

U.S. Flue-Cured Tobacco Situation & Outlook

December 4, 2014

Dr. Blake Brown
Hugh C. Kiger Professor
Agriculture & Resource Economics
College of Agriculture & Life Sciences

Situation

Flue-Cured Acres Harvested:

	2010	2011	2012	2013	2014*
US	210,900	206,900	206,000	228,800	232,000
NC	166,000	160,000	164,000	170,000	181,000

*October 2014 Forecast. USDA-NASS

USDA-NASS Crop Estimates

Flue-Cured Production: (million pounds)

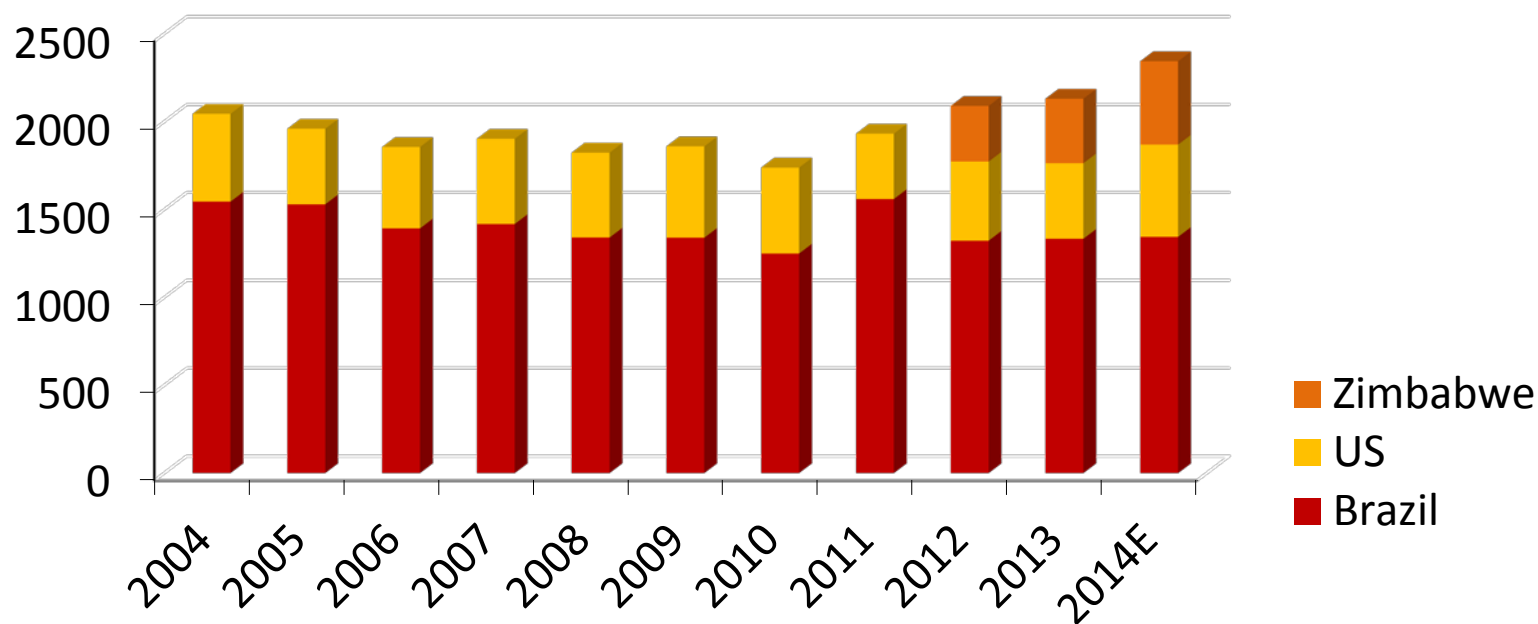
	2010	2011	2012	2013	2014
US	451	345	473	454	557*
NC	349	248	377	360	434*

*USDA-NASS October 2014 Estimate

2014 Flue-Cured Crop

- Global production was up
 - 2014 Brazilian crop was better than anticipated
 - 2014 Zimbabwe crop up 29% at 215 million kg (473 million lbs)
- Prices were lower than in 2013
 - US average price down
 - 2014 Zimbabwe prices down 14% at \$3.17/kg (\$1.44/lb)

U.S., Brazil and Zimbabwe Flue-Cured Tobacco Production



Source Brazil & U.S.: Universal Corporation. "World Leaf Production as of November 6, 2014."

