farm to which the allotment is assigned is not as satisfactory for many producers as transfer and consolidation of allotment on one farm. Costs are incurred in transporting workers and equipment to scattered fields. The lease and transfer program was developed and first used in 1962 as one means of allowing renters to reorganize their allotment on an annual basis in the manner they believed to be most efficient. The act provided for a

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*A more detailed analysis of the pattern of rental rates and transfer activity is currently being prepared for publication.

[1]Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia.

maximum of 5 acres to be transferred to any one farm prior to 1968. As a second restraint, the total tobacco allotment allowed on a farm could not be more than one-half of the cropland on that farm after the transfer of allotment. The legal provisions for lease and transfer have since been extended through the 1969 production season. The terms of the program were changed in 1965 to agree with the provisions of the acreage-poundage allotment program. Recently a new amendment, PL 90-52, was signed into law removing the 5-acre limitation on transfer.

A number of other changes have been proposed to liberalize the terms of transfer. Provisions of one or more of the bills include: (a) the sale of allotment to another allotment owner in the same county, (b) the lease of allotment for more than one year within a county, and (c) the transfer of allotment to contiguous counties on an annual basis. There is considerable interest among producers and others in the various alternatives which have been proposed. The volume of allotment transferred has been expanding and will probably grow as new provisions are developed. This report is designed to provide information which will be useful as new transfer rules are considered.

Rent Paid

The rental market for tobacco allotment is not organized formally. Rental contracts may be made verbally between owner and lessor as long before a production season as the two parties desire. Written contracts can be filed between December 1 and April 1 of each year. Information about the "going" rental rate is difficult to obtain. As a result the rental rate per pound of marketing quota varies considerably from contract to contract. The data used in this report were furnished by the Tobacco Policy Staff of the Agricultural Stabilization and Conservation Service from a questionnaire sent in June 1967 to county office managers in flue-cured tobacco areas. Office managers were asked to estimate the average rent paid in 1966 and 1967, as well as the range in rent paid. There is no requirement that the rental rate be specified on the contract; however, a blank does exist on the contract and can be filled in by either party. Thus, the estimates of range and average rent provided by the office managers are necessarily based on information voluntarily included on the contract or obtained through conversation with some, but not all, renters and owners.

The average rental rate weighted by the number of pounds transferred for 192 counties was 16.2 cents per pound in 1966 (Table 1). The transfer data necessary to weight 1967 rental rates were not available. As an alternative, production quota for counties was used to weight county rental rates to derive belt averages for 1966 and 1967. These weighted averages are also found in Table 1. County production quota weights resulted in higher estimated belt averages than county transfer quota weights because the proportion of quota transferred tended to be large in low rent counties. In all of the comparisons among belts that follow, county marketing quotas were used as weights.

The average weighted by marketing quota for 192 counties in the six flue-cured producing states for 1966 was 17.0 cents per pound of marketing quota (Table 1). Belt averages ranged from a low of 14.5 cents per pound for the Old Belt (Type 11a) and Middle Belt (Type 11b) to 18.5 cents per pound in the South Carolina and Border North Carolina Belt (Type 13). The average rental rate was about one cent per pound lower in 1967 than in 1966. The greatest decline was nearly 2 cents per pound on the South Carolina and Border North Carolina Belt (Type 13). The smallest decline was one-fifth of a cent per pound on the Georgia, Florida, Alabama Belt (Type 14).

The range in rental rates reported for counties was large. An average of 6 cents per pound occurred in several counties in Alabama and one county in Virginia. An average of 22 cents per pound was estimated to have been paid in several counties in Georgia and South Carolina. In general, counties toward the center of each belt had higher estimated average rental rates than counties on the fringes of each belt. Figures 1 through 6, reporting the estimated average rent per pound in each county in 1967, demonstrate the great range in average estimated rent among counties.

The Cropland Adjustment Program provided for an annual payment of 12 cents per pound of quota diverted in 1966 on a long-term lease and 15 cents per pound for 1967 contracts.[1] The funds to support this

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[1]Allotments placed in the Cropland Adjustment Program also required that land be taken out of production; whereas, rentals transferred did not affect the land available for other crops on the transferring farm.

