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Outlook

Tobacco Outlook

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Harvest Intentions for 2007-Crop Tobacco Advance 2 Percent

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The next release is September 2007

Approved by the World Agricultural Outlook Board.

As of March 1, 2007, tobacco growers indicated intentions to harvest 344,170 acres during the upcoming 2007/08 season, a 2-percent gain over 2006. Last season, harvest intentions were 306,630 acres, and 338,950 acres were actually harvested. Assuming average yields, production is expected to be around 720 million pounds, about 6 million pounds less than last season.

For the current marketing year, 2006/07, tobacco leaf production is estimated at 726.7 million pounds, 82 million pounds greater than in 2005 and 155 million pounds less than in 2004. Marketings are expected to be close to production, since most sales are through contracts. With beginning stocks of 1.2 billion pounds, total estimated supply for 2006 will be about 1.9 billion pounds, compared with 2.1 billion in 2005.

The tobacco balance of trade—the value of manufactured and unmanufactured exports less manufactured and unmanufactured imports (arrivals)—reversed its downward trend, gaining $163 million to reach $1,145 million. Both unmanufactured and manufactured tobacco exports advanced, while on the import side the value of unmanufactured imports slipped and the value of products advanced.

Unmanufactured tobacco exports rebounded in calendar 2006, advancing 17 percent. At 397.0 million pounds (196,476 metric tons), exports were 58.0 million pounds higher than in 2005. On a farm-sales-weight basis, total calendar 2006 unmanufactured tobacco exports were 578.7 million pounds, compared with 495.5 million pounds in 2005.

Tom Capehart will be on detail to the House of Representatives from April 2007 through April 2008. During this period, only the tables associated with Tobacco Outlook and Tobacco Yearbook will be published. For assistance with tobacco matters, please contact Andy Jerado at 202-694-5266 or ajerado@ers.usda.gov.

Imports (consumption, duty-paid) gained 51 million pounds in 2006, rising to 566 million pounds. Last year's imports were revised upward to 515.3 million pounds. Imports are 72 million pounds below the peak in 2003. Burley import volume, as indicated by the general "Not Specifically Provided For" (NSPF) category, which contains mostly burley leaf, advanced 38.3 million pounds to reach 154.5 million pounds.

Cigarette consumption slipped just over 1 percent in 2006, to 371 billion pieces. Output for 2006 was 484.0 billion pieces, down 1 percent, and taxable removals were 364 billion pieces, up very slightly. Per capita consumption (18 years old and older) in 2006 was 1,654 pieces, 2.5 percent below 1,695 pieces in 2005.

Cigarette exports in 2006 represented 23 percent of total output or 109.9 billion cigarettes, 3 percent below 2005. Japan, at 83.7 billion cigarettes, was the largest export market for U.S. cigarettes, accounting for 73 percent of shipments. The total value of cigarettes shipped was unchanged at $1.2 billion. Unit value was $11 per 1,000 cigarettes, about the same as last year.

The Federal excise tax has been 39 cents per pack of 20 cigarettes since January 1, 2002. Fiscal year 2006 (October 2005-September 2006) Federal cigarette excise tax collections were $7.7 billion, $145 million less than the previous year. State tax collections on a calendar-year basis increased by $.5 billion to $14.0 billion during 2006. Currently, 20 States have cigarette excise taxes of $1.00 per pack or more, and six of these are over $2.00. Thirty-eight States have excise tax rates of 50 cents per pack or more. The weighted (by packs taxed) average State excise tax is 81.6 cents per pack.

The annual Economic Research Service (ERS) survey of manufacturers indicated that filter-tip production comprised 99.2 percent of total output in 2006, the same as in 2005.

U.S. large cigar output recovered in 2006 to reach 4,260 million cigars, but fell short of 4,407 million cigars in 2004, the highest since 1975. Taxable removals in 2006 reached 4,504 million cigars, 2 percent above 2005. Small cigar output in 2006 was 5,122 million cigars, compared with 4,662 million in 2005, a 10-percent gain.

Snuff output slipped less than 1 percent in 2006, at 86.0 million pounds. This was the first decline for snuff output in over 10 years. However, taxable removals continued the long-term advance, gaining 2 percent to reach 80.3 million pounds.

Tobacco Products

2006 Cigarette Consumption Slips by 5 Billion Pieces

At 371 billion pieces, cigarette consumption continued to shrink, slipping just over 1 percent in 2006 (table 1). The 5-billion-piece decline was, as in the past, due to a combination of higher consumer costs due to tax and price increases, declining smoking rates resulting from restrictions on where people can smoke, and greater awareness of risks associated with smoking. Output for 2006 was 484.0 billion cigarettes, down 1 percent, and taxable removals were 364 billion pieces, up very slightly. Per capita consumption (18 years old and older) in 2006 was 1,654 pieces, 2.5 percent below 1,695 pieces in 2005 (table 2). Per capita consumption has been slipping for over two decades. For the population 16-years old and older, per capita consumption in 2006 fell to 1,592 cigarettes, from 1,632 pieces in 2005. Estimates are based on population statistics from the Bureau of the Census.

Cigarette exports in 2006 represented 23 percent of total output, or 109.9 billion cigarettes, 3 percent below 2005 (table 3). Japan, at 83.7 billion cigarettes, was the largest export market for U.S. cigarettes, accounting for 73 percent of shipments. Saudi Arabia imported 8.4 billion pieces, and Lebanon 3.8 billion. They were followed by Kuwait, Hong Kong, and United Arab Emirates. The total value of cigarettes shipped was $1.2 billion. Unit value was $11 per 1,000 cigarettes, about the same as last year.

Industry sources indicate that inroads made by small manufacturers and imports account for 7.1 percent of the market, less than 2005. Currently, about 2.9 percent of the market is held by small manufacturers, and imports account for another 4.2 percent.

Taxes

The Federal excise tax has been 39 cents per pack of 20 cigarettes since January 1, 2002. Fiscal year 2006 (October 2005-September 2006) Federal cigarette excise tax collections, nearly all from cigarettes, were $7.7 billion, $145 million less than the previous year. Excise taxes peaked in 2002 at $8.3 billion due to the 5-cent per pack tax increase that became effective at the beginning of that year. However, declining consumption has since reduced Federal excise tax collections.

State tax collections on a calendar basis increased by $.5 billion to $14.0 billion during 2006. Higher taxes offset lower consumption. State excise taxes were collected on 355.3 billion cigarettes, compared with 364.6 billion cigarettes in 2005. State sales tax collections reached $3.0 billion. Currently, 20 States have cigarette excise taxes of $1.00 per pack or more, and of these taxes, six are over $2.00. Thirty-eight States have excise tax rates of 50 cents per pack or more. The weighted (by packs taxed) average State excise tax is 81.6 cents per pack.

Wholesale Cigarette Prices

The last wholesale premium cigarette price increase was 5 cents per pack in December 2006. The wholesale price of premium cigarettes is now $123.70 per 1,000, excluding tax (table 4). Manufacturers' policies regarding promotions and rebates have also affected the price paid by consumers for cigarettes. The Federal

Table 1--Cigarettes: U.S. output, removals, and consumption, 1996-2006

Year	Output	Removals: Taxable	Tax-exempt: Total	Tax-exempt: Exports	Tax-exempt: Miscellaneous Shipments 1/	Imports	Adjustment 2/	Total U.S. consumption 3/
	Billion cigarettes							
1996	754.5	486.0	261.0	243.9	17.1	2.8	18.9	487
1997	719.6	471.4	232.0	217.0	15.0	3.2	9.6	480
1998	679.7	457.9	212.5	201.3	11.2	4.3	8.4	465
1999	606.6	429.8	165.5	151.4	14.1	8.7	17.6	435
2000	594.6	423.3	153.7	148.3	5.4	11.3	10.0	430
2001	562.8	412.1	144.6	133.9	10.8	14.7	12.5	425
2002	494.8	370.8	130.0	127.4	2.6	20.8	-26.8	415
2003	499.4	376.7	126.6	121.5	5.1	23.1	4.9	400
2004	493.5	375.6	121.8	118.6	3.2	22.7	13.5	388
2005	489.4	363.0	123.5	113.3	10.2	17.8	15.3	376
2006 4/	484.0	364.4	116.7	109.9	6.8	16.2	16.3	371

na = not available. 1/ Includes overseas armed forces, ship stores, and small tax-exempt categories and shipments to Puerto Rico and other U.S. possessions.
2/ Inventory change and unaccounted for. 3/ Taxable removals, misc. shipments, inventory change, and imports. 4/ Estimated, subject to revision.