Source Zimbabwe: Zimbabwe Tobacco Association "Weekly FCV Report 14.07.2014"

Outlook: *Major Trends in Global Tobacco Manufacturing*

1. Tobacco products will undergo a technological revolution over the next 5-10 years

- **Non-combustibles could dominate traditional combustibles in the U.S. and EU**
- **How new products are regulated and taxed will greatly impact their growth**

e-cigarettes

- Sales forecast to reach \$2.5 billion in U.S. in 2014
- but sales are slowing
- Vaping category showing dominance
- Health community remains divided
- Local regulation and taxation is mixed



e-cigarettes



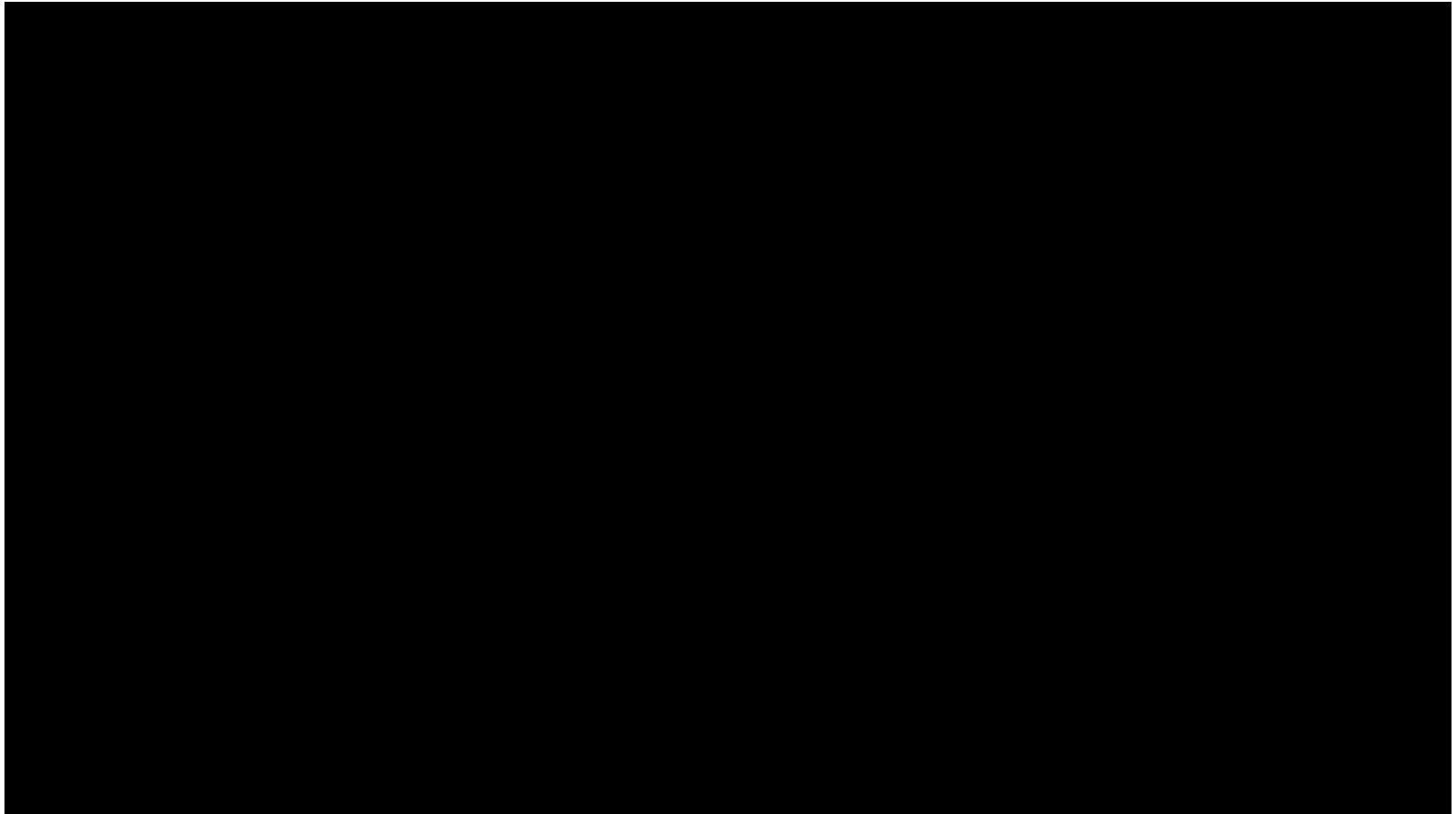
U.S. Food and Drug Administration
Protecting and Promoting *Your* Health