Table 1. Average estimated rent paid per pound of flue-cured tobacco marketing quota in 1966 and 1967 by belts[a]

Belt	1966			1967	
	Counties reporting	Average rent[b]	Average rent[c]	Counties reporting	Average rent[c]
	(no.)	(cents/lb.)	(cents/lb.)	(no.)	(cents/lb.)
Old Belt, Virginia and North Carolina Type 11a	45	14.4	14.5	45	13.6
Middle Belt, North Carolina Type 11b	12	14.1	14.5	12	13.6
Eastern North Carolina Type 12	28	17.0	17.7	28	16.4
South Carolina and Border North Carolina Type 13	30	18.0	18.5	29	16.7
Georgia, Florida and Alabama Type 14	77	16.9	17.6	74	17.4
All belts	192	16.2	17.0	188	15.9

[a] Source: Unpublished data on rental rates supplied by the Tobacco Policy Staff of the ASCS, USDA.

[b] County data were weighted by the quantity of tobacco quota transferred in the respective counties.

[c] County data were weighted by the quantity of tobacco marketing quota in the respective counties.

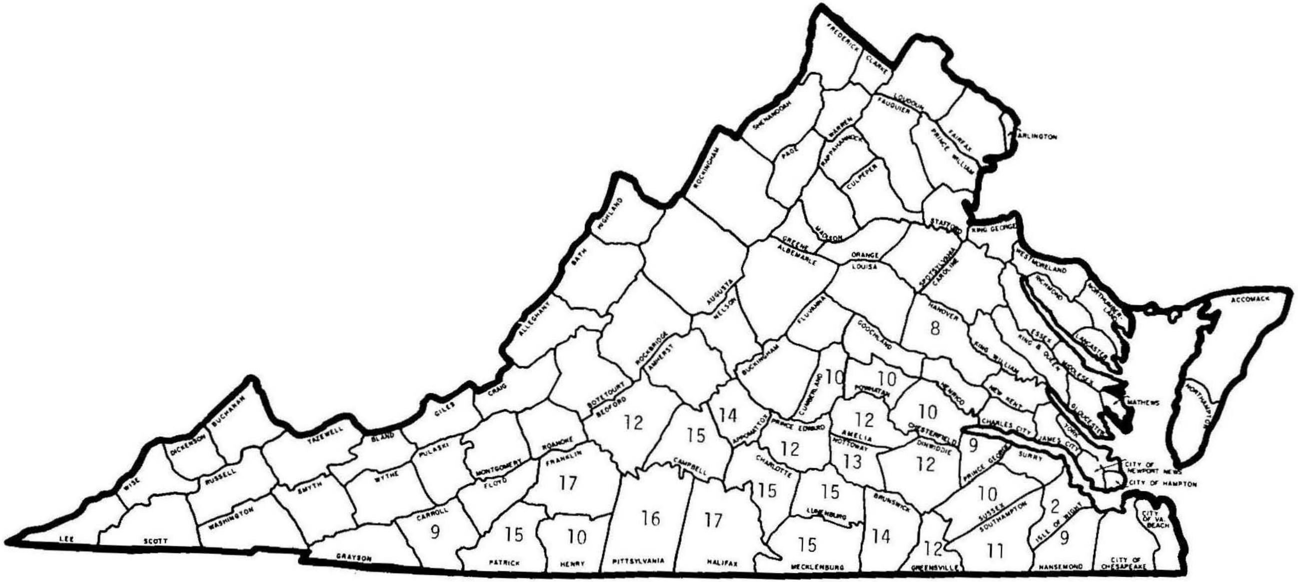

Figure 1. Estimated average rental rate per pound for flue-cured tobacco allotment, 1967, Virginia

