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OUTLOOK 73



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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR TOBACCO FOR 1973 AND LONGER RANGE PROSPECTS

Talk by Robert H. Miller
Economic and Statistical Analysis Division
at the 1973 National Agricultural Outlook Conference
Washington, D.C., 3:00 P.M., Thursday, February 22, 1973

Demand for tobacco products is on the rise. At home, per capita cigarette use is picking up after a slump in 1968-69, and there is a flurry of cigarette-sized cigars. Overseas, cigarette output is rising too, boosting demand for light tobaccos. Rising demand spells gains for producers. In 1972 grower prices rose to a record high and surplus stocks were sharply reduced. This year with larger basic quotas, farmers are expected to harvest more tobacco so cash receipts should gain.

The looming question affecting outlook is, "How long will demand hold up?" The issue of tobacco's effect on health is still with us, and now is linked in the public's mind with wider issues of consumer protection and pollution. Overseas, our tobacco must clear a whole series of hurdles to maintain its place in the expanding world tobacco market. Before tackling the longer-range prospects for tobacco, let's first focus on the year just past and the months ahead.

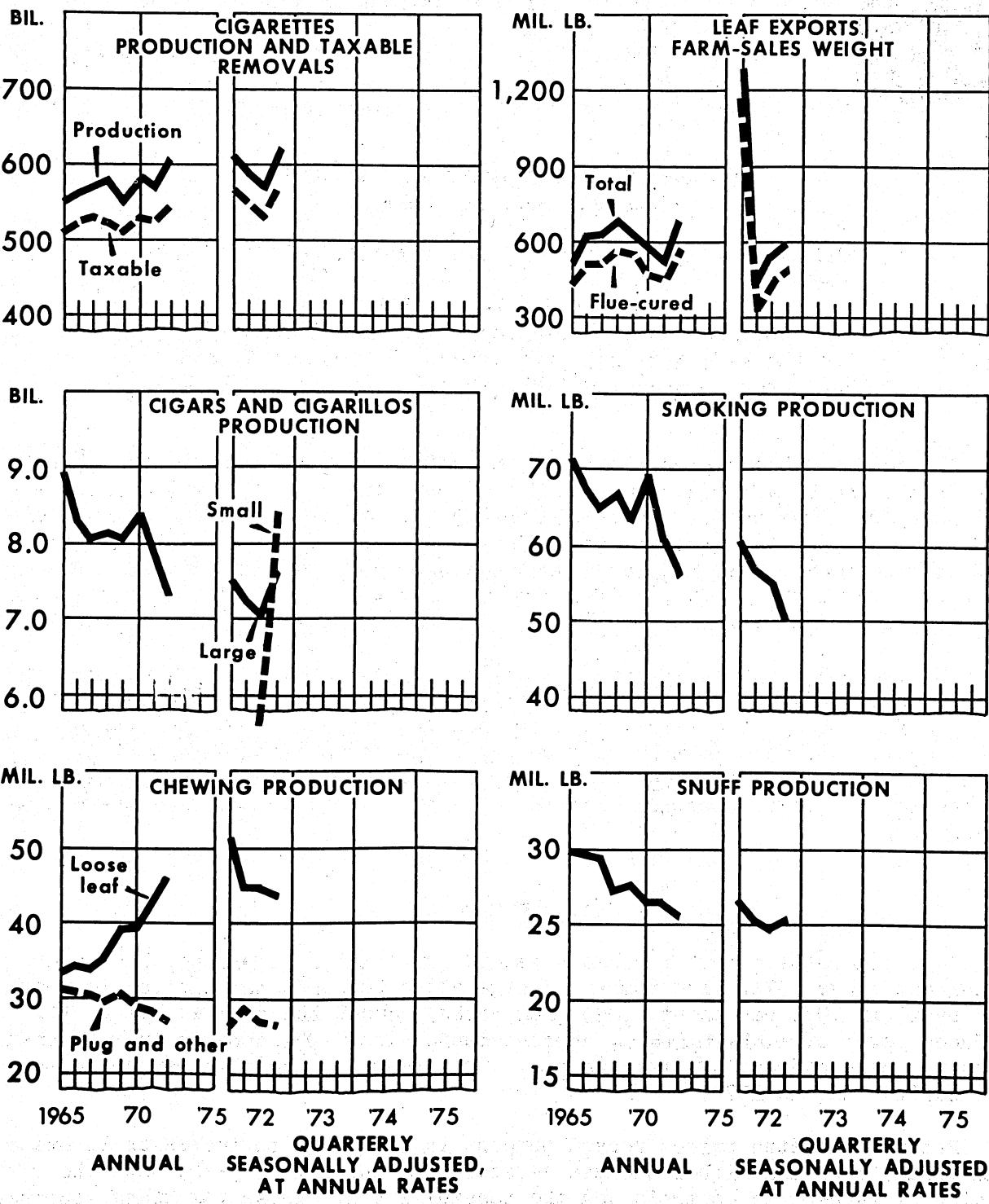
Tobacco Products

U.S. cigarette output reached a record 599 billion cigarettes last year, 4 percent above 1971. The number of cigarettes consumed per capita, 18 years and over, in 1972 was about 4,050 (202 packs) about the same as 1971. The reduced level of anti-cigarette announcements since 1971 apparently more than offsets the broadcast advertising ban. This year U.S. smokers may smoke more per capita than in 1972.

Retail cigarette prices rose 5 percent in 1972, due to increases in State and local taxes and higher wholesale-retail margins. This year, with the easing of wage-price controls and the possibility of excise tax hikes, further price increases are likely. State excise taxes average 12.2 cents per pack and range from 2 cents in North Carolina to 21 cents in Connecticut. There are

TOBACCO OUTLETS

Trends in Manufactured Products and Exports



more people of smoking age, incomes are trending upward, and anti-smoking publicity remains at a lower level than a few years ago. So consumption may gain further in 1973.

Among other tobacco products, the biggest development last year was the surge of small cigars (cigarette size) as several new brands were extensively promoted. Output reached a record 4.0 billion and possibly cut into large cigar consumption in the low-price categories.

For large cigars, including cigarillos, consumption last year was about 7.28 billion, 7 percent below 1971 and 20 percent below the 1964 peak. Cigars from Puerto Rico accounted for 17 percent of U.S. large cigar consumption. Consumption per male 18 years and over was 109 large cigars, 9 percent below 1971. This year, small cigar consumption is expected to gain substantially, while large cigars will do well to hold their own. Proposed legislation would extend to small cigars the broadcast advertising ban currently applied to cigarettes.

