



CTGR

CENTER FOR TOBACCO GROWER RESEARCH

Quarterly Newsletter August 2010



A message from the Center

We had yet another year of great responses to the 2010 Annual Mail Survey of Current and Former Tobacco Growers with over 40 percent of participants returning a survey. With very little information on tobacco production available today, the Center for Tobacco Grower Research (CTGR) depends on people like you, with experience in tobacco production, to provide valuable information to help inform and support U.S. tobacco production. CTGR believes it is important not only to keep statistics on tobacco production but also to express the concerns and opinions of growers in the ever changing world of tobacco. We greatly appreciate your participation and hope you will find useful information in this newsletter and on our website where you will find the complete summary of survey results.

Thank you,
Jane Howell Starnes | Director for the Center of Tobacco Grower Research

About the Center

The Center for Tobacco Grower Research (CTGR) conducts timely research in the areas of tobacco production, economics, and markets that will provide information to support the U.S. production of burley, flue-cured, dark and other types of tobacco. CTGR collects information from over 8,000 tobacco growers from across the U.S. tobacco growing regions who volunteered to be a part of CTGR's database.

CTGR coordinates with other tobacco state universities who remain committed to providing tobacco producers and stakeholders with timely, unbiased transparent information about the industry. CTGR research and outreach are supported by grants from the tobacco industry and stakeholders. To find more information about sponsorship opportunities, please visit CTGR's website at www.TobaccoGrowerResearch.com.

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2010 Tobacco Survey Response

The 2010 CTGR Tobacco Survey was mailed to 8,354 current and former growers. The response rate was 42 percent with 3,516 returned surveys. Of the 3,516 returned surveys, 43 percent were active growers and 57 percent were former growers. Active growers from 13 different states responded, including: Florida, Georgia, Indiana, Kentucky, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, Wisconsin, and West Virginia. Much of this newsletter contains some of the results from the 2010 survey. For a full summary of the results please go to our website at www.TobaccoGrowerResearch.com.

2009 Acreage and Yields

The average acreage per farm increased from last year for burley and flue-cured tobacco while it decreased for dark tobacco. This decrease is due in large part to the dramatic drop in overall dark tobacco acreage from 2008 to 2009 (31% decrease in dark air and 13% decrease in dark-fired acreage). In 2008, dark tobacco was supplied in excess, leading to a reduction in demand in 2009.

Even though the average number of tobacco acres per farm for each type is increasing post-buyout, there still remains numerous small operations as the mode (the most commonly reported number of acres) is still relatively small for each of the four types (Table 1).

Table 1: Tobacco Acreage per Farm and Yields in 2009

| | Burley | Dark Air | Dark-fired | Flue-cured |
|------------------------------|--------|----------|------------|------------|
| Size (acres): | | | | |
| Average | 17 | 7 | 18 | 105 |
| Median | 8 | 4 | 10 | 67 |
| Mode | 2 | 2 | 3 | 20 |
| Yield (lbs per acre): | | | | |
| Average | 2,177 | 2,840 | 3,197 | 2,459 |
| Median | 2,200 | 2,800 | 3,200 | 2,500 |

Contracting

The majority (94%) of our active growers contracted their tobacco crop in 2009. Seventy percent of the growers contracted with only one company, while 24 percent contracted with more than one company. Flue-cured, dark air, and dark-fired growers were much more likely than burley growers to contract with more than one company. Only 16 percent of burley growers had more than one contract as opposed to roughly 50 percent of flue-cured and dark tobacco growers. However, it was burley growers who were most likely to grow tobacco without a contract (Table 2). Eight percent of the burley growers who participated in the survey reported that they did not have a contract in 2009. This is similar to the past three years with 9 percent of burley growers in 2007 and 7 percent in 2008 reporting not having a contract.