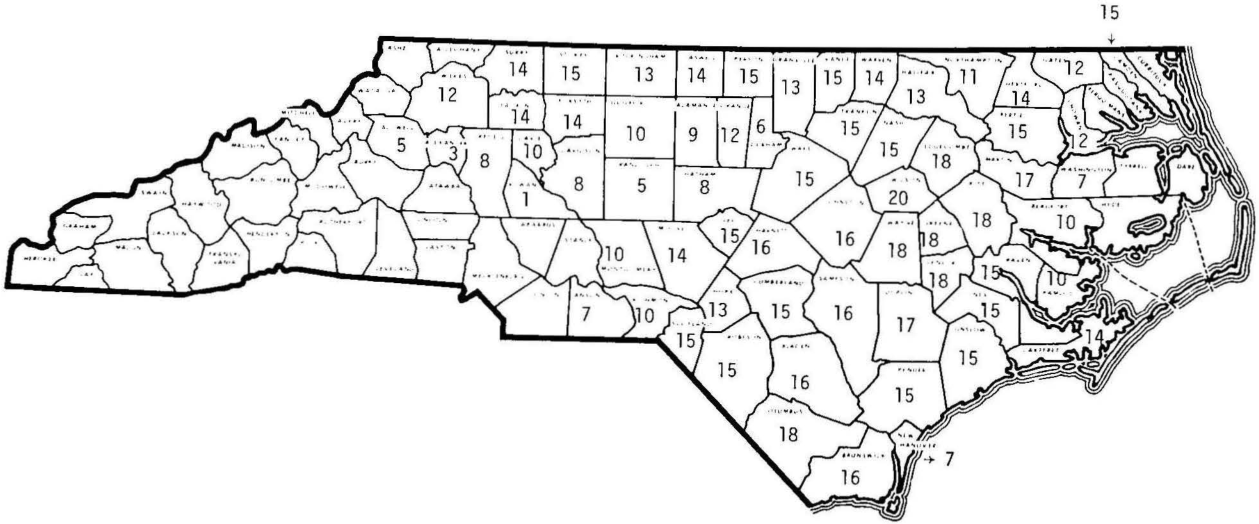

Figure 2. Estimated average rental rate per pound for flue-cured tobacco allotment, 1967, North Carolina

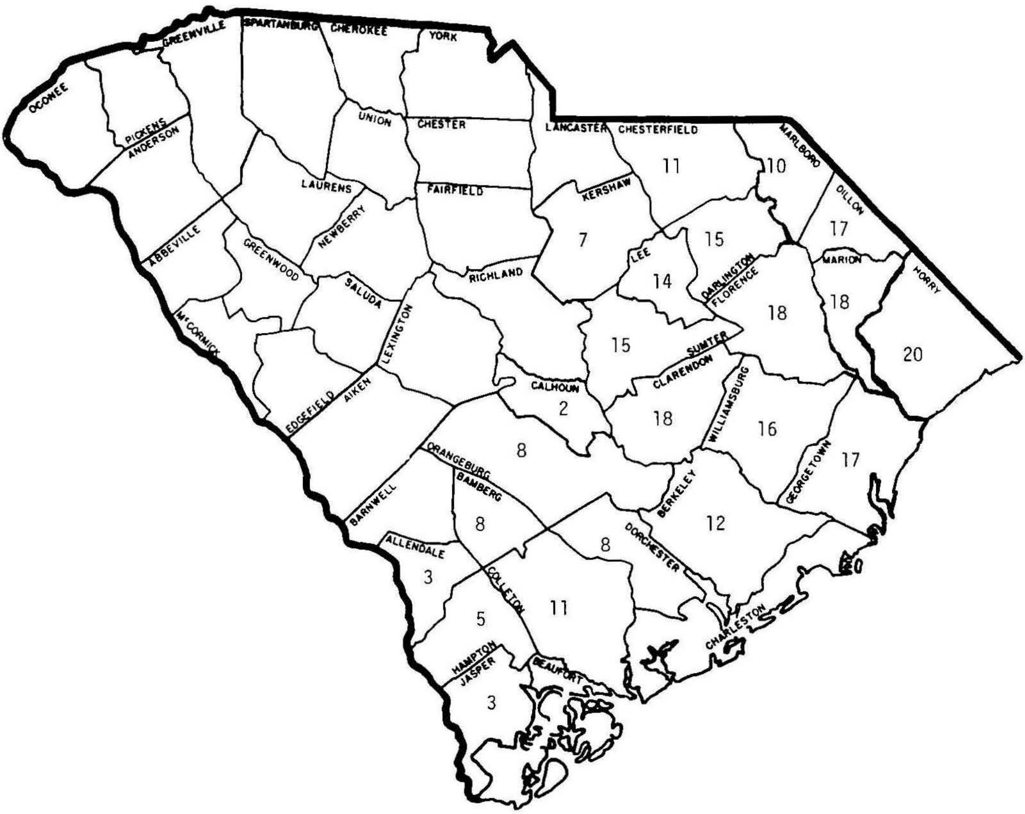

Figure 3. Estimated average rental rate per pound for flue-cured tobacco allotment, 1967, South Carolina