FDA has proposed deeming regulations

- New products must pass FDA review
- Minimum age restriction
- Register with FDA and report ingredients
- Only make reduced risk claims if FDA confirms evidence
- No vending machines if youth access
- Requirements to include health warnings

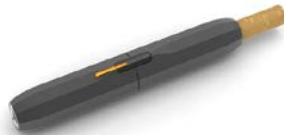
“heat-not-burn” products
CONTAINS TOBACCO LEAF

- ***Ploom***



PMI & Reynolds American introducing *“heat-not-burn” products*

- PMI introduces “Marlboro HeatSticks” in Japan and Italy
 - \$680 million investment in Italy reduced-risk factory



- Reynolds American to introduce heat-not-burn product in Wisconsin in February 2015

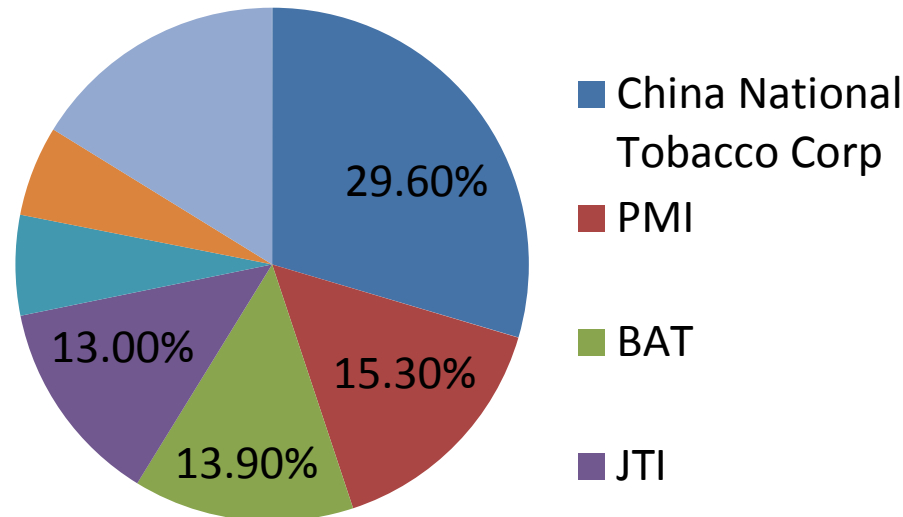
2. Traditional cigarette demand will remain strong, even growing, in Asia

- Global number of adults aged 34 to 64 expected to increase
- Global per capita income expected to grow

China's cigarette demand remains strong

- China National Tobacco Corp revenue forecast to have grown at 8.7% per year for last 5 years to \$156.5 billion