Sources: Alcohol and Tobacco Tax and Trade Bureau, *Monthly Statistical Release - Tobacco Products:;* Bureau of the Census, Reports *EM545* and *IM146.*

Table 2--Per capita consumption of tobacco products in the United States (including overseas forces), 1996-2006 1/

Year	Per capita 16 years and over	Per capita 18 years and over: Cigarettes 2/		Snuff 3/	Small cigars	All tobacco products 2/	Per male 18 years and over: Large cigars & cigarillos		Smoking tobacco 3/	Chewing tobacco 3/
	Number	Number	Pounds	Pounds	Number	Pounds	Number	Pounds	Pounds	Pounds
1996	2,355	2,445	4.1	0.3	7.6	4.83	31.9	0.52	0.12	0.63
1997	2,290	2,422	4.1	0.3	8.0	4.85	37.3	0.61	0.11	0.60
1998	2,190	2,275	3.6	0.3	8.0	4.32	37.1	0.61	0.12	0.53
1999	2,022	2,101	3.5	0.3	11.2	4.23	38.5	0.63	0.13	0.51
2000	1,974	2,049	3.4	0.3	10.7	4.10	38.0	0.62	0.13	0.48
2001	1,976	2,051	3.5	0.3	11.5	4.30	41.2	0.68	0.15	0.47
2002	1,909	1,982	3.4	0.3	10.7	4.16	41.8	0.68	0.16	0.43
2003	1,820	1,890	3.2	0.3	10.4	3.97	44.5	0.73	0.16	0.40
2004	1,747	1,814	3.1	0.4	12.1	3.87	47.9	0.79	0.15	0.37
2005	1,632	1,695	2.9	0.2	17.0	3.76	44.8	0.73	0.10	0.22
2006 4/	1,592	1,654	2.7	0.2	18.6	3.54	45.8	0.75	0.10	0.22

1/ Some earlier years revised to reflect Census adjustments. 2/Unstemmed processing weight. 3/ Finished product weight. 4/ Preliminary.

Sources: Alcohol and Tobacco Tax and Trade Bureau, *Monthly Statistical Release - Tobacco Products;* Bureau of the Census, Reports *EM545* and *IM146,* Bureau of the Census *Population Estimates* .

Table 3--U.S. cigarette exports to leading destinations, 2003-06

	2003	2004	2005	2006 1/
	Billion cigarettes			
Japan	79.3	71.0	83.0	83.7
Saudi Arabia	11.6	10.7	9.3	8.4
Lebanon	3.7	4.0	3.9	3.8
Kuwait	2.1	1.8	1.7	1.8
Hong Kong	2.3	2.0	2.1	1.7
United Arab Emirates	1.6	1.7	1.7	1.7
Iran	3.0	14.5	4.1	1.6
Israel	4.9	5.1	1.7	1.5
Taiwan	2.1	1.5	1.5	0.9
European Union	2.3	0.7	0.6	0.8
Singapore	1.6	1.2	0.9	0.7
Netherlands	0.9	0.5	0.4	0.5
Morocco	0.3	0.7	0.5	0.5
Qatar	0.4	0.4	0.4	0.4
Oman	0.4	0.4	0.3	0.4
Mexico	0.1	0.1	0.1	0.4
Bahrain	0.4	0.3	0.4	0.3
Germany	0.2	0.1	0.1	0.2
Russia	*	0.1	0.1	0.2
Jordan	*	*	*	0.1
Philippines	*	0.3	*	0.1
Panama	0.2	0.1	0.1	0.1
Other countries	15.9	24.8	10.0	6.6
Total	121.5	118.7	113.3	109.9

* Less than 50 million. 1/ Subject to revision.

Sources: Bureau of the Census, Reports *EM545*.

Table 4--Wholesale premium brand cigarette price revisions, 1990-current 1/

Approximate date of change 2/	Net price per 1,000				Net price per 1,000 excluding Federal excise tax			
	Standard	King size	Filter tips	100 millimeter	Standard	King size	Filter tips	100 millimeter
	Dollars							
June-1990	51.15	52.65	51.15	52.65	43.15	44.65	43.15	44.65
Dec.-1990	53.65	55.15	53.65	55.15	45.65	47.15	45.65	47.15
Jan.-Feb. 1991 3/	55.75	57.25	55.75	57.25	45.75	47.25	45.75	47.25
Mar.-1991	56.50	58.00	56.50	58.00	46.50	48.00	46.50	48.00
June-1991	58.25	59.75	58.25	59.75	48.25	49.75	48.25	49.75
Nov.-1991	61.00	62.50	61.00	62.50	51.00	52.50	51.00	52.50
Apr.-1992	63.75	65.25	63.75	65.25	53.75	55.25	53.75	55.25
July-1992	66.25	67.75	66.25	67.75	56.25	57.75	56.25	57.75
Nov.-1992	69.00	70.50	69.00	70.50	59.00	60.50	59.00	60.50
Jan.-1993 4/	71.10	72.60	71.10	72.60	59.10	60.60	59.10	60.60
Mar. 1993	72.10	73.60	72.10	73.60	60.10	61.60	60.10	61.60
Aug. 1993	53.95	53.95	53.95	53.95	41.95	41.95	41.95	41.95
Nov.-1993	55.95	55.95	55.95	55.95	43.95	43.95	43.95	43.95
May 1995 5/	57.45	57.45	57.45	57.45	45.45	45.45	45.45	45.45
May 1996	59.45	59.45	59.45	59.45	47.45	47.45	47.45	47.45
Mar.-1997	61.95	61.95	61.95	61.95	49.95	49.95	49.95	49.95
Sep.-1997	65.45	65.45	65.45	65.45	53.45	53.45	53.45	53.45
Jan.-1998	66.70	66.70	66.70	66.70	54.70	54.70	54.70	54.70
Apr.-1998	69.20	69.20	69.20	69.20	57.20	57.20	57.20	57.20
May 1998	71.70	71.70	71.70	71.70	59.70	59.70	59.70	59.70
Aug.-1998	74.70	74.70	74.70	74.70	62.70	62.70	62.70	62.70
Nov.-1998	97.20	97.20	97.20	97.20	85.20	85.20	85.20	85.20
Aug. 1999	106.20	106.20	106.20	106.20	94.20	94.20	94.20	94.20
Jan.- 2000 6/	112.70	112.70	112.70	112.70	95.70	95.70	95.70	95.70
July-2000	115.70	115.70	115.70	115.70	98.70	98.70	98.70	98.70
Dec.-2000	122.70	122.70	122.70	122.70	105.70	105.70	105.70	105.70
Apr.-2001	129.70	129.70	129.70	129.70	112.70	112.70	112.70	112.70
Oct.-2001	132.20	132.20	132.20	132.20	115.20	115.20	115.20	115.20
Jan.-2002 7/	132.20	132.20	132.20	132.20	112.70	112.70	112.70	112.70
Apr.-2002	138.20	138.20	138.20	138.20	118.70	118.70	118.70	118.70
Dec.-2006 8/	143.20	143.20	143.20	143.20	123.70	123.70	123.70	123.70

1/ Includes leading brands. A 3-percent discount is made for payment within 10 days or 2 percent within 14 days. 2/ For 1980-89 see TBS-243, April 1999. 3/ Effective January 1, 1991, the Federal excise tax increased to $10.00 per 1,000 cigarettes. 4/ Effective January 1, 1993, the Federal excise tax increased to $12.00 per 1,000 cigarettes. 5/ No changes in 1994. 6/ Effective Jan. 1, 2000, Federal excise tax increased to $17 per 1,000 cigarettes.

