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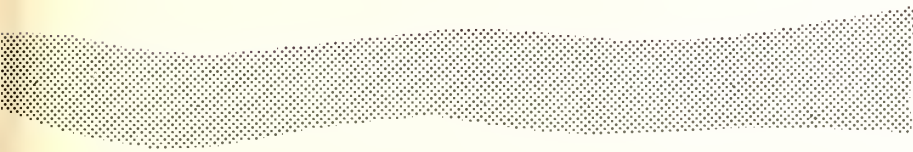
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Speculative Resales of Maryland Tobacco



Marketing Research Report No. 395

UNITED STATES DEPARTMENT OF AGRICULTURE

Agricultural Marketing Service - Marketing Economics Research Division

PREFACE

This report presents an analysis of speculation found in the marketing channels for Maryland tobacco. An earlier study, entitled "Resales at Maryland Tobacco Auctions," by C. I. Hendrickson and Fredrick H. Dahl, was published by the Department in 1956 as Marketing Research Report No. 148. That report gave a general description of rpeculative resales, including causes, methods of reducing them, and the overall impact of resales on the Maryland market.

This report presents a more detailed description of the several groups of speculative buyers and their operations. It also describes the practices of these buyers in buying and selling their tobacco, the factors affecting the the volume of speculative sales, and the gross margins taken by the several groups of speculators.

C. I. Hendrickson, Marketing Economics Research Division, Agricultural Marketing Service, and G. Max Beal, Agricultural Economics Department, University of Maryland, participated in planning the study and assisted in analyzing the data on which this report is based. The Maryland State Tobacco Authority made available information on tobacco sales, resales, and license purchases.

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SUMMARY

The percentage of resales of Maryland tobacco by speculators at auctions has been above that of burley and flue-cured since 1950. Maryland resales have been trending upward for the last 10 marketing years except in 1957 and 1958. The margins of gross profit to speculators also have been increasing. Certain improved practices by farmers could lessen the speculation, probably bringing them higher prices for their tobacco. These practices are described in a previous report, "Resales at Maryland Tobacco Auctions," Marketing Research Report No. 148. Tighter regulation by the State might also reduce deceptive practices used by some speculators, and might result in benefit to growers.

Speculators on the Maryland tobacco auction market may be divided into four groups. These groups, described on page 5 are: (1) Pinhookers, (2) transfer buyers, (3) warehousemen, and (4) pinhooker-transfer buyers. These speculators purchased about 4.8 million pounds, or 14 percent, of the 1957 crop. The volume of such purchases decreased in 1958, although the speculators' gross income from them increased because of higher margins per pound.

During the sale of the 1957 crop, there were 16 pinhookers speculating on Maryland tobacco, 8 pinhooker-transfer buyers, 14 transfer buyers, and 8 warehousemen. Each of these groups, except the warehousemen, experienced a sharp drop in numbers since the marketing of the 1956 crop. The number of warehousemen has remained constant for several years.

Warehousemen are the largest buyers of Maryland tobacco bought for speculative purposes. They purchased over 57 percent of the $4\frac{1}{2}$ million pounds bought by speculators in 1958. This was an increase of just over 10 percent from the previous season. Pinhookers rank second in volume purchased, with transfer buyers and pinhooker-transfer buyers following. All speculators except the warehousemen reduced the proportion of tobacco purchased in 1958 as compared with 1957.

Pinhookers had the largest average gross margin of all the speculators. Their margin was \$16.05 per hundredweight for the 1958 market season. This was an increase of \$4.24 per hundredweight over the previous season. The warehousemen ranked second, with a gross margin of \$9.49 per hundredweight, or \$2 per hundredweight over the 1957 season. Transfer buyers had the third largest gross margin for the 1958 season. They had an increase of \$1.75 per hundredweight in 1958, bringing their margin to \$8.14. The combination group of pinhooker-transfer buyers received the lowest average margin and the smallest increase from the 1957 season. Their margin averaged \$7.03 per hundredweight in 1958, an increase of only 3 cents per hundredweight.

The largest gross income from speculation in 1958 was received by warehousemen. Their gross was \$247,000, an increase of \$60,000 from the previous season. Pinhookers increased their gross income by \$2,000 in 1958 to \$126,000

for the season. Transfer buyers' income in 1958 fell \$12,000 to \$47,000, and pinhooker-transfer buyers' income declined \$18,000 to \$60,000.

Maryland resales have shown the greatest increases during years when there were no Government price supports. Without price supports, the price of tobacco not in strong demand by manufacturing companies may fall to a level attractive to speculators.

SPECULATIVE REALES OF MARYLAND TOBACCO

By J. W. H. Brown, agricultural economist
Marketing Economics Research Division
Agricultural Marketing Service

INTRODUCTION

Maryland speculators receive more than one-half million dollars in gross income from each year's tobacco crop. For the purpose of this study, a speculator is defined as a person purchasing tobacco for immediate resale in the hope of making a profit.

Maryland speculators who purchase for immediate resale may be divided into four groups: (1) Pinhookers, who buy tobacco on the auction floor and resell it on the auction floor; (2) transfer buyers, who purchase tobacco on the farm where it is grown and sell it either on the auction market or on the hogshead market; (3) warehousemen, who buy tobacco on the auction market and resell it on the auction market; and (4) those who operate as both transfer buyers and pinhookers.

