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THE FLUE-CURED TOBACCO INDUSTRY—WHERE ARE
WE HEADED?

(By R. W. Tuggle, vice president, Universal Leaf Tobacco Co., Inc.)

The 1979 Flue-cured crop is now sold, and this seems to be a good time to take another look at our leaf tobacco industry in an attempt to see where we are and where we are headed. I have listened to the Jeremiahs cite are the problems and predict the demise of the leaf tobacco industry now since the Great Depression; but, in all honesty, I must confess that never before have the problems appeared so numerous, so serious, so varied, or so resistant to solutions. I shall limit my remarks and data to Flue-cured tobacco for simplicity and brevity and also because the problems are most evident in this growth.

Let us look at some recent trends. In the period 1960-1964, world production of Flue-cured tobacco was about $3\frac{1}{3}$ billion pounds with U.S. production at $1\frac{1}{3}$ billion pounds or 41 percent (exhibits A and A-1). In 1979, world production has risen to about 5 billion pounds and U.S. production is down to just under 1 billion pounds or 21 percent of the total. Had we maintained our share of world production, we would be raising 2 billion pounds and each grower's quota would be nearly twice as large as it now is. Think how many problems that would solve. Since the period 1972-1976, world production has risen nearly 9 percent; except for Japan's decline of about 3 million pounds, the United States is the only country of consequence that is down, with a 15-percent decline (exhibit B). Brazil, for instance, is up over 75 percent.

Production in the 1975 crop reached 1,415 million pounds, admittedly an overproduction; the 1979 crop will be near 1 billion pounds or down from the 1975 figure by over 400 million pounds. The effective quota in 1979 is 1,070 million, down 500 million pounds from the 1975 figure of 1,572 million pounds (exhibit C). This means that the farmers' poundage quota is now on average only two-thirds as much as it was.

The above data should compel everyone interested in the industry to give serious thought as to what all this is telling us. We should never forget the importance to the Southeastern United States of tobacco as a cash crop and the cash flow it creates. In 1977 the farm value per acre of tobacco averaged \$2,376 per acre compared to the following crops: Soybeans \$162; corn \$183; cotton \$303; peanuts \$509; tree nuts \$900 (exhibit D).

The above calls for a closer look at the more specific problems we face. In the problem solving process, I find certain procedural steps must be taken. One must identify and define the problem, then determine the cause of the problem, and finally seek a way to remove, modify, or correct the cause; otherwise, we tend to treat symptoms rather than the disease.

The concerns we all share can be grouped under five headings: Pool inventory; loss of U.S. share of world exports; decline in domestic use of U.S. Flue-cured tobacco; increase in imports of foreign Flue-cured; and leasing.

Stabilization Inventory.—It is not possible to discuss our industry without discussing the price loan support program. I know of no serious, responsible person who advocates a choice between the present tobacco program and no program at all. The program has served the entire industry well for decades; however, we certainly should be able to look at certain provisions of the program and seek modification of such provisions if improvements can be realized. This has been done many times in the past. The pool problem is simply that there is a large volume of overvalued tobacco in the pool inventory; for example, there are nearly 200 million pounds of down-stalk tobaccos that are costed and are priced above the world market. There is nothing wrong with these tobaccos as to quality, and they are certainly salable at competitive prices. However, the support price on these tobaccos was above the world market price. To comply with the mandatory price support level, it has been necessary to support some qualities or stalk positions at a level at which they were not price-quality competitive in the marketplace. The stabilization pool should serve to stabilize; that is, not as a buyer of qualities that are supported above the normal market level and therefore continue to be unsalable, but rather as a reservoir in which certain kinds of qualities of tobaccos can be placed when supply is abnormally large or demand abnormally weak. The pool serves the entire industry well in this respect, and I think it is generally agreed that the pool should contain several hundred million pounds of balanced inventory to assure a continuing supply in times of shortages. Without the pool inventory, we could not have begun to fill our foreign customers' needs in the 1977 crop year.