7/ Effective January 1, 2002, Federal excise tax increased to $19.50 per 1,000 cigarettes. 8/ Last price change.

Note: The prices in this table apply to cigarettes manufactured for domestic sales by U.S. manufacturers only. Cigarettes manufactured for export are not included. These prices do not include rebates, discounts, and other adjustments to the wholesale list price.

Sources: News reports and miscellaneous sources.

tax since 2002 has been $19.50 per 1,000 cigarettes. The Consumer Price Index (CPI) for cigarettes advanced by 6.9 points to 210.4 during 2006, reflecting greater profit margins, changes in promotions and rebates, and higher taxes (table 5).

Cigarette Type Survey Results

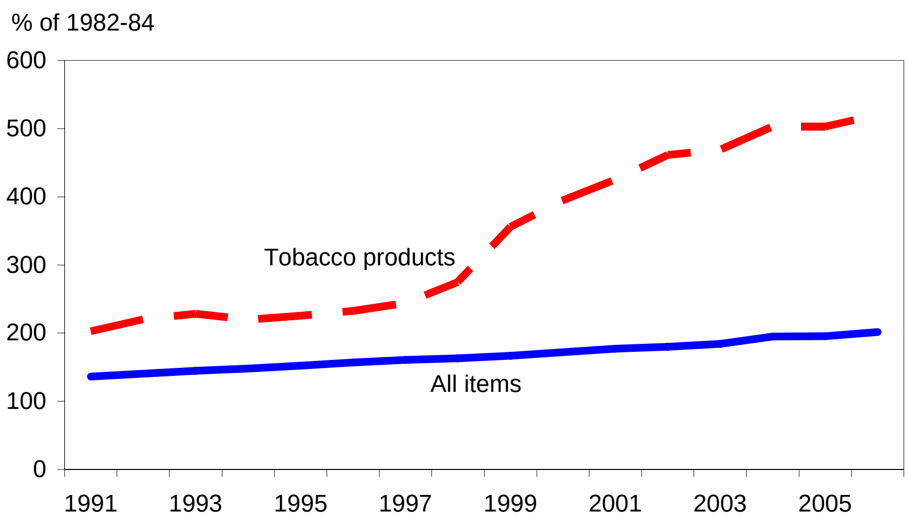
Filter-tipped cigarettes became popular during the 1950s, and in 1960 first outsold non-filter cigarettes. Since the mid-1980s, non-filter tips have accounted for less than 5 percent of U.S. production. The annual Economic Research Service (ERS) survey of manufacturers indicated that filter-tip production comprised 99.2 percent of total output in 2006, unchanged from 2005 (table 6). Filter-tip production in 2006 reached 485.6 billion cigarettes. The proportion of 80-85 mm filter-tip cigarettes gained from 62.0 percent in 2005 to 61.7 percent in 2006. The 100 millimeter filter-tip category made up about 35.6 percent of 2006 output, compared with 35.2 percent in 2005. Non-filter cigarette production was 3.8 billion cigarettes, unchanged from 2005.

Large Cigar Output and Taxable Removals Increase

U.S. large cigar output recovered in 2006 to 4,260 million cigars, but fell short of 2004's 4,407 million cigars, the highest since 1975. Taxable removals in 2006 reached 4,504 million cigars, 2 percent above 2005. Cigar consumption in 2006 was 5,299 million cigars, 3 percent greater than in 2005. Calendar year 2006 exports of cigars fell by more than half to 146 million cigars. Canada, China, Turkey, and Panama were major destinations for cigars. Cigar imports (consumption) reached 795 million cigars, 18 percent above the previous year's imports. The Dominican Republic accounted for over 69 percent of 2006 import volume, higher than last year. Honduras, Nicaragua, and India also were major suppliers of cigars.

Figure 1

Consumer Price Index and tobacco products



Source: Bureau of Labor Statistics.

Table 5--Tobacco demand factors, 1996-2006

Year	Population July 1 1/	Disposable personal income, per capita 2/ Current prices	2000 prices	Consumer price indexes 3/ All items	Tobacco products	Cigarettes
	Millions	----------- Dollars -----------		----- % of 1982-84 ----		% of 1997
1996	199.2	21,091	22,546	156.9	232.8	--
1997	198.2	21,940	23,065	160.5	243.7	100.0
1998	204.4	23,161	24,131	163.0	274.8	109.8
1999	207.1	23,968	24,564	166.6	355.8	143.8
2000	209.8	25,485	25,485	172.2	394.9	159.9
2001	212.2	26,247	25,708	177.1	425.2	172.5
2002	214.5	27,174	26,244	179.9	461.5	187.7
2003	217.0	28,064	26,576	184.0	469.0	190.4
2004	219.4	29,562	27,278	188.9	478.0	193.5
2005	221.9	30,473	27,332	195.3	502.8	203.5
2006 4/	224.4	31,805	27,763	201.6	519.9	210.4

1/ Eighteen years and older including forces overseas. Some earlier years revised to reflect Census adjustments. 2/ Based on total population.

3/ All urban consumers. 4/ Population estimate as of July 1, 2006.

Source: Bureau of the Census, USDL.

Table 6--Cigarettes: Output of filter tip and nonfilter tip by length, 2004-2006 1/

Item	2004 Output	2004 Percent of total	2005 Output	2005 Percent of total	2006 2/ Output	2006 2/ Percent of total
	Billions	Percent	Billions	Percent	Billions	Percent
Filter tip:						
80 mm long and 85 mm king	304.8	61.8	303.3	62.0	302.0	61.7
100 mm extra long	178.1	36.1	172.2	35.2	174.3	35.6
120 mm	5.2	1.0	10.0	2.1	9.2	1.9
Total	488.1	98.9	485.6	99.2	485.6	99.2
Nonfilter tip:						0.0
70 mm regular	2.9	0.6	2.5	0.5	2.2	0.4
85 mm king	2.5	0.5	1.3	0.3	1.6	0.3
Total	5.4	1.1	3.8	0.8	3.8	0.8
Grand total	493.5	100.0	489.4	100.0	489.4	100.0

1/ Cigarettes having other lengths were included in the most nearly comparable group. 2/ Estimated.

Source: Calculated by Economic Research Service, USDA.

Table 7--Cigars and smoking tobacco: U.S. output, removals, and consumption, 1996-2006

Year	Total output	Taxable removals	Tax-exempt removals	Imports	Exports	Total U.S. consumption 1/
			Million			
Large cigars and cigarillos:						
1996	2,413	2,720	98	320	67	3,054
1997	2,324	2,966	110	576	86	3,517
1998	2,751	3,185	122	507	93	3,655
1999	2,905	3,330	148	496	84	3,845
2000	2,825	3,370	114	480	113	3,850
2001	3,741	3,564	130	543	124	4,107
2002	3,819	3,706	80	500	123	4,206
2003	4,017	4,019	94	508	130	4,527
2004	4,407	4,319	114	616	171	4,935
2005	3,981	4,436	98	685	387	4,877
2006 2/	4,260	4,504	100	795	146	5,299
			Million pounds			
Smoking tobacco:						
1996	12.0	11.3	0.4	1.9	0.7	13.2
1997	11.4	10.8	0.5	1.5	0.8	12.3
1998	12.5	12.0	0.5	1.4	0.6	13.4
1999	14.7	13.4	0.5	1.6	0.5	15.0
2000	13.6	13.1	0.5	1.4	0.5	14.5
2001	12.8	14.9	0.5	1.9	11.0	16.8
2002	15.5	15.9	0.6	2.1	7.0	18.0
2003	17.8	16.7	0.6	2.0	0.7	18.7
2004	16.1	15.4	0.7	1.5	1.1	17.0
2005	17.4	16.4	0.4	3.1	1.3	19.5
2006 2/	16.5	16.5	0.7	2.7	1.9	19.7

1/ Total removals (or sales) plus imports. 2/ Estimated.