Global Market Share



Source: IBISWorld

China's cigarette demand remains strong

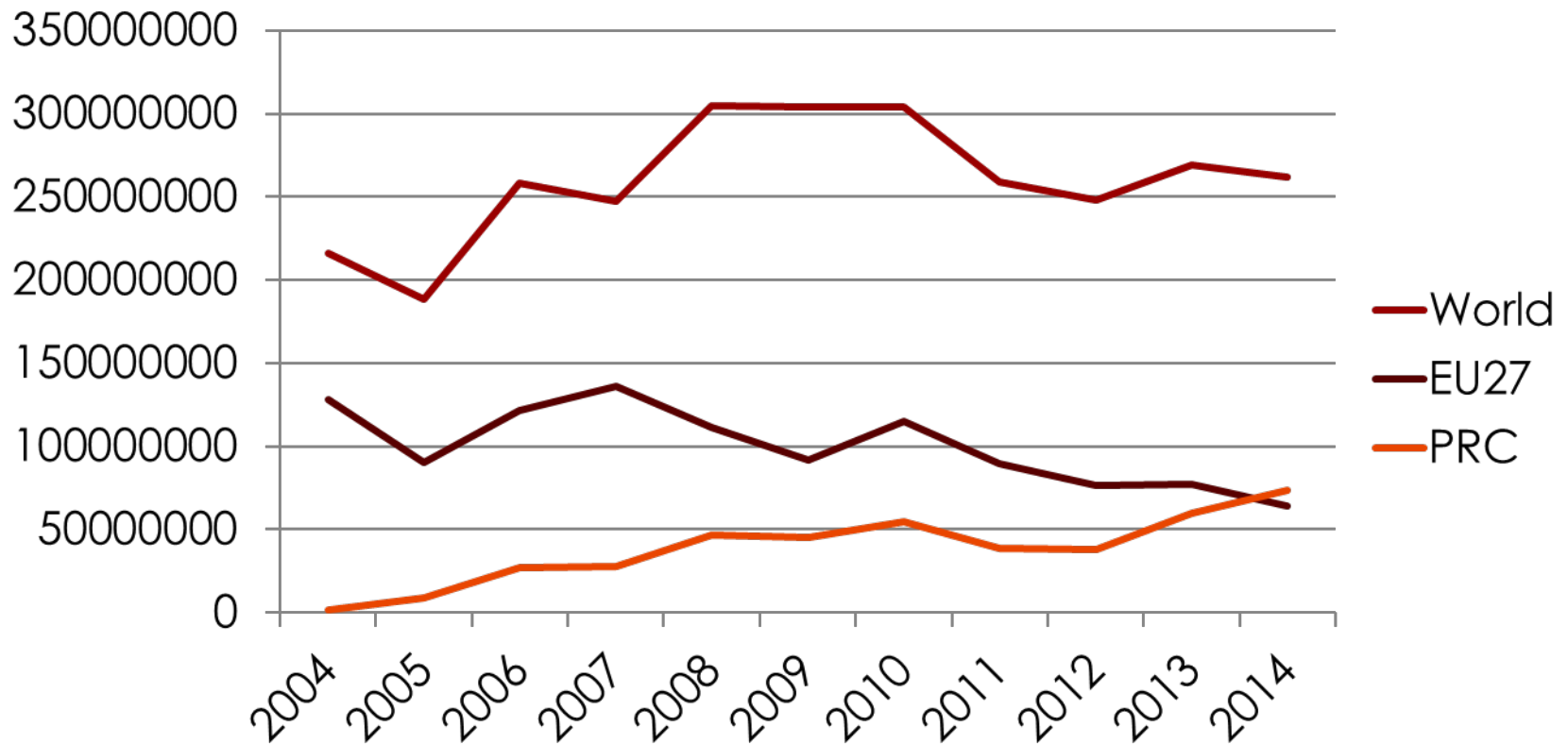
“As China's domestic economy continues to strengthen,...**more consumers will trade up to premium brands**,...” IBIS *World Industry Report*

Outlook: *Impacts of Trends in Global Tobacco Manufacturing*

Export demand remains firm

- US quality is paramount to continued strong exports
- Exports to China mostly or fully offset declining exports to EU

U.S. Unmanufactured Exports of Flue-Cured Tobacco (lbs farm weight)



Source: USDA-FAS

Impacts of Technological Change

- *Scenario 1: E-Cigarettes dominate US & EU*
 - Tobacco production for nicotine production
 - Separate tobacco production for exports and combustibles
- *Scenario 2: heat-not-burn products dominate US & EU*
 - Quality of tobacco is more important than ever
 - Change in quantity demanded?

What about 2015 market for flue-cured?

- Supply shortage has been alleviated
- Some reduction in amount contracted for 2015
- Prices offered moderate...but still aren't bad
- Still depends on how the current Brazil crop turns out