Table 2: Percentage of Growers with a Contract in 2009

| | Did you contract in 2009? | |
|-------------------|---------------------------|-----------|
| | % Yes | % No |
| Burley | 92% | 8% |
| Flue-cured | 100% | 0% |
| Dark Air | 98% | 2% |
| Dark-fired | 100% | 0% |

CTGR saw an increase in volume of phone calls this year due to the cuts in contracts and the rearrangement (openings and closings) of receiving stations. Cuts in contracts were seen for various reasons including the decline in the demand for tobacco products (mainly cigarettes). The tobacco industry is feeling the effect of increased federal and state taxes on tobacco products and the passing of smoking restrictions in most states. Companies are also experiencing more uncertainty now that FDA is involved in passing and discussing new regulations for tobacco products. The change in demand has primarily affected burley and flue-cured growers. The demand for smokeless products (dark tobacco's main end product) has continued to be strong as it appears that more consumers are switching to smokeless products.

Some growers were left without contracts due to the closing of receiving stations nearby. To stay informed about the changes, several growers requested CTGR post a listing of receiving stations on the website at www.TobaccoGrowerResearch.com. The list is still a work in progress, so if you know of any stations or auctions that are not listed, please let us know.

Marketing Issues

According to our survey, the most important marketing issues when selecting a buyer or marketing location was price. Price was followed by consistent grading by burley

and flue-cured growers and good communication from buying companies by dark tobacco growers. Over the past three years, growers have primarily selected the same top issues: price, good communication, consistent grading, and simple contract terms. However, this year, having a multi-year contract option was reported as one of the top four issues for flue-cured growers replacing simple contract terms.

There was an increase in the percentage of all growers who ranked consistent grading as "extremely important" in 2009 in comparison to past years, especially among burley and flue-cured growers. In 2008, 47 percent of burley growers and 58 percent of flue-cured growers ranked consistent grading as "extremely important" in comparison to 56 and 79 percent in 2009.

Labor

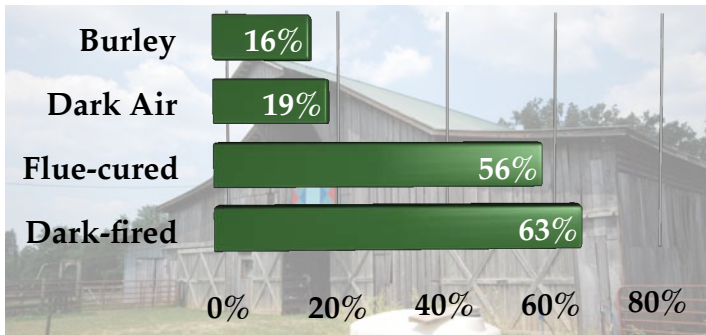
Labor is one of the most challenging and expensive inputs in tobacco production, accounting for over 30 percent of the production costs per acre. The 2010 Tobacco Survey asked growers if they have had trouble finding enough labor for their tobacco operation. Twenty-nine percent of growers indicated that they had trouble, with burley growers reporting the most trouble. This is a lower percentage than the past two years (2008 - 55%, 2009 - 41%). Anecdotally, some growers attribute this to the downturn in the economy creating more people looking for work and more willing to do farm labor than in the past.

Is labor becoming less of a problem? No! When we talk to growers about the issues they face each year, labor is still a top three issue, after price and uncertainty in the market place. Also, when growers were asked what was important in their decision whether or not and/or how much tobacco to produce in 2009, costs of labor was always reported in the top five. Forty-one percent of burley growers, 51 percent of flue-cured growers, 39 percent of dark air growers and 47 percent of dark-fired growers reported that the costs of labor were "extremely important" in their decision to grow or not grow tobacco and how much to grow.

So, maybe availability has taken a back seat (for the time being) to the costs associated with the available labor force in tobacco production. This certainly would be true for those growers using H-2A labor. These growers have access to available labor but have faced increased costs associated with rising hourly wages and added requirements for participation in the program.

The percentage of growers reporting that H-2A labor is an important source of labor for their farm increased from last year by 3 percent to 26 percent in 2010. Flue-cured (56%) and dark-fired (63%) tobacco growers were more likely to use H-2A labor in comparison to burley and dark air tobacco growers (Chart 1, on next page).