Sources: Alcohol and Tobacco Tax and Trade Bureau, *Monthly Statistical Release - Tobacco Products* , Bureau of the Census, Reports *EM545* and IM146, and Agriculture Marketing Service, Tobacco Stocks Report.

Small cigar output in 2006 was 5,122 million cigars, compared with 4,662 million in 2005, a 10-percent gain (table 8). Taxable removals of small cigars reached 4,162 million cigars, also 10 percent over the previous year. Exports of small cigars reached 158 million units, 44 percent over 2005. Imports of small cigars advanced in 2006 to 272 million cigars, 38 million above 2005. Consumption of small cigars reached 4,434 million, compared with 3,970 million in 2005.

Smoking Tobacco

Smoking tobacco output for 2006 reached 16.5 million pounds, slipping 5 percent over 2005 (table 8). Smoking tobacco consists of pipe tobacco, used in pipes; and cut smoking tobacco, used in roll-your-own (RYO) cigarettes. Both pipe and smoking tobacco output slipped in 2006. In recent years, cut smoking tobacco gained due to the increasing popularity of RYO cigarettes. Taxable removals for smoking tobacco increased 1 percent to 16.5 million pounds. Consumption also grew 1 percent, ending at 19.7 million pounds as both taxable removals and imports increased. An estimated 7.2 billion (subject to revision) RYO cigarettes were consumed in 2006, compared with 8.0 billion in 2005.

Chewing Tobacco

Chewing tobacco output changed less than 1 percent in 2006, reaching 38.3 million pounds (table 8). Taxable removals increased slightly to end the calendar year at about 38.0 million pounds. Firm, moist, twist, and leaf chewing categories all had lower output and taxable removals compared with a year earlier.

Snuff

Snuff output slipped less than 1 percent in 2006, at 86.0 million pounds (table 8). This was the first decline for snuff output in over 10 years. However, taxable removals continued the long-term advance, gaining 2 percent to 80.3 million pounds. Moist snuff accounts for most snuff production. Dry snuff has been declining during the past decade as moist snuff use advanced. Snuff is frequently used as an alternative to cigarettes where smoking is prohibited. Exports of snuff are less than a few million pounds, and imports are negligible.

Table 8--Tobacco products: Output and domestic invoices by category, 1996-2006

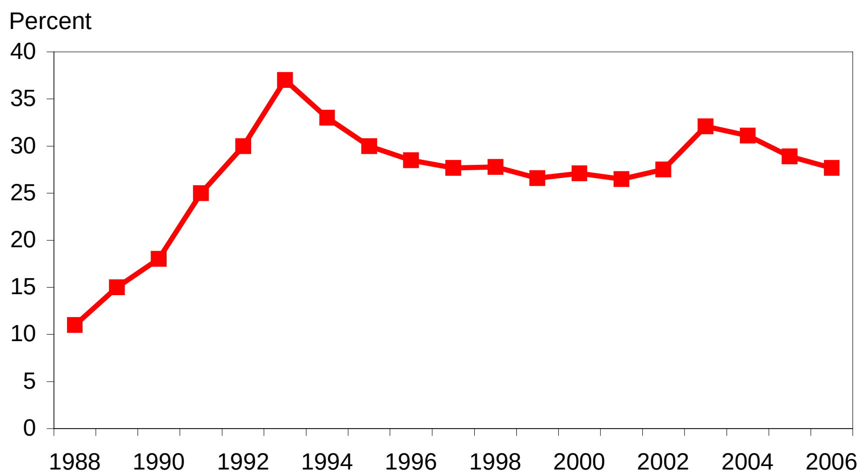
Period	Chewing tobacco					Snuff dry	Snuff moist	Smoking tobacco in bulk (exports)	Small cigars 2/
	Plug-firm	Plug-moist	Twist	Loose leaf	Total 1/				
	Million pounds								Millions
	Manufactured								
1996	2.9	1.0	1.1	56.0	61.1	4.0	57.5	110.4	1,502
1997	2.5	0.8	1.0	52.5	56.8	4.4	57.7	118.2	1,476
1998	2.4	0.7	1.0	49.2	53.3	4.3	61.2	142.5	1,710
1999	2.2	0.6	0.7	47.2	50.9	3.7	63.3	151.0	2,316
2000	2.0	0.5	0.8	46.0	49.4	3.6	65.9	136.1	2,469
2001	1.9	0.5	0.8	43.9	47.0	3.3	67.6	118.2	2,376
2002	1.8	0.4	0.8	41.5	44.5	3.1	69.6	144.0	2,478
2003	1.5	0.3	0.7	40.8	43.3	2.9	72.7	121.3	2,619
2004	1.4	0.3	0.7	37.0	39.3	2.4	76.9	45.4	3,360
2005	1.2	0.2	0.6	37.2	39.2	2.2	84.5	3.4	4,662
2006 4/	1.1	0.2	0.6	36.4	38.3	2.1	83.9	1.3	5,122
	Invoiced to domestic customers 3/								
1996	2.8	1.0	1.1	55.1	60.0	4.6	56.8	**	1,504
1997	2.5	0.8	1.0	52.5	56.8	4.4	57.7	**	1,587
1998	2.3	0.7	1.0	48.6	52.5	4.1	59.9	**	1,638
1999	2.1	0.6	0.9	46.9	50.5	3.9	61.6	**	2,196
2000	2.0	0.5	0.9	45.1	48.5	3.8	64.8	**	2,243
2001	1.8	0.4	0.8	43.5	46.6	3.4	69.3	**	2,171
2002	1.7	0.3	0.8	40.2	43.0	3.1	68.6	**	2,248
2003	1.4	0.3	0.7	37.9	40.3	2.9	71.1	**	2,296
2004	1.3	0.2	0.7	35.7	37.9	2.6	74.7	**	2,702
2005	1.2	0.2	0.6	35.7	37.7	2.4	76.7	**	3,772
2006 4/	1.1	0.2	0.6	36.1	38.0	2.3	78.0	**	4,162

1/ Detail may not add to total due to rounding. 2/ Weight not more than 3 pounds per thousand. 3/ Taxable removals for small cigars. 4/ Preliminary.

Sources: Alcohol and Tobacco Tax and Trade Bureau, *Monthly Statistical Release ; Tobacco Products* ; Bureau of the Census, Reports *EM545* and *IM146;* and Agricultural Marketing Service, USDA, *Tobacco Stocks Report* .

Figure 2

Discount cigarette share of U.S. cigarette consumption



Source: Economic Research Service, USDA.

U.S. Imports and Exports

U.S. Tobacco Balance of Trade Reverses Last Year's Downward Trend

The tobacco balance of trade--the value of manufactured and unmanufactured exports less manufactured and unmanufactured imports (arrivals)—reversed its downward trend, gaining $163 million to $1,145 million, (table 9). Both unmanufactured and manufactured tobacco exports advanced, unmanufactured by $151 million, and manufactured by just $16 million. On the import side, the value of unmanufactured imports slipped by $37 million, while the value of products advanced 42 million. Gains in burley export value were offset by declines in most other export categories. Cigarette import value was very close to the previous year's level.

