

FLUE CURED TOBACCO QUOTA AND OUTLOOK FOR 2001

Russell W. Sutton and Dewitt T. Gooden
Extension Agricultural Economist and Extension Agronomist
Clemson University

2001 Flue-Cured Quota

The recent 2001 flue-cured basic quota announcement by USDA was close to expectations. After three years of massive quota reductions, there was a small but positive change in basic quota of one percent increase over last year. This quota level will serve as the basis of U.S. (and much of the world) flue-cured production for this next year. Given the present industry uncertainty and recent massive reductions, quota projections are especially important for South Carolina growers and industry.

The latest data are presented in table 1.

Table 1. U.S. Flue-Cured Tobacco Formula Data for 1994 - 2001.

<i>Item</i>	1994	1995	1996	1997	1998	1999	2000	2001
-----million pounds-----								
Buying Intentions	288.0	569.9	475.5	535.5	454.6	327.0	286.0	297.0
3 Yr Avg Exports	391.3	371.5	344.8	343.3	371.9	355.2	334.1	297.7
Total	679.3	941.4	820.3	878.8	826.5	682.2	620.1	594.7
Reserve Supply Level	133.8	120.4	140.2	131.0	146.1	121.1	100.0	100.0
Dec. Loan Stocks	316.8	98.3	59.9	5.9	188.5	157.6	192.9	161.8
Marketing Adjustment	-183.0	22.1	80.3	125.1	-42.4	-36.5	-92.9	-61.8
3 Part Total	496.3	963.5	900.6	1,003.9	784.1	645.7	527.2	532.9
Secretary's Discretion								
Quantity	-14.9	-28.9	-27.0	-30.1	23.5	19.4	15.8	16.0
Pct. Change	-3.0%	-3.0%	-3.0%	-3.0%	+3.0%	+3.0%	+3.0%	+3.0%
U.S. Basic Quota								
Quantity	802.6	934.6	873.6	973.8	807.6	666.2	543.0	548.9
Pct. Change	-10.0%	+16.4%	-6.5%	+11.5%	-17.1%	-17.5%	-18.5%	+1.1%

Buyer intentions were 11 million lbs. or nearly four percent larger than in 2000. The big loser and long-term concern is the average export value. This three year average was a disappointing 11 percent less. In the last five-year period, average exports have declined by about 9.5 million lbs. per year. Stabilization sold nearly 41 million lbs. prior to the announcement and was able to bring Dec. Loan Stocks down to around 162 million lbs.; had they not done this, 2001 Basic Quota would have been nearly seven percent less. Once again, the Secretary of Agriculture used the positive three percent discretionary adjustment.

Outlook For 2001

Among the major issues for next year are:

* **CONTRACTING** - Will the system go nearly all contract? After starting last year, more companies are starting to offer new contracts. Presently, rumored 2001 contract estimates range from 40-50 percent up to 80-90 percent. There will likely be a significant proportion of production under contract within the next two to three years.

A few grower contract questions being poised are: What is a good contract price? Should I wait or jump now? Should I require my renter to contract? I already have a partial contract, what about my other production? How large do I need to be to get a contract? I am located in a fringe county, can I get a contract? Will contract tobacco have price support? I have multiple farms - should I contract with only one company? Will this marketing contract lead to a controlled production contract in the future? Where will I sell my non-contract tobacco?

The Seriousness of Contracting: As this industry enters uncharted territory, it is hard to visualize the seriousness of this major system change. Will growers be able to switch at will? Based on other commodities, once a farmer chooses a contractor, it is generally permanent. Agricultural contracting in general has become more legal based and will likely continue to be even more complex in the future.

* **BARN REFURBISHING** - Based on current information, producers must have this completed before harvest. This entails additional expenses, finding the best manufacturer, and getting the system installed, calibrated, and operating within the next 180 days. What if a producer does not have barns retrofitted in time?

* **WAREHOUSES/MARKETING** - If contracting becomes the major production system, how many auction markets are needed? How will (can) price support and designation work? Will non-contract tobacco have to be transported long distances? Should the role of stabilization change? Would it be beneficial to the system if the co-op became a clearing house for non-contract tobacco or a source for export grades or even a buyer?

* **COSTS** - Especially of concern is the price of greenhouse, curing fuel and nitrogen. Unless the market changes soon, growers could be paying prices that are double or more from last year. Availability of labor is also a major issue for many. This could (will likely) mean a significant reduction in 2001 profits.

* **EFFICIENCY AND QUALITY** - It is reported that rental rates are generally becoming more tied to Phase II and other payments; if so, the cost of renting is mostly increasing. In the recent past, quantities have been significantly lower and costs have increased faster than market prices. From a long-term survival stand-point, producers must become as efficient as possible while maintaining quality. An example is the carry-over production from 2000. South Carolina has a "reported" (to FSA) carry-over of some 8.6 mil. lbs. or nearly 12 percent of effective quota.

* **POLITICS, PAYMENTS AND THE PROGRAM** - This may be the most important segment of this industry for next year. There will likely be a lot activity in this area in the near future. The recent vote on the program,

which passed with 97.6 percent in favor, will guide production for the next three years (unless there are program changes).

Are immediate changes needed to keep the program viable and functional? As national tobacco usage declines (triggers in Phase I and II) will future payments be reduced? How will the new administration treat tobacco?

Other Tobacco Data:

With all the industry changes, a review of selected data seems to be in order. Table 2 is a compilation of U.S. and S.C. flue-cured information.

Table 2. Other U.S. and S.C. Flue-Cured Tobacco Data

<i>Item</i>	1994	1995	1996	1997	1998	1999	2000	2001
U.S. Basic Quota (mil. lbs.)	802.6	934.6	873.6	973.8	807.6	666.2	543.0	548.9
S.C. Basic Quota (mil. lbs.)	100.1	116.6	109.0	121.5	101.5	83.2	67.7	68.5e
U.S. Effective Quota (mil. lbs.)	798.5	924.9	943.6	1,019.	819.6	671.5	560.5	543.0
S.C. Effective Quota (mil. lbs.)	100.0	115.1	111.9	120.4	99.8	82.9	72.0	67.8e
U.S./S.C. Support Price (\$/cwt)	158.3	159.7	160.1	162.1	162.8	163.2	164.0	166.0
No-Net-Cost Assessment (total)	6.418	1.004	1.200	0.380	0.372	1.000	5.000	5.000
Producer (cents/lb.)	2.209	0.002	0.200	0.190	0.186	0.500	2.500	2.500
Buyer (cents/lb.)	4.209	1.002	1.000	0.190	0.186	0.500	2.500	2.500
U.S. Placed Under Loan (mil. lbs.)	97.7	12.0	1.8	195.5	82.4	136.4	27.4	
U.S. Placed Under Loan (percent)	12.1	1.3	0.2	19.4	10.2	21.2	5.3	
S.C. Placed Under Loan (percent)	11.8	2.3	0.2	13.7	17.5	36.9	7.5	
S.C. Avg. Price Received (\$/cwt)	168.6	178.1	182.3	173.5	171.1	168.7	175.7	
S.C. Total Farm Receipts (mil. \$)	182.3	186.3	204.7	207.1	163.6	140.4	130.0	
S.C. Tobacco Acres (1,000 acres)	47.0	48.7	48.6	51.0	46.6	38.7	33.6e	
S.C. Tobacco Avg. Yield	2,300	2,150	2,310	2,340	2,050	2,150	2,200	