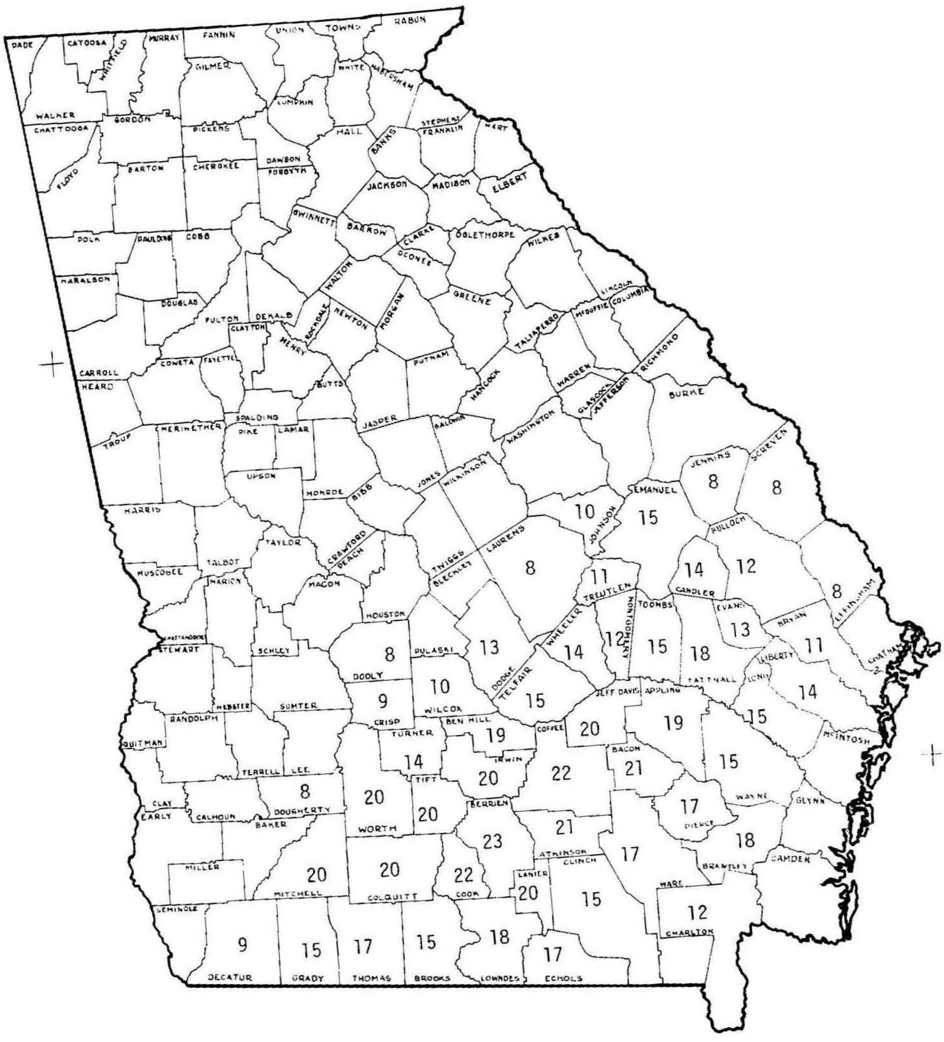

Figure 4. Estimated average rental rate per pound for flue-cured tobacco allotment, 1967, Georgia