Tobacco product export value (mostly cigarettes and smoking tobacco in bulk) peaked in 1996 and has been declining every year but one since. Although leaf imports have remained at high levels, declining U.S. cigarette consumption is beginning to dampen imports. Prospects for growth in leaf exports are encouraged by more competitive U.S. leaf prices and strong global demand for high-quality burley.

Flue-cured Gains Spur Leaf Tobacco Export Volume Advance of 58 Million Pounds

Unmanufactured tobacco exports rebounded in calendar 2006, advancing 17 percent (table 10). Flue-cured shipments advanced 40 percent, and all other major categories, except stems and refuse, advanced. At 397.0 million pounds (196,476 metric tons), exports were 58.0 million pounds higher. On a farm-sales-weight basis, total calendar 2006 unmanufactured tobacco exports were 578.7 million pounds, compared with 495.5 million pounds in 2005.

Germany was by far the main destination for U.S. unmanufactured tobacco in 2006, taking 81.2 million pounds. Switzerland took 38.5 million pounds (more than double last year), and the Netherlands followed with 37.0 million pounds. Belgium purchased 16.7 million pounds, and Lithuania followed with 14.5 million pounds. Shipments to the European Union-25 totaled 203.3 million pounds, 18 percent over 2005. Eighty-four countries purchased leaf from the United States in 2006.

Imports for Consumption Up 10 Percent

Imports (consumption, duty-paid) gained 51 million pounds in 2006, rising to 566 million pounds (table 12). Last year's imports were revised upward to 515.3 million pounds. Imports were 72 million pounds below the peak in 2003. Oriental leaf declined to 102 million pounds. Shipments from Turkey were up slightly, while those from Bulgaria and Greece slipped. Stemmed flue-cured leaf imports regained much of the previous year's loss, gaining 29 percent to 123.2 million pounds. At 81.2 million pounds, shipments from Brazil accounted for 66 percent of U.S. flue-cured purchases. Burley import volume, as indicated by the general "Not Specifically Provided For" (NSPF) category that contains mostly burley leaf, advanced 38.3 million pounds to 154.5 million pounds. Cigar leaf imports recovered by 12 percent in 2006, as imports of cigar scrap rose. Stem imports slipped by 19 percent to 89.4 million pounds. Brazil was the leading source of

Table 9--U.S. tobacco exports and imports: Unmanufactured and manufactured, 1994-2006

Year	Exports			Imports 1/			Net exports (value)		
	Unmanufactured		Manu-	Unmanufactured		Manu-	Unmanu-	Manu-	
	Quantity 2/	Value	factured	Quantity 2/	Value	factured	factured	factured	Total
	Million pounds	--Million dollars--		Million pounds	--Million dollars--		------Million dollars------		
1994	433.9	1,302.1	5,363.4	582.3	692.7	161.9	609.4	5,201.5	5,810.9
1995	461.8	1,399.3	5,218.0	439.2	555.7	183.7	843.6	5,034.3	5,877.9
1996	489.9	1,389.4	5,234.9	719.7	1,052.5	279.4	336.9	4,955.5	5,292.3
1997	488.3	1,553.3	4,953.5	676.5	1,128.8	497.0	424.5	4,456.5	4,881.0
1998	467.2	1,458.8	4,824.7	551.2	779.7	483.2	679.1	4,341.5	5,020.6
1999	417.5	1,294.4	3,876.4	537.1	763.8	446.0	530.6	3,430.4	3,961.1
2000	402.4	1,221.8	4,010.5	439.7	578.8	548.4	643.0	3,462.1	4,105.1
2001	410.7	1,268.8	2,725.6	563.0	714.9	522.0	553.9	2,203.6	2,757.5
2002	338.2	1,049.7	1,942.9	585.5	706.9	605.1	342.8	1,337.8	1,680.6
2003	343.3	1,038.1	1,835.9	578.6	694.1	599.0	344.0	1,236.9	1,580.9
2004	361.0	1,044.4	1,560.8	569.8	694.2	589.4	350.2	971.4	1,321.6
2005	335.5	989.6	1,300.2	577.0	752.8	554.6	236.8	745.6	982.4
2006 3/	339.0	1,141.0	1,316.6	517.1	715.8	596.7	425.2	719.9	1,145.1

1/ Arrivals. 2/ Declared weight. 3/ Subject to revision.

Source: Bureau of the Census, Reports *EM545* and *IM146.*

Table 10--U.S. exports of unmanufactured tobacco by types and to principal importing countries, 2003-06 (declared weight)

Type & country					Pct. Change
Type & country	2003	2004	2005	2006 1/	2005-06
	--Million pounds--				Percent
Type					
Flue-cured	155.0	147.0	137.6	193.2	40.4
Burley	91.6	128.1	134.4	137.9	2.6
Maryland	0.7	1.4	1.4	1.5	7.1
Fire-cured,					
Ky. and Tenn.	12.1	6.6	6.3	5.5	-12.7
Virginia fire &					
sun-cured	2/	0.2	0.2	0.1	-50.0
Blackfat	*	*	*	0.5	'--
Cigar wrapper	2.2	2.6	2.6	3.6	38.5
Cigar binder	0.9	1.7	0.9	1.5	66.7
Stems and refuse	48.0	36.3	26.4	30.6	15.9
Other leaf	32.7	37.0	29.0	22.7	-21.7
Total 2/	343.3	361.0	339.0	397.0	17.1
Country of destination					
Germany	55.8	53.5	55.3	81.2	46.8
Netherlands	9.8	15.8	25.4	37.0	45.7
Belgium-Luxembourg	61.7	27.4	12.7	16.7	31.5
Lithuania	*	3.6	11.7	14.5	23.9
Denmark	13.5	10.2	8.4	8.4	0.0
France	8.8	15.8	10.6	7.5	-29.2
Greece	0.8	4.1	9.0	6.4	-28.9
Czech Republic	0.1	5.2	8.7	5.1	-41.4
Spain	4.7	11.6	6.7	4.9	-26.9
Austria	0.9	4.2	5.1	4.2	-17.6
Portugal	6.2	4.6	3.8	3.9	2.6
Italy	6.9	6.6	5.8	3.2	-44.8
Hungary	0.2	0.2	0.2	1.7	750.0
United Kingdom	4.8	4.0	3.2	1.1	-65.6
Poland	*	0.9	4.2	6.7	59.5
Total EU-15/25 2/	174.2	172.0	172.1	203.3	18.1
Switzerland	34.8	9.4	15.6	38.5	146.8
China	1.4	6.8	0.7	21.2	2,928.6
Ukraine	0.4	3.0	6.2	17.5	182.3
Russia	5.0	34.0	25.4	13.0	-48.8
Dominican Republic	8.9	9.6	12.7	9.2	-27.6
Rep. of Korea	9.6	7.3	5.8	8.7	50.0
Taiwan	7.9	4.0	8.6	8.0	-7.0
Romania	0.5	8.6	8.9	7.6	-14.6
Turkey	0.4	1.8	7.0	7.6	8.6
Malaysia	6.4	7.9	7.5	6.3	-16.0
Philippines	2.9	1.8	5.2	6.1	17.3
Indonesia	5.4	10.3	8.9	6.0	-32.6
Mexico	1.2	3.1	1.4	5.8	314.3
Kazakhstan	*	2.2	3.6	5.2	44.4
Nigeria	6.2	4.8	0.8	5.0	525.0
Australia	6.3	3.6	2.9	4.9	69.0
Japan	42.4	34.6	21.7	3.9	-82.0
Thailand	3.6	8.5	4.1	3.0	-26.8
Honduras	1.3	2.1	1.9	2.4	26.3
Egypt	1.1	3.3	1.5	2.2	46.7
Brazil	0.3	1.3	1.7	1.9	11.8
Vietnam	0.3	0.6	1.2	1.1	-8.3
Sri Lanka	2.1	1.4	1.1	1.0	-9.1
Israel	0.8	1.2	1.0	0.9	-10.0
Bangladesh	0.7	0.5	0.7	0.9	28.6
Canada	1.1	0.8	0.6	0.9	50.0
Other countries	18.1	16.5	10.2	4.9	-52.2
Total 3/	343.3	361.0	339.0	397.0	17.1

* = Less than 50,000 pounds. 1/ Preliminary. 2/ Some countries not listed. Beginning in 2004, EU-25. 3/ Details may not add to total due to rounding.