Exports.—Our exports have remained about level in absolute exported pounds over the last 20 years. In the period 1960–64, we exported 397 million pounds out of a world total of 772 million pounds or 52 percent. In 1978 we exported 455 million pounds—a record or near record—out of a world total of 1,300 million pounds, or 35 percent—a decrease of 17 percent in our share (exhibit E). If we had maintained our share, we would now be exporting 52 percent of 1,300 million or 675 million pounds—which is some 200 million pounds more than we are exporting. We supplied the United Kingdom with 50 percent of all imports of tobacco in 1968 and only 17 percent in 1977 (exhibit F). These data should compel us to look at our prices as compared to competing growths (exhibit I). In looking at U.S. export prices, we need to remember that the major portion of our exports is made up of higher priced qualities.

Domestic Usage.—Domestic usage of U.S. Flue-cured has fallen from 703 million pounds in 1973 to 575 million in 1978 (exhibit G). This is a decrease in domestic usage of over 125 million pounds from 1973 to 1978. In the period 1960 through 1964, U.S. Flue-cured comprised 54.9 percent of the leaf used in U.S. cigarettes and imported tobaccos 10.2 percent (exhibit H). In 1978, the U.S. Flue-cured had fallen to 42.5 percent and imported leaf had risen to 21.9 percent. The imported percentage figures include Oriental as well as Flue-cured and burley.

Imports.—Imports of Flue-cured tobacco have certainly risen in the 1970's. It is difficult to get a precise figure because the "scrap" category includes Oriental scrap as well as Flue-cured and burley. In 1960-64 domestic usage of unstemmed processing weight was 1,200 million pounds and remained the same in 1978. However, imported tobacco weight used increased from 123 million pounds to 265 million pounds (exhibit J). No one questions the fact that imports of Flue-cured cigarette tobaccos have increased materially. There should be no false hope that efforts to change the tariff classification and duty rate on Flue-cured scrap will stop these imports. This tobacco can be imported in the unstemmed form at an effective duty rate comparable to the present "scrap" duty. In addition, trade is a two-way street and restrictions on imports could result in retaliation by others and harm our exports. Since our exports far exceed our imports, the United States would only stand to lose in restricting trade.

Leasing.—Of the total effective quota in 1978, the percent of quota leased out reached 36.9 percent for all Flue-cured and about 60 percent for the Georgia/Florida belt (exhibit K). The producer knows the leasing problem better than anyone else in the industry. Reports of prices on leased pounds range up to 60 cents or 65 cents per pound for some counties in Georgia. The Department of Agriculture estimates cost of production using bulk curing barns at 79.1 cents per pound for 1979 not including cost of land, cost of leasing, or cost of management (exhibit L), and the support price for the 1979 crop is \$129.30 per hundredweight. This places support at about 50 cents per pound above estimated production cost. The basic quota has been cut 15 percent, 12 percent, and 2 percent since 1975, and the effective quota is 32 percent less than it was. The economic laws of supply and demand have pushed the price of leasing to the present levels; with the margin in the area of 50 cents or 60 cents per pound and a diminishing supply and increasing demand for quota, this was inevitable. If one assumes an average of 40 cents per pound on 40 percent of the crop, this averages 16 cents per pound for the entire Flue-cured crop. There is no competing foreign growth producer who has to carry this burden in his costs.

Everyone in the industry supports the tobacco price support program; it has worked to the advantage of the entire industry for decades. However, if it needs updating or if it has flaws or imperfections that are substantial, then corrections should be made to improve the program as has been done many times in the past when needed. The program should protect the producer against severe price declines, ensure an adequate supply of tobacco at a price-quality level that is competitive in world trade, and should stabilize the supply. Our present program is today meeting only the first of these criteria successfully. The program now is typified by rising prices and diminishing production. It seems our goal should be expanding production through increased sales to domestic and foreign manufacturers. Substantial increased sales would solve or certainly mitigate all the problems discussed.