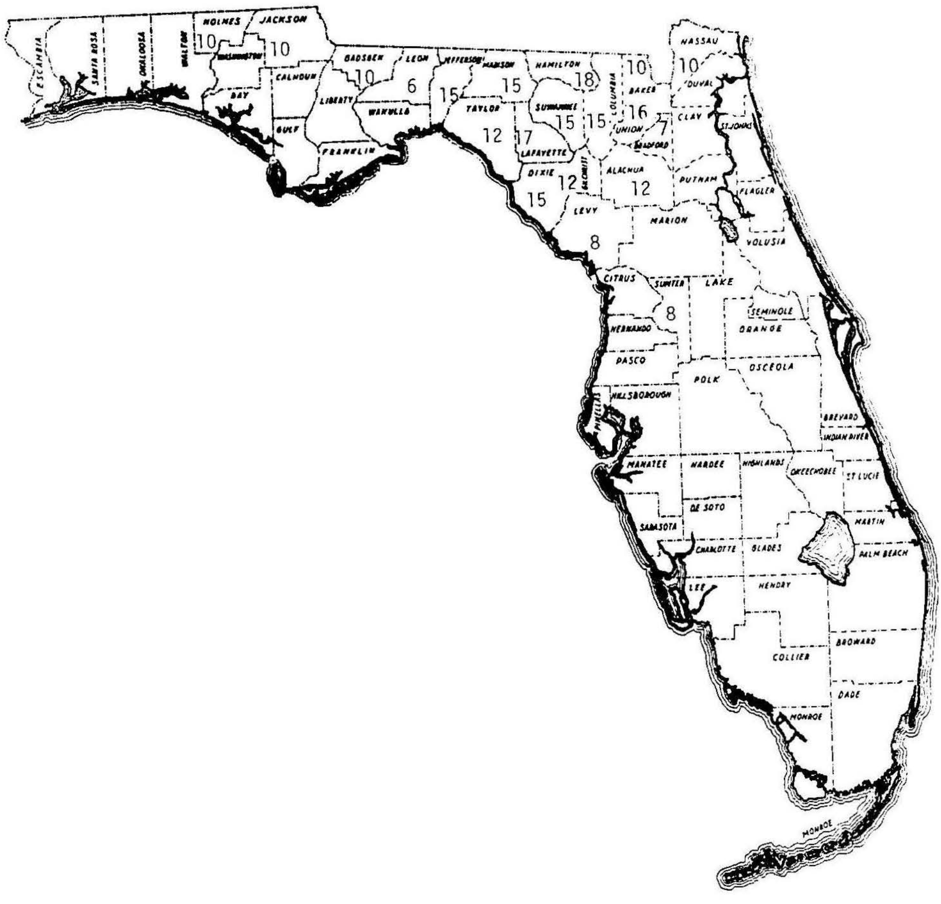

Figure 5. Estimated average rental rate per pound for flue-cured tobacco allotment, 1967, Florida

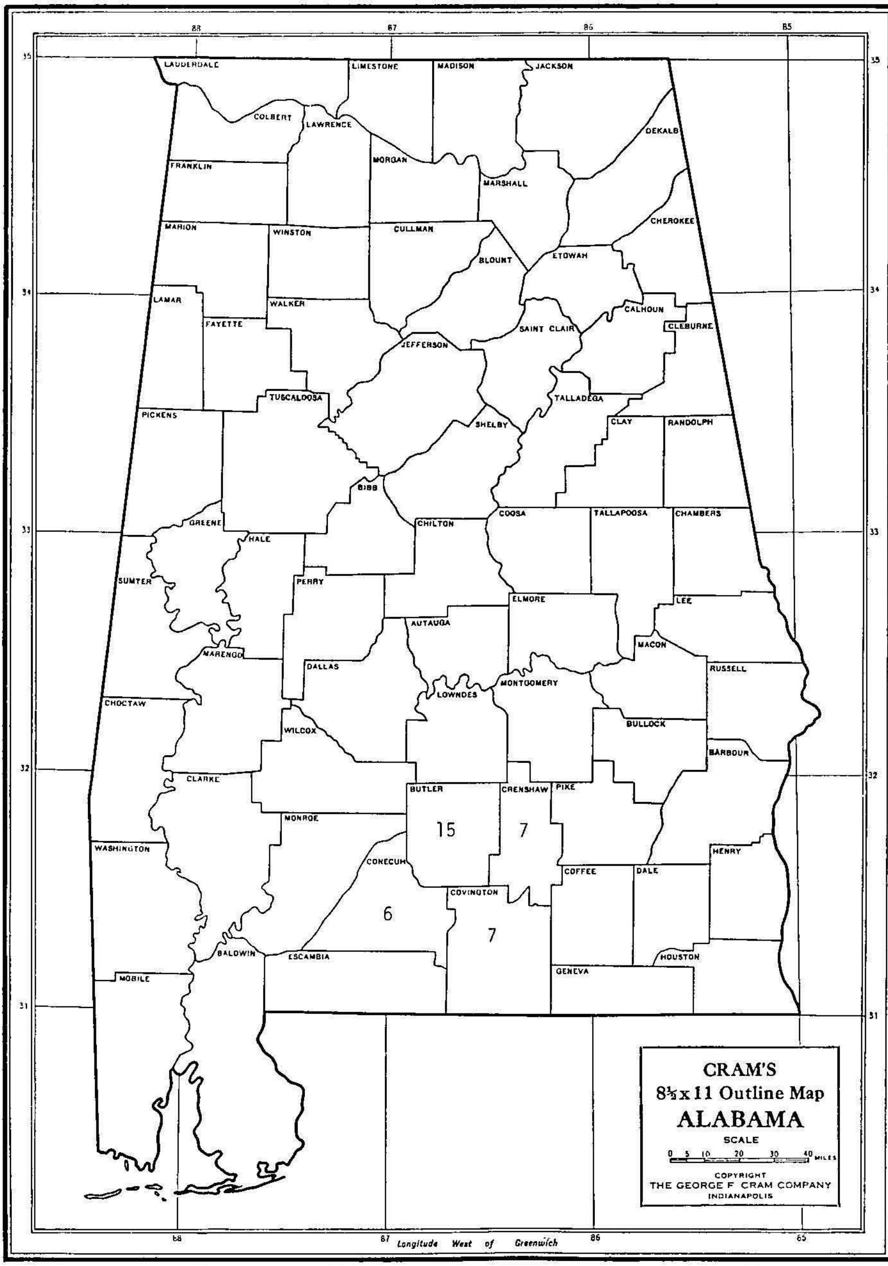

Figure 6. Estimated average rental rate per pound for flue-cured tobacco allotment, 1967, Alabama