Chart 1: Percentage of Growers who Reported that H-2A Labor as an Importance Source of Farm Labor



Why are flue-cured and dark-fired growers more likely to have H-2A labor? The total number of hours required per farm for flue-cured and dark-fired tobaccos is greater because of the size of the operations and the intensity of labor per acre, respectively. Flue-cured farms require less labor per acre due to mechanization, however, they require more total farm labor because of their higher acreage. The average number of flue-cured tobacco acres per farm is 6 times larger than that of burley and dark-fired and 15 times larger than that of dark air. Dark-fired farms are smaller but require more labor per acre due to the nature of the crop.

Full-time growers with larger farm cash receipts were more likely to use H-2A labor. Growers operating farms with \$250,000 or more in farm cash receipts were more than 10 times more likely to use H-2A labor than those operating farms with less than \$10,000 in farm cash receipts and three times more likely than those operating a farm with farm cash receipts between \$10,001 and \$250,000. The median farm cash receipts for flue-cured growers was between \$300-\$400K and the median for dark-fired growers was between \$100-\$250K, while the median for dark air and burley growers was between \$50-\$100K and \$25-\$50K, respectively.

Also, growers who were more dependent on tobacco (50% or more of farm cash receipts from tobacco) were twice as likely as those who were less dependent on tobacco to use H-2A labor. One explanation for this could be that those growers who are more dependent on tobacco may tend to allocate more land to tobacco and use larger amounts of inputs for the crop including labor. Dark-fired and flue-cured growers reported being more dependent on tobacco (60-75% of farm cash receipts) than those who grew primarily burley and dark air tobaccos (40-50% of farm cash receipts).

FDA Updates

In the last newsletter, updates were provided about Tobacco Products Advisory Committee's (TPSAC) first meeting on the use of menthol in cigarettes on March 30-31, 2010. This issue of the newsletter continues with updates on the TPSAC's second meeting (July 15-16, 2010) that focused on five major menthol related topics facing the tobacco

industry. The five topics were identified during the TPSAC's first meeting and included: (1) Characterization of menthol in cigarettes, (2) Clinical effects of menthol cigarettes, (3) Biomarkers of disease risk for menthol cigarette smokers, (4) Marketing data on menthol cigarettes, and (5) Population effects of menthol cigarettes.

The industry's representatives who presented came from three different tobacco companies - Altria Client Services, on behalf of PM-USA, RJ Reynolds, and Lorillard - addressed a total of 17 questions identified under each of the five topics.

Menthol cigarettes were introduced in the 1920s and became popular between 1960 and 1970. According to the industry's reps, menthol is used in cigarettes as a flavor to address the taste preferences of some adult smokers, and the amount of menthol added to cigarettes is determined by consumers' taste preferences and product integrity guidelines. They also noted that menthol strengthens the taste of cigarettes.

The series of presentations made by the three major companies' representatives during the two-day meeting involved the sharing of general and technical information as well as marketing aspects and population effects of menthol cigarettes. The presenters concluded that the addition of menthol does not increase the inherent risk of cigarette smoking and that menthol does not increase cigarette dependence nor does it appear to play a unique role in smoking initiation and cessation.

There have been questions concerning the marketing strategies of companies and their menthol products due to the fact that menthol cigarettes are smoked in larger proportions by minority populations. However, the industry reps iterated that they are marketing their products to adult smokers, with no regard to ethnicity. The companies' marketing strategies are to persuade adult smokers to use their respective brands. They acknowledged that while menthol cigarette sales are declining, preference for menthol is slightly increasing in a declining market. However, they noted that trend is not explained by marketing or the amount of menthol in the product. They market their menthol cigarette brands using the same marketing approaches at retail as those they use for their non-menthol cigarette brands.

The overall conclusion of the industry's presenters differed from that of the FDA experts, who made presentations to the Committee on March 30-31, 2010, concluding that menthol, masking the harsh taste of cigarettes, would lure young people to begin smoking and make smoking cessation efforts more difficult.

