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Further changes were made in the Federal Government's tobacco price support and production control program in 1983 and other changes are pending in the Congress that affect the price support level and lease and transfer of quotas and allotments. The U.S. tobacco outlook for 1984 is highlighted by reduced, yet large supplies and by declining demand, both domestic and export. While production is down 30 percent from last year this year's supply is down only about 5 percent because of large carryin stocks. The size of the 1984 crop will depend in part on USDA's decisions on quotas, which, under current law, have to be made by December 1 for flue-cured and February 1 for burley and other kinds. Basic quotas for both flue-cured and burley are likely to be reduced. However, effective quotas may increase from 1983 levels especially for burley, because quota carryover will increase substantially. The rise in effective quotas and average yields point to a larger crop next year. Prices may change little from this year, but the hike in production may be large enough to increase the total value of the crop.

#### Cigarette Sales Declining

Cigarettes are the dominant product of the tobacco industry in the United States and most other countries. U.S. cigarette output may drop to 685 billion pieces this calendar year, about 9 billion below 1982 and 52 billion below 1981. Cigarette consumption will likely drop for the second year in a row. Consumption per person in the United States, 18 years and over, may drop by 153 cigarettes (about 8 packs of 20) from 3,746 to 3,593. This would be the lowest since 1954. During the 1970's, cigarette consumption shifted toward low-tar brands, however, the shift has slowed. There was a slight decline in the low-tar percentage last year, and the proportion may decline a little again this year.

Despite an increase in the smoking age population, total consumption of cigarettes may increase only slightly in 1984 and will likely remain below the 1982 level. Per capita consumption is expected to decline again. Tax increases are primarily responsible for the expected small growth in total consumption and the expected decline in per capita consumption. The Federal excise tax was increased from 8 to 16 cents a pack on January 1, 1983, the first increase since 1951. Twelve States also raised State excise taxes in 1983 an average of about 4-1/2 cents a pack and one State added a 1-cent a pack surcharge per pack. Five States also removed sunset provisions of

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previous excise tax increases. State tax levies now vary from 2 cents per pack in North Carolina to 26 cents in both Connecticut and Massachusetts. The combined city and State tax is 29 cents a pack in New York City and 27 cents in Chicago, Illinois. Further State tax increases are expected to occur in 1984.

Antismoking publicity and legislation continue to affect the industry. Many states, cities, and counties have laws that either prohibit smoking in certain places or segregate smokers from non-smokers. The U.S. Department of Health and Human Services and voluntary health agencies are continuing efforts to discourage smoking. The cumulative effect of publicity and ordinances on smoking is uncertain, although it likely accounts for some of the downtrend in per capita consumption.

Wholesale cigarette prices rose 5 times the past 14 months, largely because of the doubling of the Federal excise tax. Retail cigarette prices jumped 26 percent from August 1982 to August 1983. Retail prices may go up by 12 percent in calendar 1983, compared with about a 3-percent increase in the overall consumer price index. Retail price hikes are likely to slow in 1984, and with an improved economy, this could slow the drop in per capita use and result in a small increase in total cigarette consumption.

#### Changes in Tobacco Per Cigarette Affect Total Use

Tobacco use in cigarettes remained relatively constant during the 1970's and in 1980 and 1981, despite the gain in cigarette output. For many years, manufacturers could economize in leaf use as they shifted to filtertip brands and used the whole leaf. Later, manufacturers began utilizing various leaf expansion processes and in recent years have used more imported tobacco to stabilize costs.

U.S. cigarette manufacturers used an estimated 1,201 million pounds of tobacco (unstemmed processing weight) in cigarettes in 1982. This was about 4 percent below 1981 because cigarette output declined. Use of both U.S. tobacco and imports declined. This calendar year, with cigarette output decreasing, perhaps 2 percent, manufacturers are likely reducing their total tobacco use.

Manufacturers used an estimated 1.73 pounds of tobacco (unstemmed processing weight) per 1,000 cigarettes produced in 1982, about 2 percent above a year earlier. Domestic flue-cured accounts for about 35 percent of the tobacco used in cigarettes, burley 33 percent, foreign grown 30 percent, and Maryland 2 percent. For many years the flue-cured share has declined as the imported tobacco share has risen. It appears that imports account for around 15 percent of the flue-cured use.