The U.S. Flue-cured tobacco producer has assets or advantages unmatched in the world—the support of the USDA; the land grant colleges; county agents; extension services; ideal land and weather for production of his crop; political and economic stability unmatched which guarantees continuity of supply; and, last, the most competent, knowledgeable, productive farmer in the world who can produce

tobacco with inherent good quality, taste, and aroma found nowhere else. Given the chance, he can compete with any producer in the world.

With all these things in our favor, certainly answers to our problems can be found among the leadership of the farm organizations, the economic expertise in our agricultural schools, and our State and Federal Departments of Agriculture. I think we all recognize the fact that there are certain risks in any attempt to make statutory changes in our tobacco program. Perhaps we should be careful that such concerns or fears don't blind us to the economic and political dangers that might result from ignoring these problems and doing nothing.

EXHIBIT A

UNITED STATES AND WORLD PRODUCTION OF FLUE-CURED TOBACCO, 1955-78

[Amounts in million pounds (farm-sales weight)]

Period	Flue-cured		
	United States	World total	United States as percent of total
Average:			
1955-59	1,208	2,914	41
1960-64	1,335	3,305	41
1966	1,108	3,531	31
1967	1,263	3,859	33
1968	982	3,649	27
1969	1,053	3,823	28
1970	1,193	3,937	30
1971	1,078	3,918	28
1972	1,012	4,076	25
1973	1,157	4,404	27
1974	1,241	4,788	26
1975	1,415	5,100	28
1976	1,316	5,021	26
1977	1,130	4,977	23
1978 ¹	1,230	5,121	24

¹ Subject to revision.

Source: ESCS and FAS, USDA.

EXHIBIT A-1

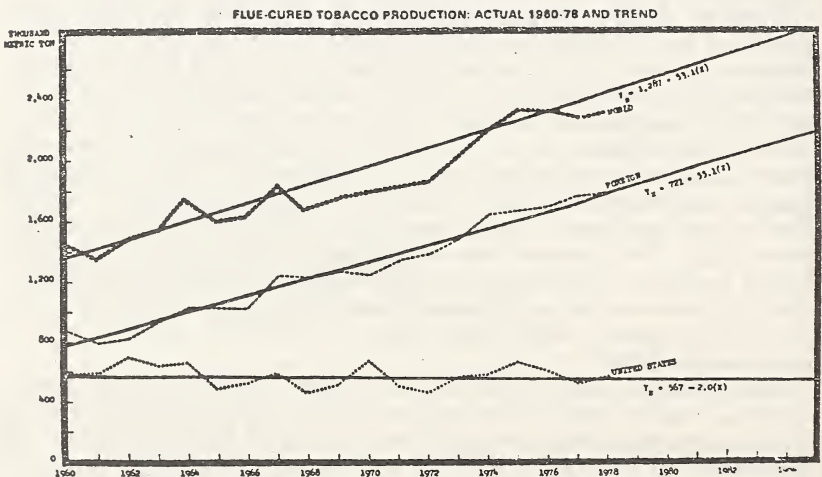


EXHIBIT B

FLUE-CURED TOBACCO: WORLD PRODUCTION IN SELECTED COUNTRIES, ACTUAL 1972-76, 1977, AND 1978, WITH ESTIMATES FOR 1979 ¹

[In thousand metric tons]

Country	1972-76	1977	1978 ²	1979 ³	Percent change, 1972-76 to 1979
China, Mainland.....	582	585	590	595	+2.2
United States.....	557	512	588	473	-15.1
Brazil.....	117	165	179	205	+75.2
India.....	123	95	134	135	+9.8
Canada.....	99	104	113	114	+11.6
Korea, Republic of.....	76	92	92	96	+25.8
Japan.....	91	102	100	88	-3.8
Rhodesia.....	78	80	77	87	+11.7
Thailand.....	28	48	46	48	+16.9
Other.....	362	460	439	456	+26.0
Total.....	2,113	2,238	2,328	2,297	+8.7

¹ Production on farm-sales-weight basis, which is about 10 percent above dry weight normally reported in trade statistics.