Based on the presentations made by both the FDA experts in March and the industry's representatives in July as well as a review of the industry's documents submitted to the Center for Tobacco Products (CTP), the TPSAC will provide advice,

information and recommendations to the FDA Commissioner. To assist in the effort, CTP announced that a contract will be awarded to fund secondary data analyses of existing research studies on initiation, cessation, addiction and health effects of cigarette use to assess the impact of menthol cigarettes, as well as, analyze menthol cigarette sales data and develop a statistical model of menthol cigarettes' effects on initiation and cessation. Further, publicly available internal tobacco industry documents will be analyzed.

The Committee's report comprising recommendations to the Secretary of the Department of Human Health Services is expected by March, 2011. Within a year of its receipt, FDA will issue a rule on use of menthol in cigarettes, potentially including a ban on its use. TPSAC's next meeting is tentatively scheduled for August 30-31, 2010.

Other news from FDA...

As part of the effort to implement the Family Smoking Prevention and Tobacco Control act of 2009, the Food and Drug Administration (FDA) convened the Tobacco Product Constituents Subcommittee of the Tobacco Products Scientific Advisory Committee's meeting on June 8-9, 2010 for the first time and continued the meeting on July 7-8. The purpose of the meetings was to discuss the development of a list of harmful or potentially harmful constituents in tobacco products.

The findings of the subcommittee (a list of over 100 compounds or elements that have been identified as harmful or potentially harmful) will be presented to TPSAC for discussion on August 30, 2010. Should the list of constituents be banned or reduced, the effect on tobacco growers will depend upon identifying if the constituents are directly attributed to the type of tobacco, methods and inputs used in tobacco production or if manufacturers can address the issues at the manufacturing level through changes in design and manufacturing practices.

Arnold Hamm, the tobacco grower representative on the committee recently stated that "many of the compounds are pyrolysis by-products of burning tobacco that cannot easily be altered by tobacco production practices. Other compounds and elements, such as TSNA's and heavy metals may be altered by changes in production practices." He also states that so far, pesticides have not been addressed because pesticide residues are exempt from manufacturers having to identify them as ingredients. However, if they're found in sidestream or mainstream smoke and deemed harmful or potentially harmful, they could be added as constituents to the list.

For more information...

Arnold Hamm, quoted above, is the chosen representative for tobacco growers on the Tobacco Products Scientific

Advisory Committee. He has begun to send out email updates on the meetings to all who are interested. He has a front row seat to the happenings in Washington, D.C. and wants to keep growers and the industry informed of the discussions and decisions. If you would like to be included on Arnold Hamm's email list of updates, email him at arnoldh3151@ipass.net with your request.

World Health Organization

The World Health Organization's Framework Convention on Tobacco Control (WHO FCTC) is an international public policy treaty that was adopted by the 56th World Health Assembly on May 21, 2003 and came to effect on February 27, 2005. The document is available online at <http://whqlibdoc.who.int/publications/2003/9241591013.pdf>. The treaty has 168 Signatories, including the United States. However, the United States, along with a few other countries, has not ratified the treaty.

The treaty includes rules that govern the production, sale, distribution, advertisement, taxation of tobacco, etc. The key provisions of the treaty such as regulation of the contents of tobacco products, regulation of tobacco product disclosures, and packaging and labeling of tobacco products are similar to that of the Family Smoking Prevention and Tobacco Control Act of 2009 (FSPTCA) which became public law on 22 June, 2009, granting the Food and Drug Administration (FDA) a regulatory authority over tobacco products.

The Conference of Parties (COP) which is the governing body of the WHO FCTC convenes its fourth session in Uruguay in November of 2010. At this meeting draft guidelines associated with Article 9 (regulation of the contents of tobacco products) and Article 10 (regulation of tobacco product disclosures) will be deliberated.

Why does this matter...