program have been limited. Had the funds been plentiful, the minimum rental rates observed in less productive counties in 1966 and 1967 would have approached the Cropland Adjustment Program diversion rates. The rental rates might have been somewhat less than government diversion rates because the diversion contracts cover a period of five to ten years. The number of counties in which rental rates were substantially below 12 cents per pound indicates the Cropland Adjustment Program did not provide a floor on rental rates in either 1966 or 1967.

Each county is a market area for allotment exchange. If transfer all occurred at one point in time and under conditions of perfect information, no renter would need to pay more than any other renter and no owner would be willing to receive less than another owner. This is the case because one pound of quota is like every other pound within each county. By contrast, there is no reason to expect the rent to be the same in different counties. In each county rent can be expected to be equal to gross receipts minus all expenses, including a return to the renter for his time and perhaps some reserve for the uncertainty he must bear for the farmer who is indifferent between renting and not renting allotment. Rent will be higher where the price of tobacco is higher, other things equal. Rent would be expected to be lower as wages and nonfarm opportunities for operators are higher. In addition, rent tends to rise with yields (Bradford and Toussaint, 1962, p. 14). One reason this may be true is that the cost of production per pound is higher on land with low yields because some costs are constant per acre. Acres of low yield would have higher costs per pound for preparation, transplanting, irrigation and similar space operations. Thus, counties with higher yields probably have low costs per pound and high rents per pound, other things equal.

These costs and returns factors are closely associated with the differences in rent paid within the different belts. For example, the South Carolina and Border North Carolina Belt had the highest rental rate in 1966. Several forces contributed to this high rental rate, two of which can be easily identified. The wage rate was lower in this belt than in any other belt. In addition, the 1965 average price received per pound of tobacco in this belt was exceeded by the price in only one other belt. One factor which would have run counter to the low wage rate and high product price is the yield level. Yields were lower on the average in the Border Belt than for the average of the rest of the flue-cured producing region in 1965. Lagged prices and yields were used in this comparison because it was assumed that rental rates represent expected returns and that expectations are in turn based on experienced costs and returns.

Rent paid per pound as a percentage of the price per pound of tobacco in the previous year ranged from 22.6 to 28.3 in 1966 (Table 2). Assuming the previous year's price was expected to be repeated in 1966, this means rent was about one-fourth of expected gross receipts. The ratio declined slightly in 1967. As suggested above there was a positive correlation between rental rates and yields when rents and yields are compared among the counties. The squared simple correlation coefficient between the two (representing the proportion of the variance of one of the two variables which was related to or "explained" by the other variable) for all counties for 1966 and 1967 data was .28. Preliminary multiple regression analysis leads to the same conclusion: rental rates per pound were significantly higher in counties of high yield.

The range in rent paid was also estimated by the county ASCS office manager. The range was frequently 6 to 8 cents. For example, in Wayne County, North Carolina, the estimated high rental rate was 22 cents per pound and low rental rates 15 cents per pound. The range, the differences between the high and low rental rates, was 7 cents per pound. In general the range tended to be greatest in counties on the fringe of the belts and lowest in important flue-cured counties. The large range in prices paid is one measure of the relatively inefficient manner in which the transfer market works. If there was a central market for the transfer of allotment, much of the variation in rental rates within counties would disappear.

Rental Rates over Time

Little data are available about the trend in the average annual rent paid since the transfer program began in 1962. Rent paid in 1962 is not

Table 2. Average rent per pound as a percentage of average price received in the previous year for flue-cured tobacco by belts in 1966 and 1967[a,b]

Belt	1966	1967
	(percentage)	(percentage)
Old Belt, Virginia and North Carolina Type 11a	22.6	22.1
Middle Belt, North Carolina Type 11b	23.1	21.3
Eastern North Carolina Type 12	28.3	24.0
South Carolina and Border North Carolina Type 13	28.3	23.6
Georgia, Florida and Alabama Type 14	26.6	23.9
All belts	26.6	23.3

[a]Source: Unpublished data on rental rates supplied by the Tobacco Policy Staff of the ASCS, USDA. Yield data taken from various releases prepared jointly by the state Departments of Agriculture and the Statistical Reporting Service, USDA.