² Preliminary.

³ Estimated.

Source: USDA, FAS commodity programs.

EXHIBIT C

TABLE 9.—FLUE-CURED AND BURLEY TOBACCO: MARKETING QUOTA AND MARKETINGS, 1970-79

[In million pounds; Flue-cured, types 11-14]

Year	Quota		Marketings				Net carryover ²
	Basic	Effective	Actual	Over-quota	Under-quota	Effective under-quota ¹	
1970.....	1,071.5	1,190.8	1,178.2	65.1	71.2	63.4	-1.7
1971.....	1,071.6	1,069.9	1,076.3	60.4	49.9	45.8	-14.5
1972.....	1,071.2	1,056.7	1,022.1	41.2	72.9	68.1	26.8
1973.....	1,178.7	1,205.6	1,159.0	54.8	100.5	95.3	40.5
1974.....	1,296.6	1,337.1	1,245.3	50.0	138.9	132.4	82.5
1975.....	1,491.4	1,572.3	1,414.6	50.9	203.2	192.3	141.0
1976.....	1,268.1	1,409.1	1,316.0	49.4	139.9	130.2	80.8
1977.....	1,116.5	1,197.3	1,124.2	42.6	115.2	106.9	64.3
1978.....	1,117.2	1,181.5	³ 1,204.6	65.6	43.9	41.8	³ -23.8
1979 ³	1,094.0	1,070.2					

¹ Under quota marketing less ineligible carryover.

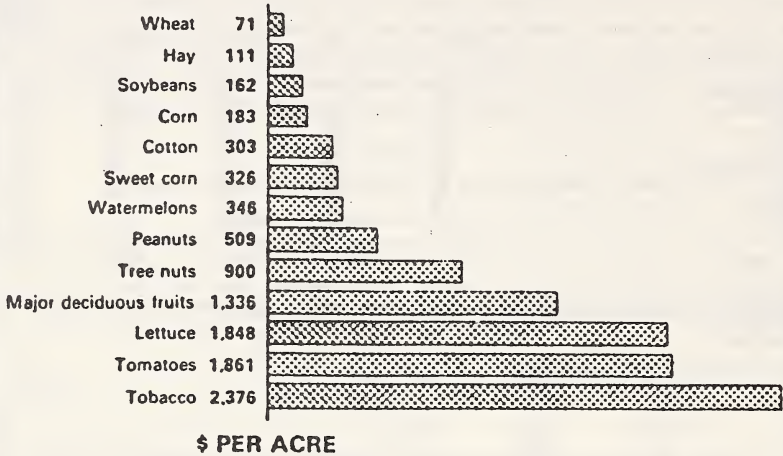
² Effective under quota marketings less over quota marketings.

³ Subject to revision.

Source: Compiled from records and reports of Price Support and Loan Division, ASCS.

EXHIBIT D

FARM VALUE PER ACRE FOR SELECTED CROPS, 1977



USDA

NEG. ESCS 2205-78 (9)

EXHIBIT E

UNITED STATES AND WORLD EXPORTS OF UNMANUFACTURED FLUE-CURED TOBACCO, 1955-79

[In million pounds; export weight ¹]

Period	Flue-cured		United States as percent of total
	United States	World total	
Average:			
1955-59	413	683	60
1960-64	397	772	52
1966	423	710	60
1967	427	750	57
1968	444	800	56
1969	430	845	51
1970	368	810	45
1971	342	893	38
1972	425	1,047	41
1973	418	1,049	40
1974	441	1,152	38
1975	391	1,010	39
1976	379	1,198	32
1977	412	1,226	33
1978	455	1,296	35
1979 ²	416	1,300	32

¹ Total excludes Sino-Soviet countries for 1955-73 period.² Subject to revision.

Source: ESCS and FAS, USDA.