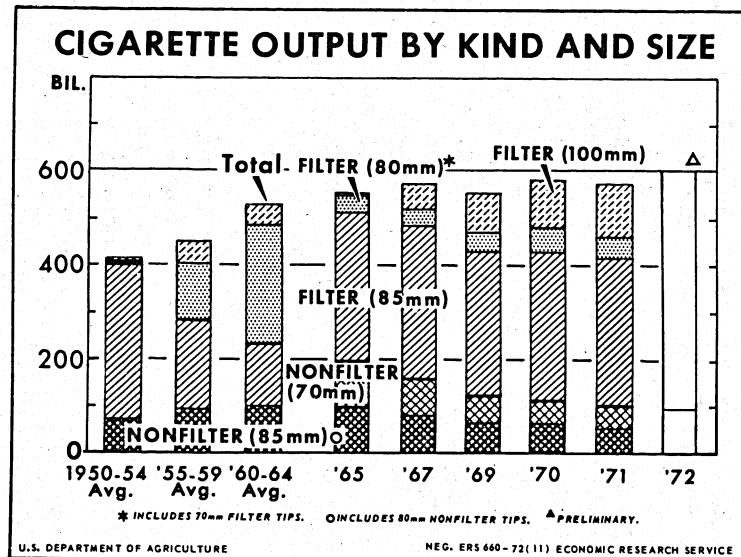
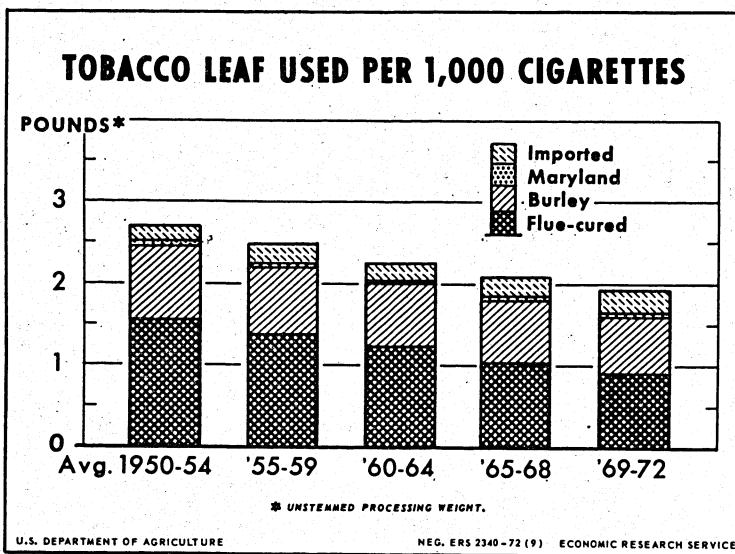
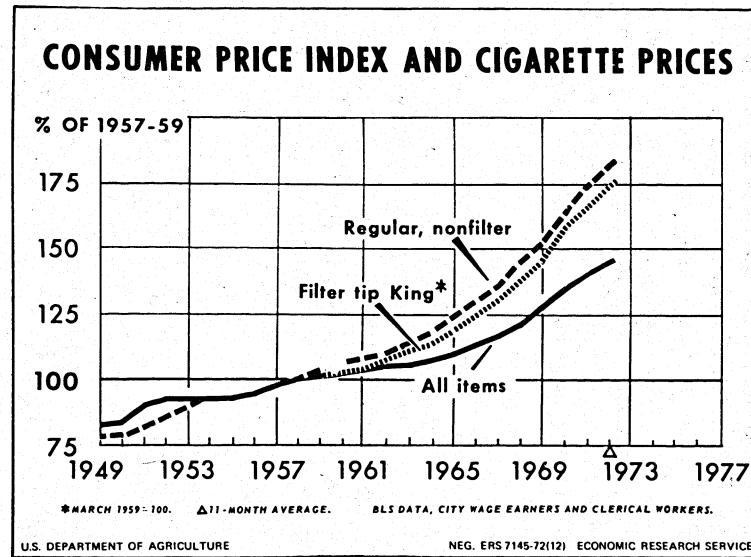
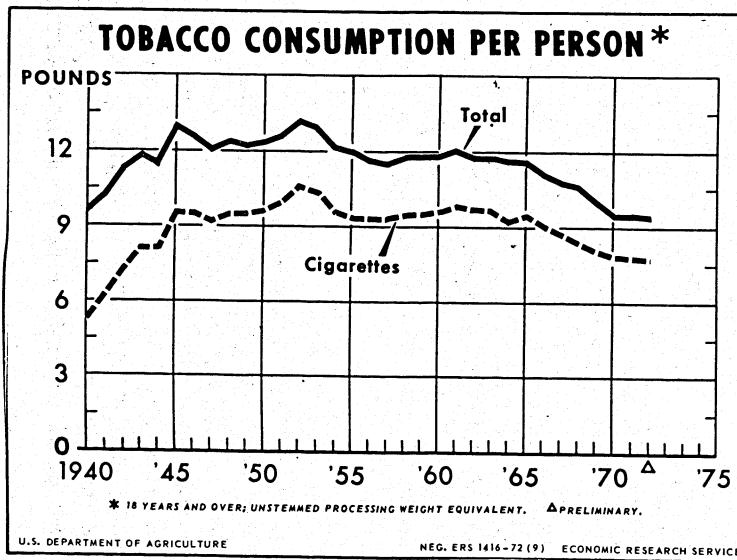
Smoking tobacco output in 1972 dropped to a record low of 56 million pounds, off 8 percent. Snuff output was down slightly. Use of these products seems likely to change little.

Chewing tobacco output was 73 million pounds last year, 2 percent more than 1971's level. Loose leaf output gained further while production of plug tobacco continued to decline. With outdoor leisure-time activities increasing and employment stabilizing in occupations noted for use of chewing tobacco, the pickup in chewing tobacco use is expected to continue.

Foreign Trade

U.S. exports of tobacco and tobacco products in 1972 of \$878 million jumped sharply over 1971 when dock tieups held the value to \$683 million and surpassed 1969's record \$696 million. Both unmanufactured tobacco exports and tobacco products reached record highs, \$639 million and \$239 million, respectively. In recent years leaf and product exports have taken about one-third of the U.S. tobacco crop. U.S. tobacco exports showed a \$719 million surplus over tobacco imports of \$159 million, thereby relieving some of the pressure on the overall U.S. balance of payments problem.

Unmanufactured tobacco exports in 1972 totaled 606 million pounds, (682 million, farm-sales weight) 30 percent above 1971 when a dock strike held down the total. Exports in 1973 are expected to follow a more normal shipping pattern and fall from the expanded 1972 level. Our major market, the United Kingdom, is maintaining usings of U.S. tobacco. Last year even less went to the European Community (EC) countries compared to the low 1971 level. Japan bought about the same amount from the 1972 crop as the previous season, but 1971's shipping difficulties caused a substantial bulge in last year's exports. Besides gains in most leaf categories, shipments of stems increased substantially to swell the 1972 total.



Before 1966, Rhodesia was our main export competitor. But Rhodesia and the United Kingdom have not yet settled their 7-year political dispute and the U.N. sanctions against Rhodesia continue. Rhodesia's crop this season has been affected by a widespread drought. Last year U.K. manufacturers increased their purchases of U.S. tobacco when Rhodesian tobacco was not available, but they also took more from lower-cost Commonwealth supplies. U.K. tobacco consumption recovered after 1971's decline that reflected consumer reaction to a smoking and health report.