Another type of speculator is the buyer who purchases tobacco for which he does not have an order and who packs the tobacco and holds it in storage for resale to exporters or to domestic manufacturers. These buyers provide a distinct service in the marketing of tobacco, and are not buying for quick resale through the same marketing facilities used by the farmer. Such buyers were not included in this study, because they were not considered speculators in the same sense as pinhookers, transfer buyers, and warehousemen.

Results of this study have been made available to the Maryland Tobacco Authority, which regulates the Maryland tobacco auctions. On the basis of these findings, that agency is tightening up its regulations and its inspection of the operation of the markets. This should result in more efficient operation of the markets and in lower speculative margins. Reduced speculative margins may give farmers a better opportunity to retain part of the margins for themselves.

THE SPECULATIVE SITUATION IN MARYLAND

Certain peculiarities of the Maryland tobacco marketing system cause speculation to thrive more there than on most tobacco markets. Maryland tobacco has traditionally been noted for excessive amounts of mixed grades as it is delivered to the market. The majority of Maryland farmers sort into three or four grades, whereas burley and flue-cured tobacco producers make five to seven different grades out of a crop. The method of sorting in Maryland results in more tobacco on the market than is commonly found in burley and flue-cured tobacco. Mixed qualities offer a good incentive for speculators to buy tobacco in hope of reworking it and selling it for a profit.

The Maryland tobacco auction markets are in operation from the first of May through July. During this period, most other tobacco markets are closed. This makes it possible for speculators from other States to operate on the Maryland market.

Maryland's marketing season is longer than those for burley and flue-cured tobacco in relation to the amount of tobacco sold. Therefore, during a large part of the season, the warehouses do not have full sales. This situation, in many cases, allows speculators to buy tobacco early in the day and offer it for resale before the day's sale has been completed. The speculators thus receive money for the tobacco they resell at the same time they pay for it. Little or no capital is required if the pinhookers can follow this procedure. This condition also makes it possible for speculators, when selling tobacco, to reject the first bid and offer the tobacco for sale a second time during the same sale. Flue-cured and burley warehouses have full sales for a large part of the season. This means speculators must wait at least one day before reselling their tobacco.

Another factor contributing to the mixed nature of the tobacco coming to market in Maryland is the fact that in Maryland the baskets on which the tobacco is sold in the warehouses are taken to the farm and the tobacco is put on the baskets by the grower. It is customary in the flue-cured and burley areas for the warehouses to place the tobacco on baskets for sale. The warehouses usually prepare the tobacco for sale better than the growers.

Resales of Maryland tobacco, as a percentage of net sales, have been above those of burley and flue-cured since 1950. Maryland resales have been trending upward for the last 10 years except for 1957 and 1958.

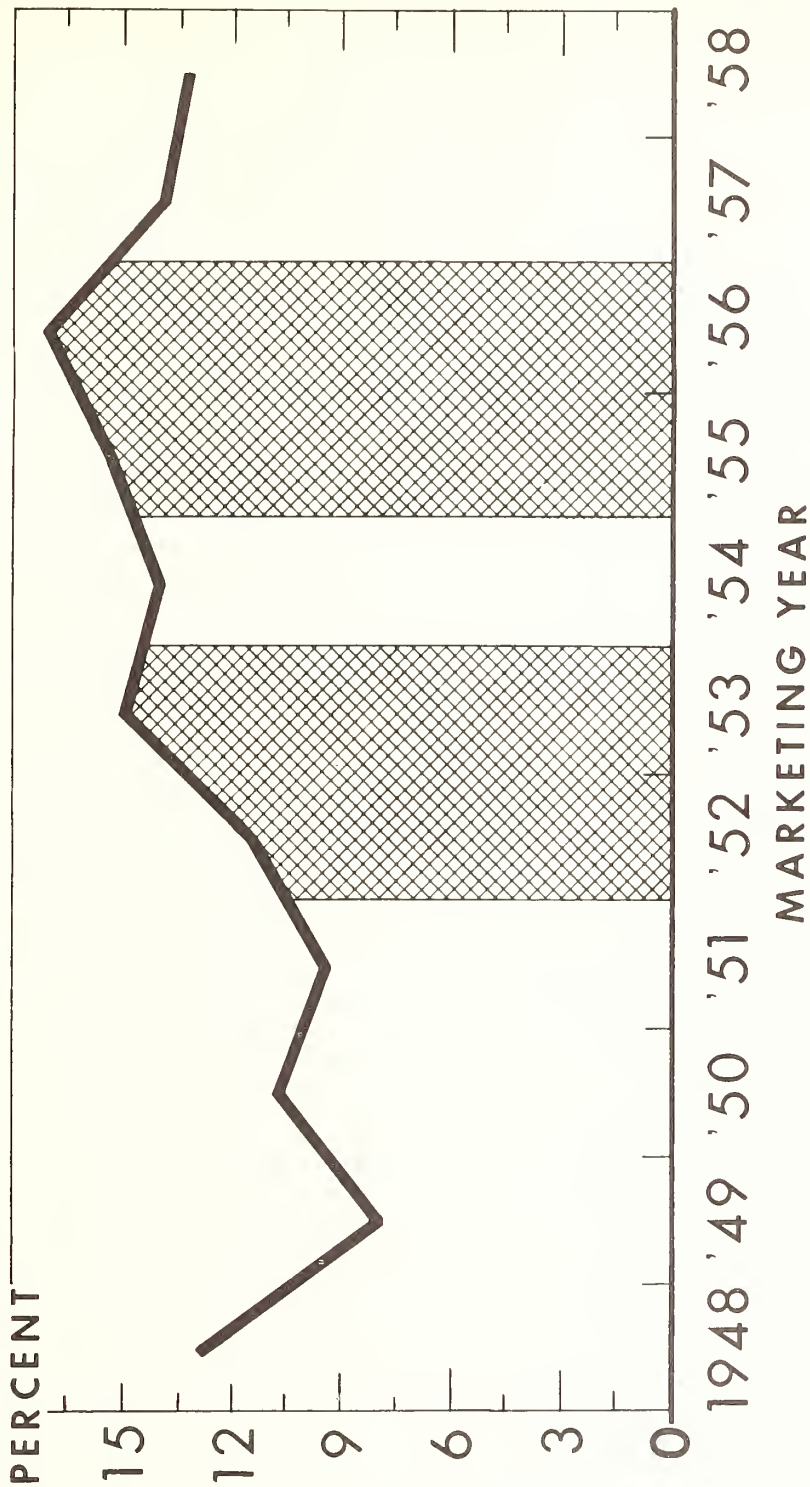
Pinhookers make the largest profit per pound, but the larger volume of tobacco handled by warehousemen brings their gross profit above that of the pinhookers. The transfer buyer group has the smallest margin per pound of any of the speculators.