EXHIBIT F

UNITED KINGDOM, TOBACCO: IMPORTS, BY MAJOR SUPPLIERS, 1968-78

[In million pounds]

Year	United States	India	Canada	South Korea	Brazil	Other	Total	United States as a percentage of—	
								Total	North American imports ¹
1968.....	165	52	44	1	0	66	328	50	76
1969.....	135	43	56	6	0	60	305	44	71
1970.....	117	41	47	13	1	61	280	42	71
1971.....	98	38	52	8	6	67	269	36	65
1972.....	120	37	59	19	8	65	298	40	67
1973.....	127	54	42	11	14	80	328	39	75
1974.....	104	65	65	22	16	90	362	29	62
1975.....	88	54	44	21	18	89	314	28	67
1976.....	78	55	35	26	32	93	319	25	69
1977.....	52	62	35	34	38	93	314	17	60
1978 ²	50	21	36	22	26	31	186	27	58

¹ United States and Canada.² January to June.

Source: Compiled from reports of commodity programs, Foreign Agricultural Service, USDA.

EXHIBIT G

PRODUCTION AND DISAPPEARANCE OF FLUE-CURED TOBACCO, 1973-79

[In million pounds; farm-sales weight]

Marketing year	Production ¹	Disappearance		
		Total	Domestic	Exports
1973.....	1,159	1,301	703	598
1974.....	1,245	1,200	652	548
1975.....	1,415	1,193	671	522
1976.....	1,316	1,148	634	514
1977.....	1,124	1,147	608	539
1978.....	1,204	1,185	575	610
1979 ²	1,040	1,085	515	570

¹ For the years 1973-78 the data represents sales.² Subject to revision.

Source: ESCS and FAS, USDA.

EXHIBIT H

ESTIMATED LEAF USED FOR CIGARETTES BY KINDS OF TOBACCO, 1950-78

[Percentage distribution]

Year	Flue-cured (percent)	Burley	Maryland	Imported	Total
Average:					
1950-54.....	58.2	33.3	2.0	6.5	100
1955-59.....	56.3	33.6	1.7	8.3	100
1960-64.....	54.9	33.6	1.3	10.2	100
1965.....	52.5	35.3	1.4	10.8	100
1966.....	51.0	36.2	1.6	11.2	100
1967.....	49.3	36.0	1.6	12.9	100
1968.....	48.5	35.8	1.5	14.2	100
1969.....	48.2	35.2	2.7	13.9	100
1970.....	48.2	35.0	2.4	14.3	100
1971.....	48.1	34.8	2.2	14.9	100
1972.....	47.2	35.0	1.4	16.4	100
1973.....	47.8	35.2	1.1	15.9	100
1974.....	46.7	34.9	1.0	17.4	100
1975.....	44.9	34.1	2.0	18.9	100
1976.....	45.6	33.6	1.8	19.0	100
1977.....	44.1	34.2	1.3	20.4	100
1978 ¹	42.5	34.0	1.6	21.9	100

¹ Subject to revision.