#### Consumption of Other Tobacco Products

Cigar and smoking tobacco consumption are trending downward. Consumption of large cigars in 1983 will total about 3.4 billion, 6 percent below 1982 and less than one-half the 1964 peak. Small cigar consumption may fall to 1.29 billion. Use of smoking tobacco in 1983 is down to 33 million pounds, a record low. Consumption of cigars and smoking tobacco may drop further next year.

Snuff production is up a little. Moist snuff production is up while dry output is down. Chewing tobacco production is down a little. The drop in plug production more than offsets the increase in loose-leaf production.

#### Tobacco Crop Much Smaller

Tobacco production is down 30 percent this year because of weather-related yield reductions and smaller effective quotas and acreage allotments. Because of weaker demand and lower quality tobacco, flue-cured prices changed little this year compared with a 12-cents-a pound hike last year. Flue-cured cash receipts from the 1983 crop are substantially lower. Net farm returns have been further squeezed by the cost of producing and selling flue-cured tobacco which rose about 5 percent per acre from 1982. Total costs per pound rose sharply because of the drop in yields.

As of October 1, the tobacco crop was forecast at 1.38 billion pounds. Despite the sharply smaller 1983 crop, the increased carryin means that total supplies for the 1983/84 marketing year are down less than 5 percent.

Price support levels for both burley and flue-cured tobacco and all other eligible kinds are the same as last year, under the legislation signed July 25. When burley auctions open later this month, prices may do well to reach last season's alltime high due to reduced quality of the crop. Cash receipts from the 1983 burley crop will drop sharply.

At the beginning of the 1983/84 marketing year, unsold tobacco held under Government loan totaled about 790 million pounds (farm-sales weight), about double that of a year earlier. The big jump resulted from 260 million pounds of flue-cured and 269 million pounds of burley being taken under loan from the 1982 crops. Loan takings from this season's flue-cured crop may exceed 130 million pounds. The takings this year, plus 1982 crop carryover, combined with holdings of older crops under loan, create a sizeable oversupply. Prices of much of the flue-cured tobacco loan takings exceed the cost of comparable tobaccos from other countries.

The 1983 flue-cured auction season is nearing completion with auction prices averaging \$1.79 a pound, about the same as a year ago. Some grade prices were higher, some lower.

Government price support is mandatory for tobacco produced under marketing quotas. Levels of support prices for 1984 are uncertain because of pending legislation that would freeze them at the 1982 and 1983 levels. The Senate has passed a bill to freeze 1984 flue-cured supports and keep price support differentials for other types in line with flue-cured and the House is expected to vote on a similar measure soon.

For eligible 1984 crops, the overall price support under basic legislation is likely to rise about 5 percent from 1983. This estimate is based on indicated changes in the parity index. But, under current legislation, the support increase can be held to 65 percent of the amount permitted under the basic price-support legislation. In 1984, price supports for various types of tobacco may increase a minimum of about 3 percent from the frozen 1983 level, depending on the supply and demand for the tobacco.

Even though this year's flue-cured crop is smaller than last year's, the large carryover is bringing only a 3-percent decline in the 1983/84 supply from last year. The flue-cured effective quota was reduced by 3 percent this year. With considerably lower yields and a smaller acreage, growers may sell 15-percent less in 1983 than in 1982. Because of excess production in 1982, 37 million pounds of 1982-crop tobacco was sold in 1983. A few growers may have tobacco in excess of their allowable 110 percent this year. Leasing is not authorized during the marketing season, so such tobacco will have to be carried over on farms, because Stabilization or other firms have no provisions for receiving or processing this tobacco.

Under the acreage-poundage program, USDA is required to announce the national marketing quota for the 1984 crop of flue-cured tobacco by December 1, 1983. However, there is legislation pending that would change the announcement date to December 15. The 1983 quota was 910.5 million pounds, or about equal to prospective use. Still, current supplies equal about 3.3 year's use, compared with the desired supply of 2.4 years, as provided for in the legislative formula. Because this season's marketings will fall below 1983's effective quota, the effective quota for 1984 will be higher than the basic quota.

The 1983/84 supply of burley tobacco is about 5 percent below last season. Carryover stocks on October 1 were 17 percent above a year ago. This year's crop is 44 percent below last year's record large crop. Acreage was down 15 percent but yields are off 34 percent. USDA regulations allow the crop to be sold in bales, sheets, or hand-tied. Most of the crop will likely be sold in bales or sheets. Due to reduced demand, both domestic use and exports will probably be lower than in 1982/83. Carryover stocks next October will likely decline about 100 million pounds.