The Article 9 Working Group makes recommendations on whether or not they should prohibit or restrict ingredients that may be used to increase palatability, such as sugars and sweeteners, flavoring substances, and spices and herbs, in cigarette-like tobacco products to other countries involved.

While the United States Congress adopted a similar provision in the FSPTCA, banning use of candy and fruit flavors and deferring the issue of menthol to FDA for further investigation, this recommendation in the FCTC is more open-ended, potentially prohibiting all ingredients used in cigarette blends. In other words, unlike the case with the FDA regulation which bans candy and fruit flavorings, the proposed FCTC guidelines may apply to all ingredients, potentially eliminating blended tobacco products from the marketplace which could pose significant challenges to burley tobacco growers in the U.S. and around the world. In the event of a ban on all ingredients, it is not unreasonable to

Continued on next page

argue that the use of burley tobacco in blended cigarettes can be at stake because of the potential unpalatability of burley tobacco in the absence of any ingredient.

A recent article published in the *Louisville Courier Journal* quoted six of Kentucky's congressional delegation who have written a letter to the Norwegian Foreign Affairs Minister who is playing a lead role in formulating the new guidelines. ([Link to article: www.courier-journal.com/apps/pbcs.dll/article?AID=2010307250025](http://www.courier-journal.com/apps/pbcs.dll/article?AID=2010307250025).) These congressional members are saying that the guidelines are a threat to the livelihood of American tobacco growers. They state that should the guidelines be adopted by the COP they could have a significant adverse effect on the export of burley tobacco - a particularly important market for burley growers, as the majority of U.S. burley is exported. Now that these draft guidelines are at the forefront of the global tobacco control treaty, they could introduce more uncertainty in an already uncertain marketplace for U.S. burley growers.

Shiferaw Feleke and Jane Howell Starnes

Center for Tobacco Grower Research

Who Grows America's Tobacco?

Ray Link Ray grows 22 acres of flue cured tobacco on his farm in Alton, Virginia. Ray was chosen for this article after his name was drawn from among the tobacco growers who returned the Center for Tobacco Grower Research's 2010 survey. With that draw, he won a free laptop computer. Congratulations to Ray and CTGR hopes that he enjoys the laptop as much as we enjoyed talking to him for this article.

In the 1990's Ray grew 35-40 acres and wishes that he could once again grow that much tobacco. He has grown tobacco all of his life, having bought his first car with tobacco money. In addition to growing tobacco, Ray has 100 brood cows, and 400 acres of hay. He is also involved in swine production and has three barns under contract with Murphy Farms. All this other agriculture notwithstanding, Ray says that tobacco is still the mainstay of his operation. He would not know what to do if he couldn't grow tobacco.

Family members provide some of the labor needed in his tobacco production. For additional labor, Ray would prefer to hire local workers, but they are not as dependable as migrant workers. As a result he generally hires two H-2A workers through the Virginia Growers Association because the association handles the paperwork and ensures that he meets all the requirements in the application process.

Ray would like to make some upgrades to his barns and equipment, but feels limited to those improvements he can pay for within a year. With the instability in contracts, Ray feels that larger investments are too risky at this time. He would love to raise more tobacco and mechanize his production, but without a multi-year contract he says it does not make much sense.

In today's climate, if a grower has a bad season and cannot fulfill the contracted poundage, that grower may be without a contract in the following year. "They want the exact poundage," Ray said. Four years ago he was with another tobacco company when frost took out 75 percent of his crop. The next year they cancelled his contract.

"You think you have good relationships with the company and then they let the computer make the decision as to who to cut," Ray said. "You don't know from year to year if you will have a contract."

With declining support for tobacco, the tobacco buyout was inevitable, Ray said. The biggest change since the buyout has been contracting with the tobacco companies instead of selling the tobacco on the auction market. He has no problem with the involvement of the companies in determining the inputs to use, especially if it makes for a better more marketable product.