Source: Bureau of the Census, Report *EM545*.

Table 11--U.S. exports and imports of stems to principal countries, 2003-06 (declared weight)

Type & country	2003	2004	2005	2006 1/	Pct. Change 2005-06
	--Million pounds--				Percent
Exports					
Germany	11.6	5.1	4.8	6.9	43.8
Switzerland	1.5	0.8	1.0	6.5	550.0
France	5.0	9.7	3.7	5.1	37.8
Denmark	3.1	2.9	3.1	3.0	-3.2
Belgium	7.6	1.3	0.9	2.1	133.3
Mexico	0.8	3.0	1.4	1.5	7.1
Russia	3.3	1.8	*	1.5	--
Taiwan	0.7	*	*	0.8	--
Nigeria	*	*	0.0	0.7	--
Israel	0.2	0.7	0.7	0.6	-14.3
Poland	*	*	0.0	0.4	--
Australia	0.6	0.9	0.9	0.4	-55.6
Italy	0.6	0.5	0.5	0.4	-20.0
Bangladesh	0.1	0.1	0.1	0.2	100.0
Sweden	0.5	0.1	0.1	0.1	0.0
Malaysia	0.1	0.1	0.1	0.1	0.0
Czech Republic	*	0.7	0.0	0.1	--
Kenya	*	*	0.0	0.1	--
South Korea	0.3	0.5	0.5	0.1	-80.0
Dominican Republic	0.4	0.1	4.8	0.0	-100.0
Japan	4.7	3.0	3.3	0.0	-100.0
Portugal	1.0	1.0	*	*	--
Other countries	5.9	4.0	0.5	0.0	-100.0
Total 2/	48.0	36.3	26.4	30.6	15.7
Imports					
Brazil	56.3	42.5	71.5	49.1	-31.3
Argentina	16.6	10.7	17.0	16.7	-1.8
Mozambique	0.0	0.0	0.0	5.0	--
Turkey	7.4	10.0	8.3	3.7	-55.4
Dominican Republic	3.7	4.5	4.5	2.9	-35.6
Guatemala	1.3	1.3	0.7	2.5	257.1
Canada	3.6	3.0	1.3	1.8	38.5
Mexico	0.7	1.1	1.3	1.2	-7.7
Malawi	11.3	4.1	0.4	1.2	200.0
Italy	0.0	1.4	0.4	1.0	150.0
India	1.1	0.4	0.5	0.9	80.0
Bulgaria	5.4	0.5	0.9	0.9	0.0
Indonesia	1.0	0.7	0.3	0.6	100.0
Macao	0.0	0.0	0.0	0.4	--
Netherlands	0.3	0.3	0.2	0.4	100.0
Other countries	4.5	8.2	3.5	1.1	-68.6
Total 2/	*113.2*	88.7	110.8	89.4	-19.3

-- = na. * = Less than 50,000 pounds. 1/ Preliminary. 2/ Details may not add to total due to rounding.

Source: Bureau of the Census, Reports *EM545 and IM146.*

Table 12--U.S. imports of unmanufactured tobacco for consumption and general imports, principal categories, and countries of origin, 2003-06 (declared weight)

Item 2/	Imports for consumption					General Imports (arrivals)				
	2003	2004	2005	2006 1/	Change 2005-06	2003	2004	2005	2006 1/	Change 2005-06
	--------------Million pounds--------------				Percent	--------------Million pounds--------------				Percent
Cigarette tobacco										
Leaf (unstemmed):										
Oriental										
Turkey	74.8	83.0	65.2	68.4	4.9	77.7	76.6	76.1	66.8	-12.2
Greece	16.5	10.7	18.3	10.0	-45.4	17.4	12.4	19.0	8.0	-57.9
Bulgaria	9.3	16.8	17.6	17.9	1.7	9.3	16.8	18.6	18.0	-3.2
Other countries	16.2	7.7	7.2	5.8	-19.4	14.4	9.1	6.0	5.8	-3.3
Total Oriental	116.8	118.2	108.3	102.1	-5.7	118.8	114.9	119.7	98.6	-17.6
Flue-cured	6.6	10.1	2.9	0.7	-75.9	6.6	10.1	2.9	0.7	-75.9
Burley	1.8	2.4	0.8	1.0	25.0	4.0	2.7	0.7	0.9	28.6
Other (unstemmed)	*	*	*	*	--	*	*	*	*	--
Subtotal	125.2	130.7	112.0	103.8	-7.3	129.4	127.7	123.3	100.2	-18.7
Leaf (stemmed):										
Flue-cured--										
Brazil	124.2	79.9	65.0	81.2	24.9	96.6	85.1	69.9	81.2	16.2
Argentina	13.1	10.9	9.4	16.9	79.8	11.7	9.5	13.3	15.9	19.5
Spain	0.5	1.9	1.1	6.3	472.7	0.1	1.9	0.9	6.3	600.0
Other countries	34.9	38.8	20.1	18.8	-6.5	27.3	35.8	18.9	20.9	10.6
Total flue-cured	172.7	131.5	95.6	123.2	28.9	135.7	132.3	103.0	124.3	20.7
NSPF--										
Brazil	51.6	48.6	41.2	56.5	37.1	49.7	55.5	42.8	43.4	1.4
Malawi	33.9	29.5	35.0	40.5	15.7	32.8	15.5	62.5	26.5	-57.6
Argentina	15.6	12.0	21.8	25.6	17.4	9.4	1.8	24.4	21.8	-10.7
Thailand	19.0	11.7	5.9	12.2	106.8	15.2	9.8	9.2	14.9	62.0
Guatemala	5.1	6.9	2.1	7.7	266.7	5.1	6.7	7.7	2.1	-72.7
Mexico	6.4	4.6	2.4	4.0	66.7	5.1	4.5	2.3	4.0	73.9
Philippines	0.5	1.3	1.0	2.3	130.0	0.4	1.9	2.1	0.0	-100.0
Italy	2.6	2.0	2.7	2.1	-22.2	2.4	1.8	2.6	0.6	-76.9
Bangladesh	0.9	0.5	1.2	1.1	-8.3	0.9	1.2	1.1	1.6	45.5
Other countries	7.6	6.0	2.9	2.5	-13.8	7.6	22.9	2.1	1.8	-14.3
Total NSPF	143.2	123.1	116.2	154.5	33.0	128.6	121.6	156.8	116.7	-25.6
Subtotal	441.1	385.3	323.8	381.5	17.8	393.7	381.6	383.1	341.2	-10.9
Manufactured or not manufactured categories 3/	3.3	1.9	1.4	0.8	-42.9	3.2	1.9	1.4	0.9	-35.7
Scrap:										
Subtotal	*	*	*	*	--	*	*	*	*	--
Total cigarette tobacco	444.4	387.2	325.2	382.3	17.6	396.9	383.5	384.5	342.1	-11.0
Cigar tobacco:										
Wrapper	2.7	3.0	3.7	3.2	-13.5	2.7	3.0	3.7	3.2	-13.5
Filler (stemmed and unstemmed):										
Indonesia	16.6	16.4	14.8	16.6	12.2	16.5	16.7	14.4	16.0	11.1
Italy	15.9	12.7	14.3	12.5	-12.6	1.3	11.9	14.3	13.9	-2.8
Philippines	6.5	9.5	9.3	9.5	2.2	6.6	9.4	9.3	9.3	0.0
Other countries	31.5	30.7	24.4	24.2	-0.8	48.6	33.0	25.8	32.3	25.2
Total filler	70.5	69.3	62.8	62.8	0.0	73.0	71.0	63.8	71.5	12.1
Binder	1.2	0.5	1.0	1.0	0.0	1.2	0.5	1.0	1.9	90.0
Scrap:										
Indonesia	0.1	3.1	1.0	9.6	--	0.1	3.1	1.0	9.6	860.0
Other countries	1.9	3.4	2.6	3.5	34.6	1.9	3.4	2.6	3.6	38.5
Subtotal	2.0	6.5	3.6	13.1	263.9	2.0	6.5	3.6	13.2	266.7
Total cigar tobacco	76.4	79.3	71.1	80.1	12.7	78.9	81.0	72.1	89.8	24.5
Other stemmed and unstemmed	4.3	6.2	7.9	4.8	-39.2	4.3	6.1	7.9	4.8	-39.2
Stems	113.2	88.7	111.0	89.4	-19.5	98.7	99.1	112.3	80.3	-28.5
GRAND TOTAL	638.2	561.4	515.3	566.0	9.8	578.8	569.7	577.0	517.1	-10.4