EXHIBIT I

FLUE-CURED TOBACCO: AVERAGE ESTIMATED EXPORT
 U.S.¢ per lb. PRICES, BY MAJOR PRODUCERS

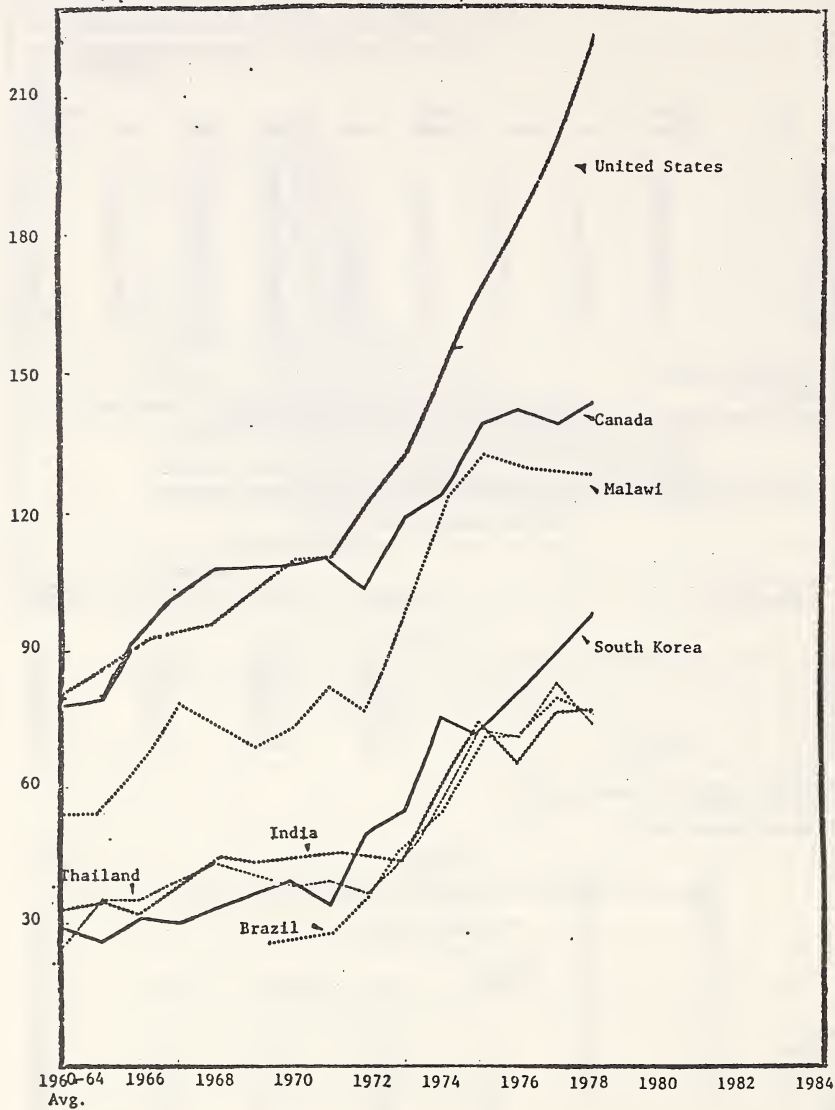


EXHIBIT J

ESTIMATED LEAF USED FOR CIGARETTES BY KINDS OF TOBACCO, 1950-78

[In million pounds]

Year	Unstemmed processing weight				Total
	Flue-cured	Burley	Maryland	Imported	
Average:					
1950-54.....	651	373	22	73	1,119
1955-59.....	622	371	19	92	1,104
1960-64.....	661	404	16	123	1,204
1965.....	643	433	17	132	1,225
1966.....	613	435	19	135	1,202
1967.....	587	432	19	154	1,192
1968.....	582	430	18	171	1,201
1969.....	546	399	31	157	1,133
1970.....	548	400	27	163	1,138
1971.....	532	386	24	165	1,107
1972.....	555	411	16	193	1,175
1973.....	588	433	14	196	1,231
1974.....	565	422	13	211	1,211
1975.....	548	416	25	231	1,220
1976.....	568	420	22	237	1,245
1977.....	522	406	16	242	1,186
1978 ¹	513	411	19	265	1,208

¹ Subject to revision.

EXHIBIT K

FLUE-CURED TOBACCO LEASE AND TRANSFER BY STATE, 1978 PRELIMINARY

State	Number farms	Effective quota (million pounds)	Number farms leased		Pounds leased (millions)		Percent leased
			In	Out	In	Out	
Alabama.....	273	0.9	45	200	0.5	0.5	57.6
Florida.....	7,163	24.0	876	5,756	16.5	16.5	68.9
Georgia.....	25,154	117.8	4,319	18,762	70.5	70.5	59.8
North Carolina.....	115,735	795.2	26,508	62,021	257.4	257.4	32.4
South Carolina.....	23,862	140.5	4,973	14,288	54.4	54.4	38.7
Virginia.....	20,907	103.0	4,031	10,739	36.0	36.0	34.9
Total.....	195,094	1,181.4	40,752	111,766	435.3	435.3	36.9