Addition of the United Kingdom, Denmark, and Ireland, means that these new members come under provisions of the EC's Common Agricultural Policy (CAP) for tobacco. This policy provides: (1) High support prices without effective production control; (2) premiums or rebates for buyers of EC produced leaf; (3) a tariff which discriminates against high-quality, high-priced imported leaf; (4) duty-free status for associated states and preference areas; (5) provisions for export subsidies on EC produced leaf; (6) harmonizing various excise tax formulas and rates, and (7) continuation of tobacco monopolies in France and Italy. The United States hopes to reduce the adverse effect on our tobacco exports in forthcoming GATT examinations and negotiations.

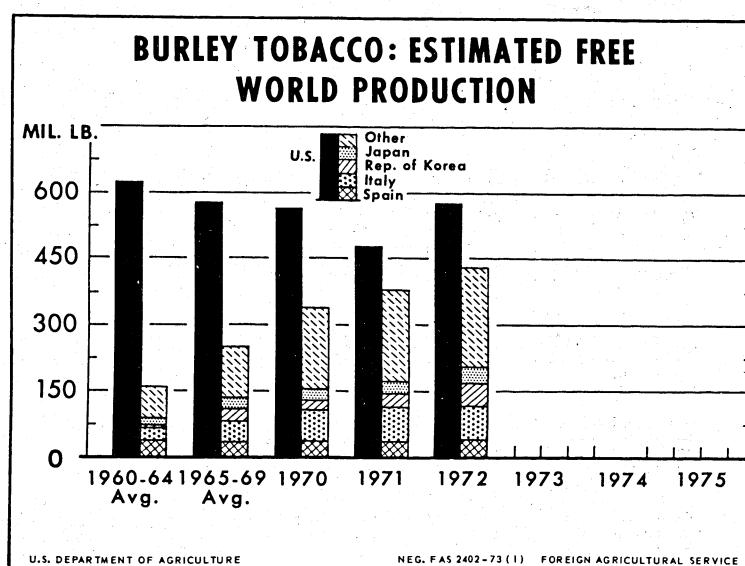
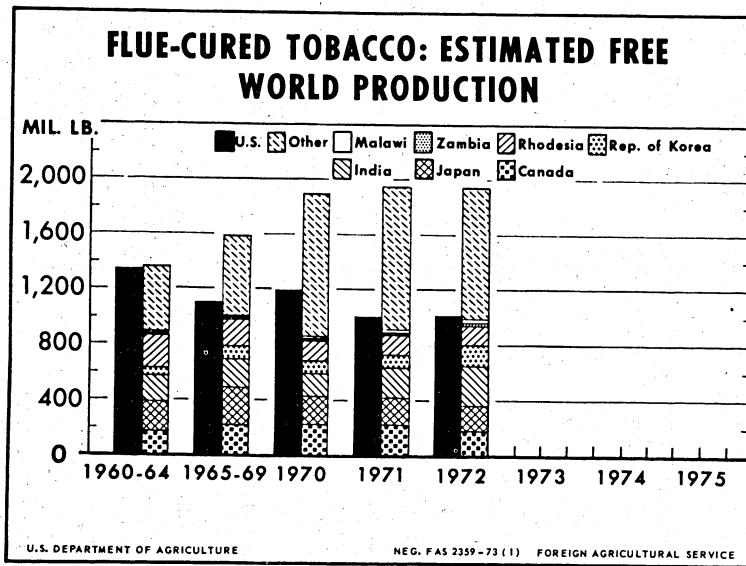
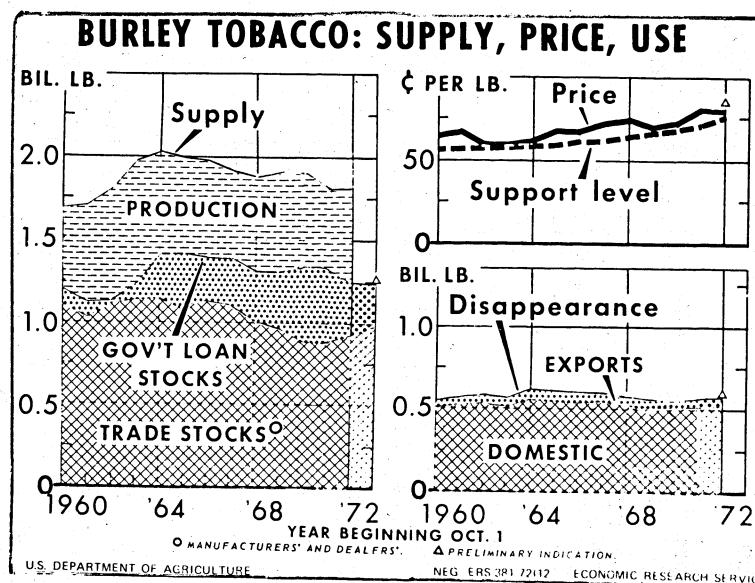
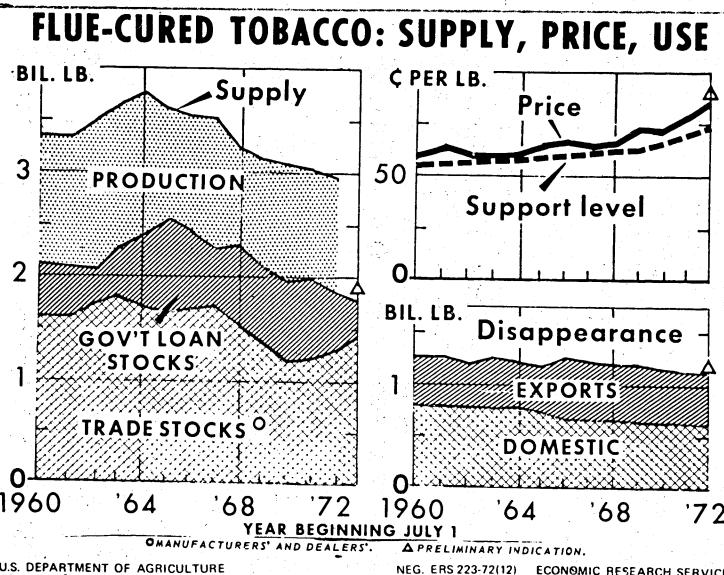
World cigarette production continues to rise and the demand for light tobacco for blending--primarily flue-cured and burley--is gaining outside the U.S. Last year's foreign flue-cured and burley crops expanded. Rising U.S. prices and improving quality by overseas producers means intense competition for U.S. tobacco in world markets. U.S. barter and short-term credit programs help to sustain our exports.