The amount of tobacco purchased by speculators has not followed the same trend as the number of speculators operating on the market. The number of pinhookers securing licenses from the State Tobacco Authority, a State agency for regulating the marketing of tobacco, has decreased from 49 in the 1956 marketing season to 25 for the 1958 marketing season. Pinhookers were not required to have licenses before the 1956 season; therefore; it is impossible to determine the number operating in Maryland before that year.

Sale of licenses to transfer buyers dates back to the 1948 season, when 23 transfer buyers were licensed. The number decreased steadily through the 1952 marketing season, when 9 were licensed, but it increased in 1953 and again in 1954. The number has remained fairly stable at 19 or 20 buyers since the 1954 season.

Maryland resales increased from 9.58 percent of net sales in 1951 to a high of 17.15 percent in 1956, then declined slightly in the 1957 and 1958 seasons. The increases in resales occurred in years when there were no Government price supports (fig 1).

RESALES OF MARYLAND TOBACCO AS PERCENTAGE OF NET SALES



YEARS CROSS-HATCHED ARE WITHOUT PRICE SUPPORT

U. S. DEPARTMENT OF AGRICULTURE

NEG. 7727-60 (3) AGRICULTURAL MARKETING SERVICE

Figure 1

The Maryland State Tobacco Authority has maintained floor supervisors in the southern Maryland tobacco warehouses in recent years to regulate practices detrimental to growers. These regulations undoubtedly have been important in reducing both the number of speculators and their total purchases. The Authority reports that its regulatory activities will be progressively tightened.

Pinhookers

Pinhookers are the speculators buying tobacco on the auction market and reselling on the same market. Most of the pinhookers operating in Maryland are from burley and flue-cured tobacco-producing areas. All other tobacco markets are closed during the selling period in Maryland. This provides an excellent opportunity for buyers from other areas to move into Maryland for the marketing season.

Pinhookers usually operate in pairs, because two generally can operate more successfully than one working alone. Pinhookers usually employ relatively unskilled labor to rework and handle the tobacco. The pinhooker generally brings this labor from either the flue-cured or burley belts, where such labor generally is employed during the marketing seasons.

One partner in the pinhooking operation usually specializes in buying the tobacco, while the other specializes in reworking and selling it.

Pinhookers examine the tobacco on the floor after it has been graded by the Federal graders and before the auction reaches that basket. The pinhookers are able to spot baskets of mixed tobacco, green tobacco, or tobacco tied with green leaves. Companies or dealers prefer not to purchase this type of tobacco; therefore, bidding may not be active for it. Pinhookers are able to buy it at a low price if they do not bid actively against each other. There is some indication that pinhookers specialize in certain types of tobacco. Some prefer green tobacco, while others prefer poorly sorted lots.

Pinhookers do not make all of their purchases during the auction. If a farmer is dissatisfied with the bid he received on his tobacco, he may try to sell it to a pinhooker in a private sale. If the basket was undergraded or misjudged by the buyers or the auction, the pinhooker will usually make the farmer an offer on the basket. In many cases, he will be able to buy the tobacco for 1 or 2 cents above the original bid price.

Pinhookers normally follow one of three procedures after a purchase is made. First, they re-sort the basket if the tobacco is badly mixed, sometimes into as many as five grades from one basket. The sale value of the tobacco may be increased by selling the grades separately. Second, the basket may be only straightened on top and weighted down overnight if the tobacco is only slightly mixed. Weighting the tobacco gives it the appearance of not being reworked. Third, tobacco that is green or tied with green leaves may be bleached to a desirable shade of red or chocolate. This bleaching is done by bringing the tobacco into high order, usually by spraying or dipping it into water and exposing it to sunlight for 2 or 3 days. During this bleaching period, the hands of tobacco must be turned occasionally to expose all sides

to the sunlight. If the hands are not of green tobacco, but are tied with green leaves, it is not necessary to unpack the basket. The butts of the hands are sprayed with water while still packed on the basket. The basket is placed in the sun and turned so the sun comes in contact with all sides.