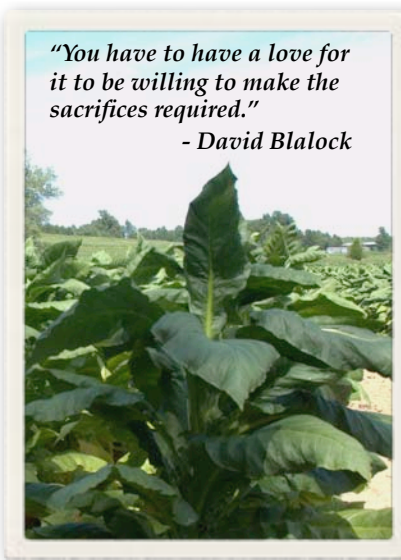
The thing he likes about the U.S. Tobacco Cooperative (with whom he contracts) is that they seem to want to stick with growers year after year. "They work to find customers for tobacco and look for export markets," Ray said. He believes the growing market seems to be on the international side.

Ray thinks it would be tough for a young person to start farming unless they were taking over a family operation. The challenges that new tobacco farmers face include land, equipment, labor, and securing a contract. "For a new farmer, it would be tough," Ray said.

Ray works full-time on the farm and his wife works full-time off the farm. Ray said, "farming is a way of life." He enjoys growing tobacco and the smell of the barns. He would like to see tobacco production continue. Over the years, tobacco has been good for the economy and

good for those who grew it. He also stated that the tobacco growers he knows still have pride in their production and are always striving to grow a desirable crop.

David Blalock "You have to have a love for it," David said as he described why he got into farming in the first place. "You have to have a love for it to be willing to make the sacrifice required," he said because "the years with the most work may not get the best reward. You have to take the risk."



David is a 50 year old flue-cured farmer with a diversified operation in Wilson County, North Carolina. He grows 150 acres of flue-cured tobacco, 1,000 acres of soybeans, 300 acres of corn, 200 acres of wheat, 30 acres of alfalfa, 30 acres of Orchard grass and 30 acres of coastal Bermuda.

Tobacco is the most flexible crop he grows, he said. It will come back after bad weather better than other crops. "It is the only crop that can be consistent year after year, David said, "but it requires a lot of labor and management." He describes tobacco as the backbone of his operation.

Growing up on a tobacco farm, he has been involved in growing tobacco all of his life and returned to the farm in 1979 after attending North Carolina State University. After returning, David began to introduce mechanization into his tobacco production and over time he has increased the level of mechanization a little bit at a time. David said that mechanization makes tobacco production more efficient and easier to manage.

He said that currently it is hard to make major investments in equipment used for tobacco production because the contracts are awarded for only one year at a time. When he does purchase equipment, he tries to pay it off as quickly as possible to minimize his risk. When asked what changes he would like to see in tobacco production, he replied that he would like to see multi-year contracts. That

would take the uncertainty out of equipment purchases and make it better for the lenders.

Like most tobacco growers, David noted that the availability of labor is the major constraint he faces at critical times. When asked about the biggest obstacle young growers face, he said, "pessimism". Young growers are told, "You can't make it." He said that when he was a young farmer he had to prove to himself that he could make it farming.

David said he has been hearing a lot about FDA regulations and he feels that it may be in the U.S. growers favor because of the accountability and tracking of the crop. The U.S. is a dependable producer and has a system for tracking to the farm level.

David contracts with Universal Leaf and said of the company, "they have been fair with us." They don't know what the demand is going to be; it can be a volatile environment. Loyalty goes both ways."

CTGR would like to thank Ray Link and David Blalock for their time and their thoughts. We are looking forward to talking with other growers across the tobacco regions.

Harwood Schaffer and Jane Howell Starnes

Center for Tobacco Grower Research

Your information is important and we want to thank you for sharing it with us. If you have other information or concerns you would like to share with us please do not hesitate to contact us toll-free at (866) 974-0414 or by emailing jhstarnes@utk.edu.

Please visit our website at www.TobaccoGrowerResearch.com for more summaries and information



The University of Tennessee
2021 Stephenson Dr. Suite 131
Knoxville, TN 37916-9914