The U.S. export payment program for tobacco will be terminated effective with the 1973 crop. However, under terms of the program, exporters may enter into contracts with the Commodity Credit Corporation for 90 days following the formal termination notice (this spring) to export with payment within 48 months specified quantities of tobacco from 1972 and older crops.

Imports: The United States is the third largest tobacco importing country. U.S. cigarette and cigar manufacturers blend foreign tobaccos with domestic types. For cigarettes, oriental leaf is the principal kind of import; imports for consumption (factory use) last year dropped 7 million pounds to 157 million. In addition, 18 million pounds of scrap, primarily oriental, and 7 million pounds of imported flue-cured and burley leaf were used.

Cigar tobacco imports are mainly filler tobacco, including scrap. The Philippines is our leading source. Last year importers brought in 54 million pounds (for consumption) down 6 million from a year earlier.

Imports accounted for about 19 percent of U.S. manufacturers' tobacco utilization last marketing year. (16 percent for cigarettes and 60 percent for cigars.) Large foreign stocks in the United States and substantial exportable supplies overseas will encourage continued high level factory use. Cost of imported oriental leaf, including duty, gives a sizable price advantage over domestic leaf.



Leaf Tobacco

The most notable developments for U.S. production in 1972 were increased domestic disappearance, brisk demand at flue-cured auctions, sizable reductions in loan holdings, continued low level of tobacco output, and record-high crop value. This year the basic burley and flue-cured quotas are higher. In total, growers are expected to produce substantially more tobacco. Price support levels will rise, helping growers to obtain prices near the past season's record high. Cash receipts should gain from last year's \$1.43 billion. Production costs are expected to continue to edge upward.

Growers raised 3 percent more tobacco last season. But lower flue-cured and burley carryovers reduced supplies for the 1972/73 marketing year by 3 percent. With a strong auction demand, the smallest volume of tobacco since World War II went under government loan. The average tobacco price of 82.5 cents per pound set a record high, 5 percent above 1971/72.

At the beginning of 1973, tobacco held under government loan, largely flue-cured and burley, totaled 805 million pounds (farm-sales weight) or 30 percent below a year earlier. The short crop in 1972, sizable sales for later delivery and rising cigarette output point to another significant decline in loan stocks. By the end of the fiscal year, stocks are expected to decline to 650 million pounds, the lowest level since 1962.