[b]County data were weighted by the quantity of tobacco marketing quota in the respective counties.

completely comparable to 1966 data. In 1962, 1963 and 1964 the rental contract was in terms of acreage, adjusted for normal yield. All tobacco produced on the acreage of rented allotment could be sold. A farmer might rent allotment acreage representing 2,000 pounds of normal yield and market total production on the rental acreage whether it was 1,800 or 2,200 pounds of tobacco.

By contrast since 1965 (in effect) a farmer could market exactly the number of pounds of allotment he rented in addition to his own poundage quota.[1] If a farmer has a low yield, his poundage quota for the following year is increased to make up for the low yield on the owned and rented allotment. This is in contrast to the yield uncertainty faced under the 1962-64 rental programs. As a result, 1962-63 and 1966-67 rental rates can be used only with some caution.

Data on three North Carolina counties for 1962-63 and 1966-67 (Table 3) indicate that little change in rental rates has occurred since allotment transfer began. Some counties may have experienced significant changes in rental rates arising from such forces as changes in yields, wage rates, and the prices of other inputs. However, it is not possible to identify particular changes in the currently available data. The small amount of available data does not suggest that there have been important changes in rental rates in counties in North Carolina.

The most pressing question concerns the relationship between changes in the quantity of quota and rental rate. If transfers can be made across county lines in the future, rental rates will tend to equalize among trading counties. Low rent counties will lose allotment and experience a rent increase, other forces unchanged. The reverse would occur in high rent counties. Rental rates vary considerably even between contiguous counties (Figures 1-6). It was not uncommon in 1967 for the rental rates in two neighboring counties to differ by 5 cents per pound. In a few cases the difference was as much as 8 cents per pound.

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[1]A farmer can market up to 110 percent of his owned and leased quota in any one year. However, all of the overmarketings are deducted from his owned allotment for the next year and the rented allotment is unaffected.

Table 3. Estimated average rent paid per pound in three North Carolina counties, 1962-1963 and 1966-1967[a]

Item	Guilford	Pitt	Wilson
		(cents per pound)	
Average rent paid per pound of lessors' normal yield:			
1962	10.0	16.7	18.3
1963	9.0	19.0	17.1
Average rent paid per pound of marketing quota:			
1966	15	20	20
1967	10	18	20

[a] Sources: 1962-63 data obtained from Bordeaux, Hoover and Toussaint (1966, p. 29). 1966-67 data obtained from county ASCS office managers.

Substantial changes in rental rates would occur in one or both counties if transfer across county boundaries was made possible. However, the amount of transfer needed to equalize rental rates might not be very great. This would be true in some cases because the quota in counties with very low rental rates is quite small relative to the quantity of quota in the neighboring high rent county. Putting a small county in the same transfer market might affect total allotment available in the large county less than the carry-over resulting from the low yields. In addition it is possible that a small increase in quota in a county will force the rent down considerably.[1] This would occur if an essential factor such as labor is in short supply in the importing county.

Allotment Transferred

Renting of assets has been and will continue to be an important activity in farming, as well as other businesses, because it allows operators to achieve an efficient scale of operation which would otherwise be denied all but those sufficiently wealthy to purchase the needed assets. Renting of tobacco quota has an additional function in the transfer program. It allows those regions within each county that have experienced a relative increase in productivity to expand tobacco acreage while other areas contract acreages. The allotment program has tended to restrain the kind of acreage shift which has occurred in nonallotment crops. The transfer program allows production to shift to those areas which can afford to bid most for the quota. Farmers with low returns to production can do better by leasing their quota. In this way increased efficiency in one area can be shared among farmers expanding and contracting production. The importance of geographic redistribution of allotment under the transfer program has been reduced by the 5-acre limit per farm. Many farmers transfer five acres and then rent additional acreage to be produced on the land of the allotment

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[1]Analysis of changes in rental rates between 1966 and 1967 now underway suggests that rental rates fell or rose as quota increased or decreased within counties in response to yields. However, this analysis is not completely satisfactory at this time and must await further clarification.

owner. The removal of the 5-acre limit per farm on transfer of allotment by the enactment of PL 90-52 can be expected to lead to a substantial increase in transfer. The increase will probably be particularly large for counties within which soil types and yield levels vary greatly.