* = Negligible. -- = not available. 1/ Preliminary. 2/ Details may not add to total due to rounding. 3/ Includes tobacco, manufactured or not manufactured, except smoking tobacco in retail packages, flue-cured, and tobacco, manufactured or not manufactured, not specially provided for (other).

Source: Bureau of the Census, Report *IM146.*

Table 13--U.S. smoking tobacco exports, (January-December), 2003-06

Country	2003	2004	2005	2006 1/
	Million pounds			
Smoking tobacco in bulk:				
Dominican Republic	2.6	2.1	0.8	0.7
Korea	6.0	2.0	*	0.3
Nicaraqua	*	*	*	0.1
Indonesia	*	*	*	0.1
India	*	*	*	0.1
Japan	23.8	26.1	1.7	*
Belgium-Luxembourg	18.2	3.8	0.1	*
Russia	15.5	4.2	*	*
Spain	11.4	1.6	*	*
Austria	4.9	1.0	*	*
Czech Republic	4.7	0.9	*	*
France	0.8	0.7	*	*
Finland	3.1	0.1	*	*
Other countries	30.3	2.9	1.0	0.0
Total	121.3	45.4	3.6	1.3

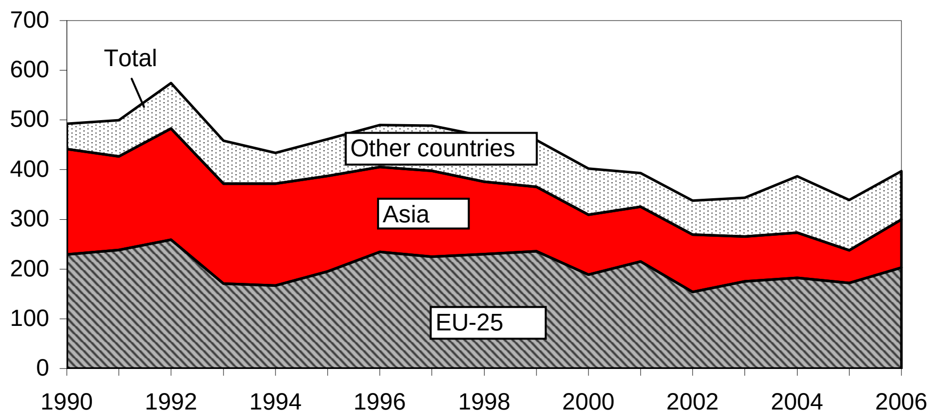
* = Negligible. 1/ Subject to revision.

Source: Bureau of the Census, Report *EM545*.

Figure 3

Export markets for U.S. tobacco

Million pounds



Unmanufactured, declared weight, European Union (EU-25, formerly referred to as the European Community, EC, or EC-12).
Source: Bureau of the Census.

stems. Last year's stem import volume was revised upward by about 10 million pounds.

General Imports Slide

General imports (arrivals) ended calendar 2006 at 517.1 million pounds, 60 million pounds below 577.0 million pounds in 2005 (revised). Oriental leaf slipped 21 million pounds to end at 98.6 million pounds, compared with 119.7 million pounds in 2005. Stemmed flue-cured imports advanced 20 million pounds to 124.3 million pounds, recovering last year's loss. Burley declined 40 million pounds to end at 116.7 million. Total cigar tobacco imports increased 18 million pounds or by 24.5 percent, ending a 2-year slide. At 89.8 million pounds, cigar tobacco imports rose due to greater imports of filler.

Cigarette Leaf Stocks Slip

U.S. stocks of imported cigarette leaf have slipped compared with a year ago. On January 1, 2007, imported cigarette leaf stocks were 767 million pounds, 22 million pounds below January 1, 2006 (table 15). Oriental stocks advanced 19 million pounds to reach 218 million pounds. Imported flue-cured stocks were 231 million pounds, 16 million pounds below January 2005. Stocks of imported burley declined 26 million pounds to 306 million pounds.

Tariff-Rate Quota Update

The tariff-rate quota (TRQ) for 2006-07 on cigarette tobacco leaf imports (excluding Oriental) was 35 percent filled as of April 9, 2007, at 114.8 million pounds. Last year at about the same time the quota was 122.4 million pounds filled. At this point, approximately half way through the TRQ year, Brazil has been the source for 66 percent of U.S. imports under the TRQ and has used 43 percent of its allocation of 176.8 million pounds, about the same as last year. The tobacco TRQ year begins on September 13 and runs through September 12 the following year. The total quantity allowed under the TRQ is 332.2 million pounds.

Table 14--Flue-cured, burley, and Oriental tobacco production in specified countries, 2003-06

Country	2003	2004	2005	2006 1/
		Metric tons (farm-sales weight)		
Flue-cured:				
China; Peoples Republic of	1,800	1,700	2,000	1,945
Brazil	480	701	694	632
India	201	238	236	235
EU 2/	141	146	149	93
Argentina	69	90	91	81
Zimbabwe	82	70	73	55
Bangladesh	40	42	42	49
Tanzania	30	41	50	47
Indonesia	36	36	38	37
Malawi	14	23	25	30
Canada	44	40	38	25
Zambia	7	16	22	23
Philippines	39	24	23	22
Thailand	23	19	18	15
South Africa	27	25	20	13
Uganda	18	20	11	10
Other	541	530	514	540
Total 3/	3,592	3,761	4,044	3,852
Burley:				
Brazil	115	144	137	133
Argentina	38	56	60	52
EU 2/	81	81	77	49
Mozambique	23	39	44	46
Thailand	43	45	42	40
China; Peoples Republic of	45	45	29	25
Mexico	17	13	11	13
Guatemala	11	13	12	11
Philippines	25	9	8	8
Other	379	441	355	358
Total 3/	777	886	775	735
Oriental:				
Turkey	108	124	131	99
Greece	58	57	54	22
Bulgaria	29	34	36	17
Macadonia	20	20	24	24
CIS 4/	66	62	58	62
Other	59	54	52	57
Total 3/	340	351	355	281

1/ Estimate, subject to change. 2/ Italy, Greece, Spain, France, Portugal, Hungary. 3/ Totals may not add due to rounding. 4/ CIS = Commonwealth of Independent States.

Source: Universal Leaf Tobacco Company, World Leaf Production Summary, February 2007.