Government price support is mandatory for tobacco produced under marketing quotas. Price support levels for eligible tobaccos will be up 5.3 percent over 1972. The increase is required by law and results from a rise in the Parity Index (a measure of changes in prices paid by farmers, wages paid to hired labor, interest and taxes).

For flue-cured tobacco, a smaller crop and reduced carryover means total supply is down 4 percent. Growers sold 40 million pounds less than in 1971. Acreage decreased slightly and average yield per acre was down.

The 1972 flue-cured crop averaged a record 85.3 cents per pound, 8.1 cents higher than the previous year. Grade averages were higher and quality improved. Growers placed 2 percent of sales under Government loan, the lowest loan volume since World War II. This compared with 5 percent in 1971.

Last marketing year, exports of flue-cured (over four-fifths of total U.S. tobacco exports) dropped a tenth while domestic use rose 4 percent; the overall decline was 3 percent. For July-December 1972 domestic disappearance fell 6 percent below the year earlier period. Exports were up substantially due to more purchases by U.K. manufacturers and more normal shipping arrangements. Utilization prospects are favorable, but the season's disappearance may decline slightly from the 1971/72 level which was probably above actual use. This would still bring carryover down some 100 million pounds by next July.

For 1973, under the acreage-poundage program, USDA set the national flue-cured marketing quota at 1,179 million pounds, 10 percent above 1972. With the

Table 1.—Flue cured tobacco, types 11-14, and burley tobacco, type 31: Acreage, yield production, carryover, supply, disappearance, season average price, and price support operations, 1962-72

(Farm-sales weight)

Marketing year	Acreage harvested	Yield per acre	Production	Beginning stocks ¹			Total supply
				Manufacturers and other	Under loan	Total	
	Thousand acres	Pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
Flue-cured, types 11-14							
1962	729.8	1,930	1,408.4	1,704.1	377.0	2,081.1	3,489.5
1963	694.5	1,975	1,371.5	1,785.3	496.3	2,281.6	3,653.1
1964	627.6	2,211	1,387.8	1,689.5	696.9	2,386.4	3,774.2
1965	562.3	1,883	1,059.0	1,636.9	918.5	2,555.4	3,614.4
1966	607.0	1,825	1,107.9	1,602.5	836.4	2,438.9	3,546.8
1967	610.3	2,070	2,125.0	1,587.1	685.4	2,272.5	3,522.5
1968	533.0	1,841	2,995.6	1,528.1	773.4	2,301.5	3,297.1
1969	576.8	1,825	1,052.8	1,299.6	800.5	2,100.1	3,152.9
1970	584.1	2,042	2,178.1	1,227.5	744.9	1,972.4	3,150.5
1971	525.8	2,050	2,076.3	1,214.5	761.9	1,976.4	3,052.7
1972 ³	513.6	1,970	2,102.7	1,292.4	617.8	1,910.2	2,931.9
1973 ⁴			2,116.0	1,436.9	370.0	1,806.9	2,966.9
Burley, type 31							
1962	338.6	1,993	674.9	1,104.2	33.2	1,137.4	1,812.3
1963	338.5	2,231	755.1	1,133.5	94.4	1,227.9	1,983.0
1964	306.6	2,022	619.8	1,146.8	265.4	1,412.2	2,032.0
1965	277.1	2,116	586.3	1,099.3	316.4	1,415.7	2,002.0
1966	240.7	2,437	586.7	1,133.4	261.9	1,395.3	1,982.0
1967	237.7	2,274	540.6	1,104.8	276.7	1,381.5	1,922.1
1968	237.6	2,372	563.4	1,002.4	321.7	1,324.1	1,887.5
1969	237.7	2,488	591.4	975.7	340.8	1,316.5	1,907.9
1970	216.4	2,590	560.5	887.9	454.8	1,342.7	1,903.2
1971	213.5	2,213	472.6	882.4	468.4	1,345.8	1,818.4
1972 ³	231.0	2,547	2,582.7	920.9	327.6	1,248.5	1,831.2
1973 ⁴			566.0	969.2	280.0	1,249.2	1,815.2
Disappearance				Average price per pound	Price support level	Placed under Government loan	
Total	Domestic	Exports	Quantity			Percentage of crop	
	Million pounds	Million pounds	Million pounds	Cents	Cents	Million pounds	Percent
Flue-cured, types 11-14							
1962	1,207.9	777.0	430.9	60.1	56.1	237.2	16.8
1963	1,266.7	768.3	498.4	58.0	56.6	277.2	20.2
1964	1,218.8	774.7	444.1	58.5	57.2	285.6	20.7
1965	1,175.5	752.4	423.1	64.6	57.7	71.5	6.8
1966	1,274.3	687.2	587.1	66.9	58.8	74.6	6.8
1967	1,221.0	687.7	533.3	64.2	59.9	282.1	22.6
1968	1,197.0	671.7	525.3	66.6	61.6	128.8	12.9
1969	1,180.5	645.9	534.6	72.4	63.8	97.6	9.3
1970	1,174.1	640.1	534.0	72.0	66.6	144.2	12.2
1971	1,142.5	662.5	480.0	77.2	69.4	55.7	5.2
1972	1,125.0	4,655.0	4,470.0	385.3	72.7	24.3	2.4
Burley, type 31							
1962	584.4	530.9	53.5	58.6	57.8	63.5	9.4
1963	570.8	513.4	57.4	59.2	58.3	202.3	26.8
1964	616.3	560.6	55.7	60.3	58.9	110.4	17.8
1965	606.7	549.6	57.1	67.0	59.5	42.2	7.2
1966	600.5	544.1	56.4	66.9	60.6	62.5	10.6
1967	598.0	544.6	53.4	71.8	61.8	64.2	11.9
1968	571.0	516.1	54.9	73.7	63.5	56.2	10.0
1969	565.2	507.1	58.1	69.6	65.8	158.2	26.8
1970	557.4	503.0	54.4	72.2	68.6	47.7	8.5
1971	569.9	515.2	54.7	80.9	71.5	2.2	(⁵)
1972	4,580.0	4,528.0	4,520.0	379.2	74.9	622.9	63.7