Legislation relating to burley tobacco requires that the national quota be at least 90 percent of the estimated disappearance for that year and at least 90 percent of the previous year's quota. With disappearance in the 590-to-605 million-pound range the last two years, the 1984 marketing quota may be reduced from this year's 647 million pounds. The 1984 effective quota will increase because of this year's underproduction.

Among other types of tobacco, supplies of fire-cured, dark air-cured, Southern Maryland, and cigar tobaccos are all down. However, adequate supplies of these types are available and dark air-cured supplies are excessive. Producer referendums will be held early in 1984 to determine if growers of cigar binder (types 51-52) and cigar filler and binder (types 42-44, 53-55) desire acreage allotments for their next three crops. About one-fifth of the Maryland (type 32) tobacco, a non-quota kind, was produced in Pennsylvania this season outside the traditional Maryland belt.

#### 1983 Tobacco Legislation and Prospective Tobacco Program Changes

Legislation signed on July 25, 1983 froze 1983 tobacco price supports at their 1982 levels (Public Law 98-59). The legislation also included two provisions dealing specifically with burley tobacco. One provision allows the Secretary of Agriculture to reduce burley quotas by as much as 10 percent in any one year, if necessary, to control overproduction

(previously, the maximum reduction permitted was 5 percent). The second provision directs the Secretary of Agriculture to determine whether imports are interfering with the U.S. price-support and production-control program if (1) the support level is frozen or increased by less than 65 percent of the amount estimated under the current formula or (2) if stocks of burley tobacco under loan exceeded 20 percent of the marketing quota. Both exist and an Interagency Committee is being formed to ascertain whether or not there has been damage. If the study indicates interference, corrective action would be recommended to the President.

On October 7, the Senate passed a bill (S.1529/H.R.3385) that would make more extensive changes in the tobacco price-support and production-control program than does the legislation enacted in late July. The House Agriculture Committee has approved a similar bill (H.R. 1440), but the full House had not considered the bill as of October 21.

This legislation includes the following provisions:

- o Flue-cured price supports in 1984 would be frozen at the 1982 level. Price supports would be frozen again in 1985, if the 3-year moving average index of prices paid by farmers (including wage rates, interest, and taxes) increases less than 5 percent. Then, beginning in either 1985 or 1986, the increase in price support would move up or down from year to year based on the current formula, and the Secretary of Agriculture would retain authority to approve as little as 65 percent of any increase called for by the formula in any given year.
- o Beginning in 1984, the support price for burley and other types would be set so as not to narrow the normal price support differential between flue-cured and other types of tobacco.
- o The Secretary of Agriculture would have the authority to reduce price supports on less marketable grades of flue-cured tobacco. Price support grade reductions could occur for not more than 25 percent of the total flue-cured crop. The reduction could not exceed 12 percent of the rate that would otherwise be established. The reductions would not be included in determining the weighted-average support rates for eligible grades of flue-cured tobacco.
- o Lease and transfer of flue-cured quota would be abolished beginning in 1987. For the 1984 through 1986 crops, payment for leasing must be made after the tobacco is marketed. Beginning in 1987, flue-cured quota owners could (1) grow the quota on land to which the quota is assigned (2) rent the quota to an active grower, who would produce the crop on the land to which the quota was assigned. However, rental payments cannot be required until after the crop is sold or (3) sell the quota to an active grower in the county. The seller would be required to allow the buyer up to five years to pay for the quota.
- o Beginning in 1984, no more than 15,000 pounds of burley quota could be transferred to a single farm, instead of the current 30,000.

- o Imported tobacco would be required to undergo essentially the same type of grade and quality inspection as American tobacco. Pesticide content would have to be certified essentially the same way as for American tobacco.
  
- o Other provisions include giving the flue-cured Stabilization Cooperative greater flexibility in using no-net-cost funds to reduce loan stocks. The amount of quota authorized for new flue-cured growers would increase, and the requirement that quota holders who rent or lease out quotas pay the same amount as growers into the no-net-cost fund would be eliminated. For burley tobacco, leasing of quota would be prohibited after July 1 of the crop year for which the lease applies. For burley, when two or more tracts of land are located in contiguous counties, the quotas could be combined and operated as a single farming unit. The bills would extend the deadline from December 1, 1983, to December 1, 1984, for nonfarming entities to sell their tobacco quota. The latest permitted announcement date for flue-cured quota levels would be changed to December 15, instead of December 1. For burley and other types of quota tobacco, the announcement date for quota levels would be extended to March 1 from the current February 1.