Pinhookers purchasing small volumes of tobacco sometimes rework the tobacco on the auction floor where it was purchased. Most pinhookers, however, remove the tobacco to a barn or shed near the market. In some cases, several pinhookers rent such a shed jointly.

Many pinhookers appear to place more emphasis on selling and handling than on buying the tobacco, and take great care in displaying tobacco for sale. Pinhookers usually place their tobacco on the floor before farmers' tobacco is placed. Early placing of the tobacco on the floor allows the pinhooker to choose a desirable position under a skylight or away from a skylight, depending on the amount of light desired.

Pinhookers sometimes place tobacco for sale in a row of farmers' tobacco that is slightly better in grade. The buyers most of the time assume the pinhooker tobacco is part of the same crop in the row, and are usually hesitant to drop the price below the price paid for the baskets of tobacco immediately preceding. Even if the tobacco is recognized as being of lower quality, many of the buyers may consider it an error on their part and continue to pay about the same price for all tobacco in the lot.

Some pinhookers seem to prefer the end of rows away from the front of the selling floor. This position gives the pinhooker more flexibility for moving the basket. When a pinhooker is selling a basket, he usually stands one row back from the row being sold, but within sight of the auctioneer, and bids on his own tobacco until the price has reached the point where he thinks he can make the desired profit on the basket. If no one bids higher on the basket, it is then "sold" back to the pinhooker. The pinhooker may then get the ticket before the marker puts the price and symbol on it. He is then at liberty to move the basket to the end of another row to be auctioned again during the same sale. One pinhooker was observed to do this three times and reject the third bid. The three bids were all the same price and made by the warehouse.

Most of the pinhookers in Maryland sell tobacco under assumed names. One pinhooker was recorded as selling under seven different names. In order to change the name of the seller, the pinhooker weighs the basket and lets the scale operator fill the ticket in with everything except the planter's name. The pinhooker then fills in the name he wishes to sell under, therefore losing the identity of the basket. This is done in hope the buyers will not identify the tobacco as reworked or pinhooker tobacco, which most tobacco companies and dealers prefer not to buy. Even though pinhookers theoretically rework the tobacco before reselling it, dealers report the chances of buying false-packed tobacco are too great to warrant the purchase of pinhooker tobacco if it is known. A few pinhookers have the reputation of selling properly sorted tobacco. These pinhookers are known by the buyers, and there is no hesitation about buying their tobacco. Such pinhookers rarely, if ever, sell under assumed names.

Pinhookers frequently sell tobacco at different warehouses from the one at which it was purchased. A comparison of pinhooker purchases to pinhooker sales at each warehouse for the 1957 season shows a concentration of resales in one warehouse. This warehouse had the highest average price for resale tobacco (table 1). There was less variation in average prices received during the 1958 marketing season. Likewise, there was less concentration of tobacco

Table 1.--Prices paid and received by pinhookers for Maryland tobacco, and percentages bought and sold at each warehouse, 1957 and 1958 seasons

Warehouse: (1)	: Percentage of total pinhooker purchases (2)	: Average price paid per cwt. by pinhookers (3)	: Percentage of total pinhooker sales (4)	: Average price received per cwt. by pinhookers (5)
	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>
<u>1957</u>				
A	19.31	37.06	11.21	42.15
B	23.71	36.54	21.08	40.06
C	18.56	35.62	17.35	45.37
D	8.90	35.50	7.71	49.59
E	17.96	35.48	33.78	52.35
F	3.94	33.54	3.86	46.35
G	7.57	31.57	5.16	52.04
H05	30.42	.03	39.22
<u>1958</u>				
A	19.08	37.42	17.14	52.79
B	17.38	37.42	13.69	52.20
C	20.33	36.90	20.34	52.03
D	7.44	35.74	7.56	54.67
E	17.51	36.84	23.23	55.00
F	11.55	35.50	11.01	49.75
G	6.70	36.85	7.03	54.11
H	---	---	---	---

at any one warehouse for resale. It can be concluded that the selling price is a major factor that determines at which warehouse a pinhooker sells tobacco. Average purchase price does not exert the same influence on the pinhooker when choosing a warehouse at which to purchase tobacco.

Selling price, although very important, is not the only criterion used in the selection of a selling point by the pinhooker. Some warehouses are more liberal than others in permitting the use of equipment and floor space by pinhookers. Pinhookers prefer to sell at warehouses that are inclined to be tolerant in the enforcement of trading rules.

Pinhookers purchased just over 800,000 pounds of tobacco during the 1958 marketing season. This was a decrease from the 1957 season, during which pinhooker purchases were slightly more than 1 million pounds. The 1958 pinhooker

purchases averaged 54,600 pounds and ranged from 9,500 to 160,000 pounds. This compares with a range of 2,900 to 199,000 and an average of 51,500 in 1957.