To make the data from the acreage allotment years (1962-64) comparable to the current program, acres transferred from the lessor's farm are reported in Table 4. Data for 1967 are not yet available. Only about 3 percent of the total acreage allotment was transferred in 1962. A three-fold or greater expansion occurred in all but one state between 1962 and 1966. Leased poundage accounted for 11.5 percent of the total in six states in 1966. This is slightly less than the level of leased acreage (12.4 percent) because frequently allotment with a lower than average poundage quota per acre is transferred.

Transfer in 1966 varied in importance from state to state, ranging from 10.7 to 30 percent of allotment acreage (Table 5). Generally speaking, the greater the concentration of allotment the lower the level of transfer. Variables responsible for the geographic differences are being investigated and will be analyzed in the report to be published later.

Lessors Transferring Allotment

The number of lessors transferring allotment has been increasing rapidly (Table 6). From a total of 16,300 in 1962, the total increased to slightly over 47,000 in 1966. It will probably continue to increase in the years ahead. The average annual increase of 7,700 farmers involved in the transfer program is equivalent to the number of tobacco allotment owners in about eight average counties in the flue-cured producing areas in the six southeastern states.

Not all of the transfer activity represents an addition to the total volume of leased acreage in the region. Many farmers who formerly leased their tobacco quota to be produced on their land by another farmer may be leasing their quota for transfer for the convenience of their renter now. Nevertheless, a considerable portion of the transferred quota represents a total addition to leasing activity.

More than 24 percent of all allotment holders transferred allotment in 1966 (Table 7) based on 1965 data on allotment owners. As few as 19.7

Table 4. Flue-cured tobacco allotment acres leased and transferred from lessors' farms, by states, 1962-1966[a]

Year	Virginia	North Carolina	South Carolina	Georgia	Florida	Alabama	All states
				(acres)			
1962	2,852	13,439	1,789	3,915	1,611	45	23,651
1963	4,069	18,436	2,413	5,949	2,192	58	33,117
1964	5,717	23,887	2,652	6,855	2,565	80	41,756
1965	6,124	32,854	3,334	9,545	2,716	90	54,663
1966	9,669	46,290	7,552	12,537	3,878	129	80,055

[a]Source: Mimeographed releases prepared by the ASCS, USDA.

Table 5. Lease and transfer acreage in 1966 as a percentage of total allotment acreage[a]

State	Percentage
Virginia	15.9
North Carolina	11.6
South Carolina	10.7
Georgia	20.3
Florida	30.0
Alabama	21.8
All states	12.4

[a]Source: Mimeographed releases prepared by the ASCS, USDA.

Table 6. Numbers of allotment owners transferring flue-cured tobacco allotment under the lease and transfer acts, by state, 1962-1966[a]

Year	Virginia	North Carolina	South Carolina	Georgia	Florida	Alabama	All states
				(number)			
1962	1,674	8,896	1,585	2,929	1,166	50	16,300
1963	2,361	11,815	2,109	4,128	1,586	67	22,066
1964	3,483	15,605	2,364	5,187	1,989	75	28,703
1965	4,416	20,614	3,218	6,923	2,524	85	37,780
1966	5,458	25,783	4,671	8,273	2,777	85	47,047

[a]Source: Mimeographed releases prepared by the ASCS, USDA.

Table 7. Percentage of allotment owners transferring allotment to other producers in 1966[a]

State	As a percentage of allotment holders in 1965	As a percentage of farms reporting tobacco sales in 1964
Virginia	24.7	36.2
North Carolina	22.5	33.7
South Carolina	19.7	26.0
Georgia	32.7	55.1
Florida	40.8	87.1
Alabama	32.8	84.2
All states	24.4	36.8

[a]Source: Mimeographed releases on number of farms transferring allotment and on number of allotment holders prepared by ASCS, USDA. Data on farms reporting tobacco sales published in the respective state parts of the 1964 Census of Agriculture (U. S. Bureau of the Census, 1967, State Table 10).

percent (South Carolina) and as many as 40.8 percent (Florida) of owners transferred allotment in 1966. No data are available on the distribution of allotment among active farmers. Data from the 1964 Census of Agriculture (U. S. Bureau of the Census, 1967) on farmers reporting flue-cured tobacco sales can be used as a rough approximation of the importance of the allotment transfers to farm managerial units. Using this data, the number of transfer contracts was 36.8 percent as large as the number of 1964 tobacco farmers. By states the ratio ranged from 26.0 percent in South Carolina to 87.1 percent in Florida. If leases were evenly distributed among farmers, these figures would indicate that one out of four producing tobacco farmers had transferred tobacco in South Carolina and that in Florida six out of seven producing farmers had transferred tobacco to their farms.

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