



MEMORANDUM

August 28, 2013

TO: Tobacco Growers and Industry Stakeholders
FR: Brent Leggett, President,
RE: 2013 Crop and Marketing

The age old statement that no two crops are ever the same has been on strong display in 2013. Every grower will tell you that he can't recall a season with so much cumulative rainfall. Even in 1999 when we were hammered by two hurricanes (Diane and Floyd) in less than 30 days, we only collected an aggregate of around 30 inches in eastern NC. Of course other components of the storms helped to completely ravish the crop.

There are parts of NC that have recorded in excess of 50 inches of rain since the crop was set in the ground. Belt-wide from VA to FL the cropland is saturated and the tobacco has been impacted by too much water. Simply put, there is a lack of root formation for nutrient uptake coupled with the circumstance of available nutrients leaching from the reduced root zone.

All of this contributes to a very short crop supply. The lower portions of the stalk were especially hard hit and in very short inventory. The result is a demand response that has observed several peak market reactions. There have been multiple price increases that are resulting in the highest leaf values we have ever seen in broad measure. Competition for leaf and solicitation of growers has generated an almost hysteria over farm leaf procurement. As growers, any news of upward pricing is of course, always welcomed.

Fortunately the quality of this crop appears to be good, to very good across the board. It will be a light crop in terms of tonnage and it will be an expensive crop to produce once final delivery is realized. Less volume not only affects market demand and prices, it also skews the cost of production on a per pound basis. This is due in large part to a void of pounds to spread sunk costs. Also, this year presents the additional costs incurred when supplementing extra nutrient and foliar agents in an attempt to mitigate how much fertilizer had vanished and to try to get the crop to "hang on" in the field. Not being able to get machinery in the fields meant more labor costs to hand sucker this crop. Still another aspect unique to this season is that growers report needing an extra day to cure this crop perhaps due to excess moisture in the leaf itself or how flat it rests together in the boxes. This has also added to the production cost as well.

As a voice for growers, TGANC has always advocated the highest possible price for farmers and their products. Tobacco farming is a margin driven business. However, so is the business of buying our leaf. Price and value are not always on the same parallel. Even at these record prices a farmer will most likely experience a serious reduction in total receipts. Consider a year ago that a grower may have averaged 2,800 pounds at a price of \$1.90. That equals a gross per

3901 Barrett Dr. Suite 202, Raleigh NC 27609 / Phone: 919-614-0099
Email: grahamboyd@nc.rr.com

acre of \$5,320.00. This year he is on track to yield 2,200 pounds (many will be less) at an average of \$2.10. That is a gross per acre of \$4,620.00. The difference is <\$700.00> and this crop will cost more per acre to produce which means opportunity for net return is even less.

The spike in prices this year may prove to not be the new norm. It is important that growers recognize this market fluctuation as not being much different from \$8.00+ corn a year ago or \$1.25 cotton a few seasons back. What are those prices today? Caution must be taken when planning for the future. A farmer would be ill advised to begin pouring concrete and purchasing barns based on the expectations that 2013 prices are the new normal. No one should begin driving up the rental price of land based on the high mark of \$2.28 per pound. The current market is an anomaly and growers must maintain a realistic understanding and perspective about our situation.

Again, TGANC will argue that US leaf is a high value, premium product worthy of the highest prices the market can bare. However, we must remain focused on the tipping point that can be disruptive to our market potential. A stable domestic and export market is critical and our growth opportunity rests heavily in the global market place. It is possible that our foreign customers today view the 2013 US leaf as becoming too expensive and feel the market fluctuations have skewed value. We must hope that they too see conditions of this crop as a singular event.

The 2013 growing season will soon be “one for the books” and there is little we can do now to mitigate the impacts of adverse weather. As we know, weather is the one constant we can expect to re-occur. There will be future crops that are either too wet or too dry. This is a variable condition of being in the farming business. What we can control is relationships and expectations in working with our customers and the need for them to participate with us when dealing with weather impacted crops. What we must achieve together is the commitment to marketing our crops in a balance that supports all interested parties.

It is critical that we maintain a positive dialog with domestic and foreign customers that will assure them of our desire to achieve a long term stable market and quality supply. Despite how both sides may react to the current abstracts in today’s market, we do in fact, need each other. We must remember that our commodity may be the highest value per acre crop that isn’t traded on the public markets. It also is a product that has very limited and specific uses as opposed to soybeans for example that seem to have a bi-product in everything you touch.

As we enter the mid-point of harvest and marketing this difficult 2013 crop, each one of us can help the sum of all of us by having an honest dialog with your customer about growing and selling tobacco in the future. Communications and the exchange of goals and strategy have never been more important than it is today. Are we committed to re-attracting lost business? Are we focused on opportunities for market expansion? Are we maintaining the benchmarks that validate the integrity of the crops we grow? These are points to convince our customers are still important to growers and will be achieved in the future. Likewise there are fewer growers than ever in the United States and the market place is the biggest factor in retaining them.