The eight pinhookers with the largest volumes, each purchasing over 60,000 pounds, purchased 70 percent of the pinhooker tobacco in 1957. Only half as many pinhookers purchased over 60,000 pounds each in 1958, and they purchased about 54 percent of the tobacco. There were no pinhookers who purchased between 81,000 and 100,000 pounds during the 1958 season, while the two pinhookers purchasing over 100,000 pounds increased their proportion from 29 to 37 percent of the total of pinhookers' purchases (table 2).

Table 2.--Distribution of purchases of Maryland tobacco by pinhookers, by volume purchased, 1957-58

Pounds purchased by individual pinhookers	Pinhookers, 1957	Percentage of total pinhooker purchases, 1957		Pinhookers, 1958	Percentage of total pinhooker purchases, 1958	
		Number	Percent		Number	Percent
Under 20,000 lb.	6	5.54		4	6.65	
20,000-40,000 lb.	7	19.11		5	20.49	
41,000-60,000 lb.	1	5.33		3	19.11	
61,000-80,000 lb.	4	24.11		2	16.71	
81,000-100,000 lb.	2	16.56		0	0	
Above 100,000 lb.	2	29.35		2	37.04	

The average pinhooker purchase price in 1957 was \$35.79 per hundred pounds. The difference between the purchase price and selling price gives a gross margin of \$11.18 per hundred pounds. The margin increased to \$16.05 during the 1958 season (table 3). Of the 11 pinhookers operating in both seasons, 10 increased their margins in 1958. Their margins averaged \$11.24 per hundred in 1957 and \$16.28 per hundred in 1958.

Table 4 shows the average margins and gross profits of the group according to volume of tobacco purchased. All pinhookers except those who purchased 41,000 to 60,000 pounds increased their average margins and average gross profits in 1958.

The net result of the increased margins and decreased volumes in the 2 years was: Gross profits were increased by \$2,000 even though volume purchased had decreased by about 30 percent (table 5).

Table 3.--Average pinhooker buying and selling prices and margins for Maryland tobacco, 1957-58

Pinhooker number--	Average purchase price per cwt., 1957	Average sale price per cwt., 1957	Average margin per cwt., 1957	Average purchase price per cwt., 1958	Average sale price per cwt., 1958	Average margin per cwt., 1958
	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>
1	36.37	51.88	15.51	36.72	54.49	17.77
2	34.90	36.57	1.67	37.42	54.63	17.16
3	36.33	47.06	10.73	34.88	51.87	16.99
4	36.40	41.37	4.97	36.79	51.61	14.82
5	38.49	55.25	16.76	36.61	56.71	20.10
6	34.11	51.67	17.56	36.21	55.27	19.06
7	35.15	44.40	9.25	36.91	50.62	13.71
8	35.24	50.57	15.33	37.66	53.82	16.16
9	32.32	43.66	11.34	32.50	44.98	12.48
10	34.84	56.39	21.55	37.91	54.57	16.66
11	37.18	46.45	9.27	37.44	51.95	14.51
12	37.56	45.86	8.30	---	---	---
13	33.65	46.12	12.47	---	---	---
14	39.48	50.73	11.25	---	---	---
15	36.59	45.30	8.71	---	---	---
16	38.36	47.45	9.09	---	---	---
17	39.85	58.01	18.16	---	---	---
18	35.64	45.19	9.55	---	---	---
19	33.79	39.91	6.12	---	---	---
20	36.39	52.74	16.35	---	---	---
21	35.99	46.54	10.55	---	---	---
22	35.38	43.14	7.76	---	---	---
23	---	---	---	42.26	55.92	13.66
24	---	---	---	34.30	48.52	14.22
25	---	---	---	37.85	53.88	16.03
26	---	---	---	36.06	49.75	13.69
27	---	---	---	36.75	50.19	13.44
Weighted average	35.79	46.97	11.18	36.82	52.87	16.05

Table 4.--Average margin and gross profits of pinhookers in Maryland, by volume of purchases, 1957 and 1958

Pounds purchased by individual pinhookers	Pinhookers, 1957	Average margin	Average gross profit	Pinhookers, 1958	Average margin	Average gross profit
		per cwt., 1957	:profit, 1957		per cwt., 1958	:profit, 1958
<u>Pounds</u>	<u>Number</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Number</u>	<u>Dollars</u>	<u>Dollars</u>
Under 20,000 ...	6	13.00	1,345.60	4	13.84	1,918.78
20,000 - 40,000	7	10.02	3,156.54	5	17.87	5,861.24
41,000 - 60,000	1	16.76	10,111.64	3	13.34	6,796.85
61,000 - 80,000	4	10.52	7,191.80	2	16.29	10,890.77
81,000 - 100,000	2	15.58	14,996.61	0	---	---
Over 100,000 ...	2	15.33	16,334.45	2	16.61	24,651.24

Table 5.--Purchases, average margin, and gross profits of pinhookers, Maryland tobacco, 1957 and 1958

Year	Purchases	Average margin per cwt.	Gross profits
	<u>1,000 pounds</u>	<u>Dollars</u>	<u>1,000 dollars</u>
1957	1,133	11.18	126.7
1958	801	16.05	128.6

Table 6.--Distribution of transfer buyers of Maryland tobacco by volume purchased, 1957-58

Pounds purchased by individual buyers	Buyers, 1957	Percentage of total transfer buyers' purchases, 1957	Buyers, 1958	Percentage of total transfer buyers' purchases, 1958
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 25,000 ...	5	7.2	1	0.6
25,000 to 50,000	2	9.5	4	23.9
51,000 to 75,000	3	21.2	3	32.4
Above 75,000 ...	4	62.1	2	42.1

Transfer Buyers

Transfer buyers are speculators who buy tobacco on the farm for resale at the auction warehouses or the Baltimore hogshead market. The number of transfer buyers decreased from 14 in 1957 to 10 in 1958. These figures should not be confused with the number of transfer buyer licenses sold during the 2 years, since some of the purchasers of transfer buyer licenses also purchased licenses to buy on the warehouse floor, and these are placed in a separate category. The speculators operating in both places are discussed in another section.