EXHIBIT L

TABLE 2.—ESTIMATED HARVEST AND TOTAL COSTS PER ACRE FOR FLUE-CURED TOBACCO, CONVENTIONAL BARN AND BULK BARN HARVEST SYSTEMS, 1978 AND 1979

Item	Unit	Quantity	1978 ¹		1979 ²	
			Price per unit	Value	Price per unit	Value
CONVENTIONAL BARN ³						
Preharvest costs				\$587.87		\$630.63
Harvest costs:						
Fuel	Gallon	408.0	\$0.47	191.76	\$0.47	191.76
Electricity	Kilowatt-hours	63.0	.052	3.28	.056	3.53
Twine	Pound	5.0	3.16	15.80	3.29	16.45
Sticks				7.38		7.38
Sheets				3.06		3.30
Tying machine ⁴	Hour	6.0	7.35	44.10	7.86	47.16
Tractor and equipment: ⁵						
Fuel	Gallon	47.2	.52	24.54	.67	31.62
Other				104.15		114.57
Barn ⁶	Acre	1.0	112.13	112.13	122.22	122.22
Marketing	Pound	2,100.0	(7)	76.23	(8)	81.27
Labor	Hour	175.0	92.53	442.75	92.75	481.25
Total harvest expenses ¹⁰				1,025.18		1,100.51
Total expenses ¹⁰				1,613.05		1,731.14
Cost per pound ¹⁰				.768		.824

TABLE 2.—ESTIMATED HARVEST AND TOTAL COSTS PER ACRE FOR FLUE-CURED TOBACCO, CONVENTIONAL BARN AND BULK BARN HARVEST SYSTEMS, 1978 AND 1979—Continued

Item	Unit	Quantity	1978 ¹		1979 ²	
			Price per unit	Value	Price per unit	Value
BULK BARN ¹¹						
Preharvest costs				\$587.87		\$630.63
Harvest costs:						
Fuel	Gallon	362.0	\$0.47	170.14	\$0.47	170.14
Electricity	Kilowatt-hour	840.0	.052	43.68	.056	47.04
Sheets				3.06		3.30
Riding primer ¹²	Hour	5.0	15.01	75.05	16.21	81.05
Tractor and equipment: ⁵						
Fuel	Gallon	36.4	.52	18.93	.67	24.39
Other				80.37		88.41
Barn	Acre	1.0	225.44	225.44	245.73	245.73
Marketing	Pound	2,100.0	(?)	76.23	(⁸)	81.27
Labor	Hour	105.0		265.65	⁹ 2.75	288.75
Total harvest expenses ¹⁰				958.55		1,030.08
Total expenses ¹⁰				1,546.42		1,660.71
Costs per pound ¹⁰				.736		.791

¹ Costs for 1978 taken from "Flue-cured Tobacco Production Costs—A Preview of 1978," Verner N. Grise, Tobacco Situation, TS-164, June 1978, pp. 29-32. A yield of 2,100 lb is assumed.

² Estimated costs of inputs primarily based on April and May 1979 input costs.

³ Costs are calculated for tobacco primed by walking primers, with the leaf put on sticks by tying machine and cured in conventional barn.

⁴ Fixed costs based on 72 hr annual use.

⁵ Tractor and equipment costs include a small and a large tractor. Mixed costs of machinery based on 500 hr annual use of small tractor and 750 hr annual use of large tractor. Fuel and other costs for hauling are included in equipment estimates.

⁶ Fixed costs based on curing 12 acres of tobacco annually.

⁷ 3 percent at \$1.21.

⁸ 3 percent at \$1.29.

⁹ Labor cost estimates based on wage rate increases for hired field workers from Apr. 9-15, 1978, to Apr. 8-14, 1979.

¹⁰ Excluding cost for land, management, and tobacco allotment.

¹¹ Costs are calculated for tobacco primed by tractor drawn priming aid and cured in bulk barn.

¹² Fixed costs based on 60 hr annual use.