¹ July for flue-cured; October 1, for burley. ²Sales. ³Subject to revision. ⁴Estimated. ⁵Less than .05 percent. ⁶Through February 9.

surplus reduced, the increase was needed to meet anticipated market requirements. The base quota plus 1972's net undermarketings gives an effective quota of about 1,213 million pounds, 14 percent above last season.

Burley tobacco supply in 1972/73 is $1\frac{1}{2}$ percent above the previous year. Carryover on October 1 was down but with more favorable weather, growers made up for 1971's short crop. The crop sold for 79.2 cents per pound, down 1.6 cents from 1971's record. Loan placements were 3.7 percent of sales.

In 1971/72 burley disappearance gained slightly with rising domestic use in cigarettes. With cigarette output on the upswing, domestic burley disappearance in this marketing year could rise further. Exports face further erosion with almost all foreign producers expanding output. But the recovery in U.S. burley disappearance means carryover stocks next October 1 will likely remain about unchanged.

Burley poundage legislation requires that the national quota be not less than 95 percent of estimated disappearance for that year. With a gain in disappearance indicated from the 570 million pounds in 1971/72, USDA increased the burley marketing quota by 5 percent to 560.5 million pounds. But 1973 farm quotas, reflecting 1972's undermarketings and overmarketings total about 588 million pounds, 23 million below last season's effective quota.

For other tobaccos, the current marketing year's supplies of fire-cured and cigar binder types are larger than last season, while supplies of Maryland, dark air-cured, cigar filler, and wrapper types are lower. Marketing quotas and acreage allotments for those kinds of tobacco under price support were announced in January.

Longer Range Tobacco Prospects

The last 2 decades have seen dramatic changes in U.S. farm production capacity and in the mix and organization of production and marketing. Both technological developments in production and changes in consumer demands have spurred the adjustment. Developments affecting tobacco were summarized in recent issues of the Tobacco Situation as well as at conferences in North Carolina and Kentucky. ^{1/}

Probably the number one problem facing the tobacco industry today relates to the smoking and health issue. The U.S. Public Health Service continues to collect evidence linking smoking to various diseases and disorders. Many questions remain about the cause-effect relationships, if any. Nevertheless, a warning statement appears on cigarette packages and in printed advertisements

^{1/} Bradford, G. L., et al, Tobacco Mechanization and Marketing, Agricultural Policy Institute Series 29, Raleigh, N.C., 1968; Bordeaux, A. Frank, Jr., and Brannon, Russell H., eds., Social and Economic Issues Confronting the Tobacco Industry in the Seventies, College of Agriculture and Center for Developmental Change, Lexington, Ky., 1972.

and a large segment of the population is convinced there is a serious health problem associated with cigarette smoking.

Unlike the situation in the early 1960's, the public concern over smoking and health is now related to a much broader social phenomenon in our society. This is the movement for more effective consumer protection, cleaner air and water, and better quality of life in general. To aim toward the goal of a safer cigarette, the tobacco industry has made numerous changes and adjustments in its products, and supported research that would more fully explain the implied hazards.