Most transfer buyers, unlike pinhookers, are residents of Maryland. This is due mainly to their longer buying season; transfer buyers do not restrict themselves to the auction season, as do the pinhookers. They are able to make purchases throughout the year, but usually start buying during the winter and continue through the auction season.

Transfer buyers are the oldest type of tobacco speculators found in Maryland, dating back to Colonial days. The importance of transfer buying

Table 7.--Average transfer-buyer buying and selling prices and margins, for Maryland tobacco, 1957-58

Transfer buyer number--	: Average : purchase: : price, : 1957	: Average : sale : price, : 1957	: Average : margin, : 1957	: Average : purchase: : price, : 1958	: Average : sale : price, : 1958	: Average : margin, : 1958
	: <u>Dollars</u>	: <u>Dollars</u>	: <u>Dollars</u>	: <u>Dollars</u>	: <u>Dollars</u>	: <u>Dollars</u>
1.....	37.17	1/---	---	2/---	---	---
2.....	25.39	53.93	28.54	23.15	41.47	18.32
3.....	41.60	45.75	4.15	38.18	51.00	12.82
4.....	28.04	51.86	23.82	32.44	39.16	6.72
5.....	49.47	49.08	.39	24.40	26.20	1.80
6.....	48.56	55.88	7.32	44.73	51.41	6.68
7.....	46.78	54.87	8.09	46.19	54.50	8.13
8.....	45.40	50.32	4.92	37.17	44.31	7.14
9.....	56.73	59.08	2.35	49.60	59.05	9.45
10.....	51.99	51.14	.85	48.59	51.49	2.90
11.....	49.57	1/---	---	2/---	---	---
12.....	42.95	45.21	2.26	2/---	---	---
13.....	44.76	48.48	3.76	2/---	---	---
14.....	41.48	44.93	3.45	2/---	---	---
Weighted average..	45.94	52.33	6.39	42.08	50.22	8.14

1/ Sold all tobacco at Baltimore--price not available.

2/ No purchases in 1958

has decreased considerably since the introduction of the auction system in Maryland. Before the auctions came into existence, Maryland tobacco farmers had to sell their tobacco on the Baltimore hogshead market. This required the packing of about 700 pounds of tobacco into a hogshead. A farmer had to grow a fairly large crop to get 700 pounds of one grade of tobacco. The small farmer could either mix the grades in the hogshead or sell to a transfer buyer, and many farmers preferred the latter course. The auction system has reduced the need for producing 700 pounds of the same grade, and therefore reduced the incentive to sell to a transfer buyer. Probably the greatest inducement to sell to a transfer buyer now comes from the preference for early sales. The farmer is able to sell tobacco to a transfer buyer 3 or 4 months earlier than he could sell on the auction floor.

Transfer buyers purchased 574,000 pounds of tobacco during the 1958 season. This was a considerable decrease from the 1957 season, when such buyers purchased over 900,000 pounds. Purchases by individual transfer buyers in 1957 ranged from 7,000 to 224,000 pounds, with an average of 66,000 pounds. This compares with a range of 3,600 to 140,000 pounds and an average of 57,000 pounds in 1958.

The four transfer buyers with the largest volumes, each purchasing over 75,000 pounds, bought 62 percent of the transfer tobacco in 1957 (table 6). The purchases in 1958 were distributed more evenly over the various weight groups. This was a result of the decrease in number of buyers in the group purchasing the largest amounts.

The average price paid by transfer buyers in 1957 was \$45.94 per hundred pounds, and the average selling price was \$52.33, giving an average gross margin of \$6.39. The average purchase price in 1958 decreased almost \$4 per hundred, while the average sale price was down about \$2 per hundred. The net result was an increase in average gross margin of \$1.75 per hundred pounds (table 7).

There was a reduction of \$12,500 in total gross profits, even though the average margin of profit per pound increased (table 8).

Some speculators operate as both transfer buyers and pinhookers. This group of speculators has been designated pinhooker-transfer buyers to distinguish them from the strictly pinhookers and transfer buyers.

The pinhooker-transfer buyer group contained 9 speculators during the 1957 season, and 8 in the 1958 season. Total purchases for this group in 1957 amounted to just over 1 million pounds. The total purchases by individuals ranged from 63,000 pounds to 342,000 pounds and averaged about 125,000 pounds. This compares with total purchases of 800,000 pounds in 1958, with total purchases by individuals ranging from 25,000 to 245,000 pounds and averaging about 104,000 pounds.

Pinhooker-transfer buyers in the group purchasing over 200,000 pounds of tobacco increased their share of total pinhooker-transfer buyer purchases by 24 percentage points. The proportion of the tobacco purchased on the farms by this group decreased by about 32 percentage points. There was no

Table 8.--Purchases, average margins, and gross profits of transfer buyers, Maryland tobacco, 1957-58

Year	Purchases	Average margins	Gross profits
	1,000 pounds	per cwt. Dollars	1,000 dollars
1957.....	927	6.39	59.24
1958.....	574	8.14	46.72

Table 9.--Distribution of pinhooker-transfer buyers, by total volume, of Maryland tobacco purchased, 1957-58

Pounds purchased : by individual : pinhooker-transfer: buyers	Buyers		Percent of total : :pinhooker-transfer: : buyer purchases		Percent of total purchases bought on farm	
	1957	1958	1957	1958	1957	1958
	<u>Number</u>	<u>Number</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Under 75,000.....	1	3	5.59	16.09	79.45	71.19
75,000-100,000....	5	3	39.25	29.31	81.12	80.14
100,000-200,000...	2	0	24.69	---	46.18	---
Over 200,000.....	1	2	30.47	54.60	95.43	63.62

significant change in the percentage of tobacco purchased on farms by the groups purchasing less than 200,000 pounds of tobacco (table 9).

The pinhooker-transfer buyers' sales are shown only for the auction warehouses, although some of the tobacco was sold on the hogshead market. The pinhooker-transfer buyers' margin increased by \$1.77 per hundred pounds from 1957 to 1958 on farm-purchased tobacco, but decreased \$5.42 per hundred pounds on tobacco purchased on the warehouse floor during the same period (table 10).

Table 10.--Average purchase prices of individual pinhooker-transfer buyers on farms and at warehouses, and average warehouse sale prices, Maryland tobacco, 1957-58

Buyer number--	Average farm purchase price		Average warehouse purchase price		Average warehouse sale price	
	1957	1958	1957	1958	1957	1958
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1.....	50.45	40.90	38.23	34.79	49.48	46.64
2.....	42.03	29.16	33.87	34.68	48.23	39.69
3.....	47.44	46.01	36.60	40.29	51.01	50.75
4.....	50.15	42.99	34.48	36.29	54.12	49.29
5.....	25.12	43.09	37.53	35.33	49.82	49.10
6.....	45.50	43.48	34.35	58.32	51.06	49.08
7.....	40.82	44.98	37.94	40.30	48.08	49.92
8.....	46.84	42.04	33.32	34.90	49.78	48.59
9.....	53.81	---	36.20	---	51.95	---
Weighted average....	46.38	42.10	36.39	39.30	51.05	48.54

This group of speculators had a decrease in total gross profits from the 1957 period because of a reduction in the number of pounds purchased and margin of profit per pound.

Warehousemen

Tobacco auction warehouses have traditionally bought part of the tobacco sold at auction. Warehousemen bid on tobacco for either of two reasons: (1) To support the price when they think it is too low, or (2) to make a speculative profit. It is usually impossible to determine which purpose the warehouseman has in mind in buying a given basket of tobacco.

Market-supporting purchases keep tobacco prices in line with prices received at competing warehouses. This attracts and keeps the patronage of farmers. Warehousemen have been criticized for acting as agents in selling the farmers' tobacco while at the same time purchasing some of the tobacco. An undesirable feature of such trading is advice by the warehouseman to the farmer to accept or reject a bid, which is a common practice. This places the warehouseman in a position to advise the farmer to accept a bid that he has placed on the tobacco.

Tobacco purchased by the warehouse is handled under a "leaf account." The leaf account is managed by a "leaf man" who is responsible for purchasing, handling, and selling the tobacco.

The leaf man in burley and flue-cured tobacco areas is usually a partner in the warehouse firm. The warehousemen in Maryland generally hire leaf men from the burley and flue-cured areas. The most common agreement between the warehouseman and the leaf man is to share the gross profits from the leaf account equally, the leaf man paying the costs of operating the leaf account. Basket fees and commissions are not charged against the leaf accounts at the time the leaf-account tobacco is resold.