Production: Looking at the tobacco growing sector, the competitive position of U.S. production for both domestic use and exports becomes critical. Although there are about 531,000 allotment holders in the United States, the number of farms--as defined by the Census of Agriculture--that produce any type of tobacco was only 276,000 in 1969. About 75 percent of all tobacco produced is grown on 90,000 commercial tobacco farms--defined as those farms having gross sales of at least \$2,500--at least 50 percent of which is from tobacco.

The typical tobacco producer operates a small farm, depends on tobacco as his primary cash crop, and has a low level of income. Yet, growers accept some of the most stringent production controls of any farm sector and in the past 3 years quickly reduced pesticide residue levels to maintain overseas markets.

Still, compared to changes that have taken place in other parts of agriculture, the production process itself has changed little. Tobacco requires large amounts of hand labor, and remains one of the last major crops not yet completely mechanized. Lease and transfer provisions allow some consolidation of acreage within certain limits, but progress toward mechanized harvesting remains slow. Availability of family and low-priced labor and relatively high development cost of mechanized equipment impede mechanization.

In marketing tobacco, auction warehouses, the primary assembly and sales point, have sizable excess capacity and exhibit considerable variation in charges for services. Still, growers can sell quickly after harvest and the system apparently provides tobacco requirements adequately for most buyers. The trend of less farm grading, smaller price differentials between grades and many elements of a rationing system leaves many dissatisfied buyers and growers.

Prices: In the early 1950's U.S. tobacco sold for about the same as Rhodesia's, our chief competitor. By 1970, our export prices were about double those of most competitive foreign tobaccos and we had lost some of the edge on quality. The trend toward filter cigarettes worldwide affected not only leaf requirements but the kind of tobacco required as well. While the manufacturing and smoking characteristics of U.S. tobacco are rated favorably, for almost 2 decades overseas supplies of foreign-grown tobacco have been able to gain most of the increase in overseas cigarette tobacco requirements.

Tobacco prices represent a current outlay for buyers and an income to growers, and influence longer run decisions about production and use. Since the mid-1950's U.S. manufacturers have reduced the quantity of tobacco in a cigarette (leaf equivalent) by an average of 2 percent a year. This trend is primarily associated with the increased production of filter-tip cigarettes, which have a shorter tobacco column than most nonfilter brands. Greater use of leaf midribs and processed sheet tobacco and decreased cigarette circumference are also factors. In the future, cost reduction is possible through use of lower-priced imports, and manufacturing efficiencies as puffed, freeze dried, or synthetic tobacco.

For tobacco, government allotment and price support decisions are basic considerations that affect output and price decisions. For types of tobacco where at least two-thirds of growers voting in referendums favor marketing quotas, growers are eligible for price support. Researchers indicate that burley and flue-cured prices have been maintained at a level considerably above the free-market equilibrium level, and that the program has sharply reduced the year-to-year variation in prices. In the earlier years, tobacco obtained very favorable exceptions to the general parity computations. Before 1960, price support levels for major tobaccos were set at 90 percent of parity prices. Legislation in 1960 dampened the rate of increase in price supports compared with rises that would have occurred under the old formula.

Future developments: In the years ahead, the traditional marketing system could evolve to a more organized and rationalized basis, or contracting could develop between buyers and sellers as larger farm operations become more numerous. A vigorous domestic tobacco production industry means manufacturers have an assured tobacco supply and an important political alliance for legislative considerations of tax and health issues. Present price trends do not favor exports, and our share in export markets is expected to continue to decline. The potential domestic market for tobacco will increase in line with population and per capita income gains. So if the smoking and health concern declines over the decade ahead, per capita tobacco use may stay at recent levels. Domestic tobacco use will be tempered by manufacturers' willingness to use lower-cost supply sources, including imports. Alternative assumptions can mean U.S. growers will face a declining market. 2/

Many of these comments deal with tobacco as a commodity, yet the adjustment of people, growers, warehousemen, and buyers, may be sizable. As a significant number of tobacco growers attempt to improve their income position, almost inevitably many will choose to leave the industry, or supplement their present incomes. Some may find increases in other crop or livestock enterprises the most desirable alternative. For many, off-farm employment in the area where they now reside would be the most desirable. In the 10-State Southeastern tobacco producing area off-farm income in 1969 was equal to 50 percent of cash

2/ Miller, Robert H., "Tobacco and Tobacco Products Consumption for 1980," talk at 24th National Tobacco Workers Conference, Chattanooga, Tenn., Jan. 20, 1972, 16 pp.

farm receipts and substantially exceeded income from tobacco.

Finally, shifts in tobacco production among areas, as lease and transfer become more widespread, may mean shifts for communities in terms of population, tax base, and input-supplying businesses. Hopefully, the leadership of the industry as well as in the production areas will examine the alternatives and implement those offering the best opportunity.