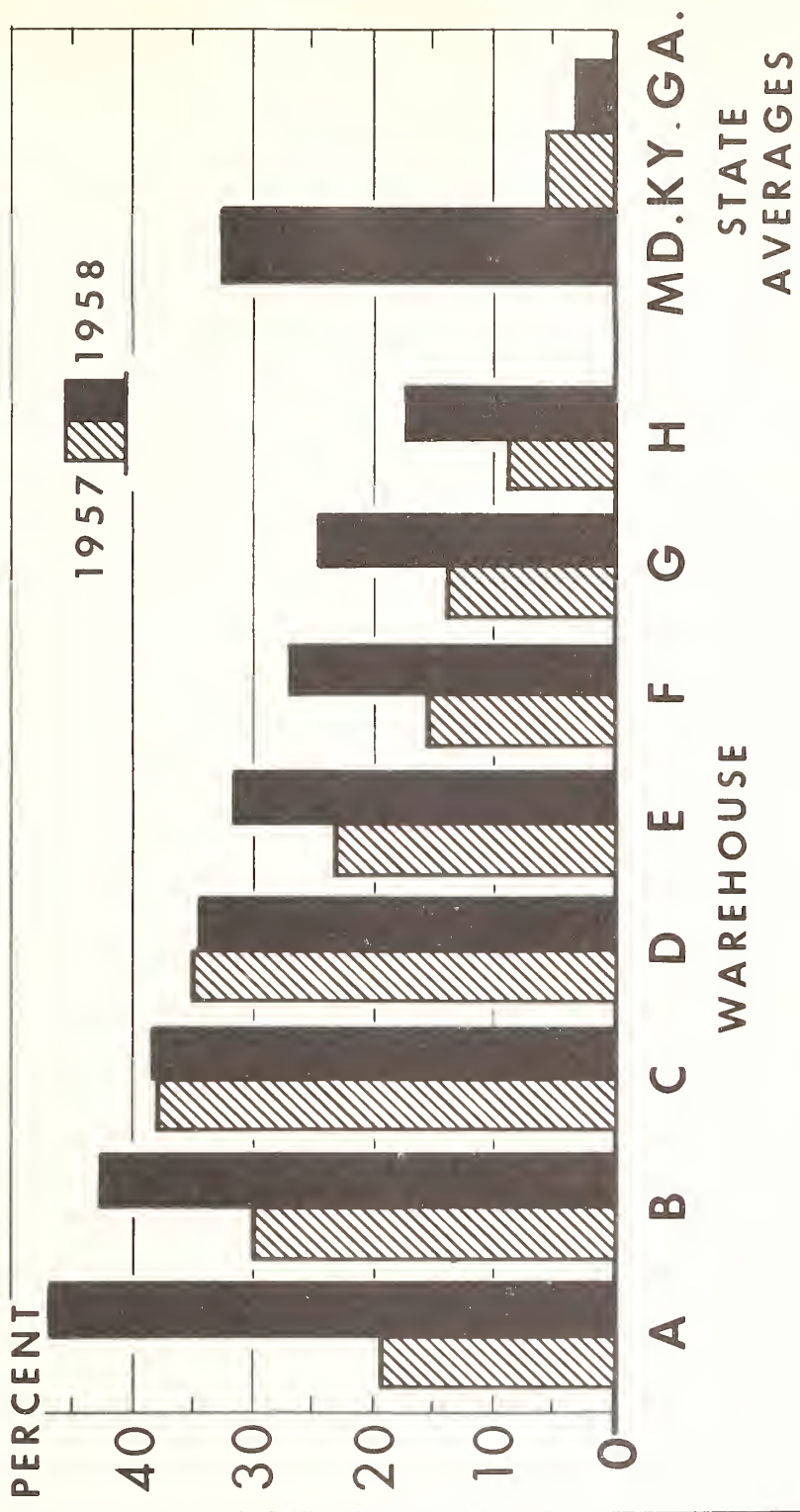
Leaf accounts may be evaluated by the following measures: (1) Percentage of producers' tobacco purchased, (2) gross margin per pound gain or loss, and (3) percentage of gross income of warehouse operator coming from the leaf account. The percentage of producers' tobacco sales gives the volume of tobacco handled under the leaf account, but it fails to disclose the purpose of the account. The gross margin gives a good indication of the main function of the leaf account, while the percentage of gross profits coming from the account indicates how dependent the warehouse operation is on the account.

Maryland warehouses increased in all three measures in 1958 compared with 1957 (table 11). The increase in gross margin was mainly responsible for the increase in percentage of gross income, because there was little change in the percentage of producers' tobacco purchased on leaf account.

Every Maryland warehouse except one increased the percentage of total gross income coming from the leaf account during the 1958 season (fig. 2). The percentage in Maryland is well above that in Georgia and Kentucky.

PERCENTAGES OF ESTIMATED GROSS INCOME COMING FROM LEAF ACCOUNTS

Tobacco Warehouses in Md., 1957 & 1958, Ga., 1958 and Ky., 1957



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Figure 2

Table 11.--Warehouse leaf accounts: Gross margins, proportion of income, and proportion of producers' sales going to leaf accounts, Maryland tobacco, 1957 and 1958 seasons

Year	Gross margins per cwt.	Proportion of producers' sales	Proportion of ware- house gross income
	<u>Dollars</u>	<u>Percent</u>	<u>Percent</u>
1957.....	7.49	7.56	24.3
1958.....	9.49	7.67	32.8

A comparison of Maryland warehouses with those of Georgia and Kentucky was made (table 12). The percentages of producers' tobacco purchased on leaf accounts are similar for all three States, but the spread in gross margins per hundredweight brings the profits from Maryland leaf accounts considerably above those in Georgia and Kentucky. Using the three evaluations of a leaf account mentioned above, it appears that Maryland warehousemen use the leaf account more for a speculative profit than to support prices.

Table 12.--Tobacco warehouse leaf accounts: Gross margin, proportion of income, and proportion of producers' sales going to leaf accounts, Kentucky ^{1/}, Maryland, and Georgia, 1958

State	Gross margins per cwt.	Producers' sales	Gross income
	<u>Dollars</u>	<u>Percent</u>	<u>Percent</u>
Maryland.....	9.49	7.64	32.8
Kentucky.....	3.73	5.24	5.7
Georgia.....	1.43	7.52	3.2

^{1/} 1958 data from Kentucky not available, 1957 data used. Incomplete information indicates that little or no change occurred in 1958.