Table 15--Imported foreign-grown cigarette leaf stocks, by quarters, 1986-2007

Year	Jan. 1	April 1	July 1	Oct. 1	Jan. 1	April 1	July 1	Oct. 1
					Million pounds 1/			
	----Foreign-grown flue-cured----				----Foreign-grown Oriental and aromatic----			
1986	231	217	258	251	346	391	375	340
1987	211	225	223	215	380	427	425	392
1988	193	199	196	212	400	376	349	296
1989	197	178	183	199	330	332	334	293
1990	181	170	188	202	325	348	339	296
1991	185	169	189	198	313	331	341	326
1992	194	191	231	269	396	405	401	356
1993	259	241	288	298	334	369	385	354
1994	277	276	296	287	350	330	349	352
1995	339	352	331	352	342	342	328	280
1996	364	391	391	406	308	428	332	306
1997	400	384	451	435	323	352	369	334
1998	434	406	416	395	335	356	352	339
1999	377	352	350	341	344	328	329	292
2000	352	302	300	303	295	271	261	241
2001	297	282	284	282	220	230	223	208
2002	281	261	265	282	204	216	214	199
2003	267	248	263	191	202	195	197	191
2004	262	251	270	271	194	205	208	200
2005	251	242	254	159	210	218	218	115
2006	247	206	226	239	199	222	219	192
2007	231				218			
	-----Foreign-grown burley-----				----Total imported cigarette leaf----			
1986	258	248	251	250	835	856	884	841
1987	240	232	225	199	831	884	873	805
1988	195	175	168	159	787	750	713	667
1989	171	157	170	151	698	667	687	643
1990	153	154	148	167	659	672	675	664
1991	166	159	180	228	664	660	710	752
1992	235	224	230	247	825	820	862	872
1993	259	285	296	319	866	895	969	972
1994	295	281	292	295	922	887	936	934
1995	323	326	298	305	1,003	1,019	957	937
1996	312	298	290	311	998	1,128	1,024	1,032
1997	310	221	325	374	1,043	966	1,156	1,154
1998	368	325	300	325	1,149	1,097	1,079	1,070
1999	315	297	280	286	1,046	988	970	930
2000	303	281	269	283	959	866	840	837
2001	284	269	238	269	791	790	753	766
2002	308	282	251	275	801	767	737	763
2003	268	285	269	279	745	735	737	756
2004	300	276	249	236	773	738	736	716
2005	248	263	267	230	718	731	748	694
2006	330	303	296	304	789	743	752	746
2007	306				767			

1/ Farm-sales weight.

Source: USDA Agricultural Marketing Service, *Tobacco Stocks* , various issues.

Table 16--U.S. exports of unmanufactured tobacco by types, to principal importing countries, crop years, 2005/06-2006/07 (declared weight) 1/

		Marketing year through January	
Importing country	2005/06	2005/06	2006/07 2/
		Million pounds	
		Flue-cured	
Germany	41.7	31.8	40.5
Netherlands	17.1	14.0	15.1
Switzerland	21.7	15.7	11.9
China	18.4	0.8	7.9
Russia	6.0	4.8	4.5
Turkey	4.9	4.8	4.1
South Korea	8.1	3.4	3.7
Poland	3.9	3.7	3.7
Malaysia	6.0	4.6	3.4
Portugal	2.1	2.1	3.2
Indonesia	5.0	4.0	2.4
Italy	2.0	1.4	2.3
Australia	4.8	1.7	1.9
Taiwan	4.9	1.4	1.8
Denmark	3.4	2.3	1.8
France	3.4	3.4	1.5
Philippines	5.9	3.7	1.0
Thailand	3.0	*	0.6
United Kingdom	2.0	1.4	*
Hungary	1.7	0.1	*
Other countries	10.0	7.2	14.8
Total	176.0	112.3	126.1
		Burley	
Germany	19.1	3.8	7.0
Lithuania	10.9	3.5	2.9
Czech Republic	6.0	3.5	1.9
Greece	6.5	2.7	2.4
Russia	6.6	2.1	0.7
Romania	6.8	2.1	1.5
Poland	2.5	1.9	0.6
Switzerland	8.0	1.7	1.0
Spain	4.1	1.1	0.9
Austria	3.5	0.9	0.8
Netherlands	17.7	0.8	2.1
Portugal	0.9	0.7	1.1
Ukraine	11.9	0.7	6.7
Other countries	25.8	4.0	7.3
Total	130.3	29.5	36.9
		Thousand pounds	
		Maryland	
Indonesia	1,213	127	590
Bulgaria	117.0	*	38
Germany	13	15	*
Other countries	408	120	0
Total	1,751	262	628
		KY-TN Fire-cured	
Netherlands	1,893	1,024	251
Egypt	1,038		
Nigeria	770	232	31
Sri Lanka	753	465	266
Belgium	442	171	209
Indonesia	100	*	*
Germany	92	*	21
Other countries	104	152	18
Total	5,192	2,044	796

		Marketing year through January	
Importing country	2005/06	2005/06	2006/07 2/
		Thousand pounds	
		Virginia fire-and sun-cured	
Cominican Republic	42	1	3
Other countries	14	0	2
Total	56	1	5
		Binder	
Dominican Republic	1,084	201	1,436
Honduras	520	*	1,381
Nicaragua	117	*	101
Other	695	404	(939)
Total	1,779	605	497
		Cigar wrapper	
Dominican Republic	1,404	760	1,436
Honduras	1,275	1,275	1,381
Nicaragua	94	67	101
Panama	2	*	*
Spain	*	*	*
Other countries	2	2	8
Total	2,777	2,104	2,926
		Million pounds	
		Other leaf	
Dominican Republic	6.4	3.1	3.2
Nigeria	4.1	1.7	0.2
Japan	3.9	1.8	1.8
Brazil	1.9	0.6	0.5
Indonesia	1.2	*	*
Austria	0.9	0.2	0.1
Germany	0.8	0.2	0.6
Belgium	0.7	0.5	0.1
Canada	0.7	0.1	*
Taiwan	0.6	0.2	0.2
France	0.5	0.5	*
Honduras	0.4	0.1	0.1
Argentina	0.4	0.2	*
Other countries	2.2	0.5	0.8
Total	24.7	9.7	7.6
		Stems, trimmings, and scrap	
Germany	6.6	0.6	2.0
Switzerland	4.9	*	1.6
Dominican Republic	4.8	3.1	*
France	3.4	0.5	2.5
Denmark	3.1	0.1	1.2
Belgium	1.4	0.4	0.7
Mexico	0.8	*	2.5
Russia	0.7	*	0.8
Australia	0.7	*	0.4
Sweden	0.1	*	*
Taiwan	0.8	0.2	0.9
Nigeria	0.7	1.7	*
Italy	0.4	*	*
Israel	0.5	*	0.2
Bangladesh	0.2	*	*
Other countries	3.0	4.6	2.2
Total	29.5	9.3	13.9

* = zero or negligible. * = Less than 50,000 pounds.

1/ July-June crop year for flue-cured and cigar wrapper; October-September crop year for all other types except October-June for 1995/96. 2/ Subject to revision.

Data may not add to total because of rounding.

Source: Bureau of the Census, Reports *EM545* and *IM146*.

Tobacco Leaf

Domestic Supplies Slip for 2006/07

Tobacco production in 2006 recovered from 2005's record low, regaining 13 percent to reach an estimated 726.7 million pounds. Marketings were close to production at 726.3 million pounds. For 2005, marketings combined with beginning stocks of 1.2 billion pounds resulted in 2006 supplies of about 1.9 billion pounds, compared with last season's 2.1 billion pounds.

With grower harvest intentions as of March 1st of 344,170 acres, a crop of about 720 million pounds is likely, given historical yields. Assuming steady stocks, leaf supplies in 2007/08 should be close to 1.6 billion pounds, 13 percent below the 2006/07 season.

Flue-Cured Tobacco

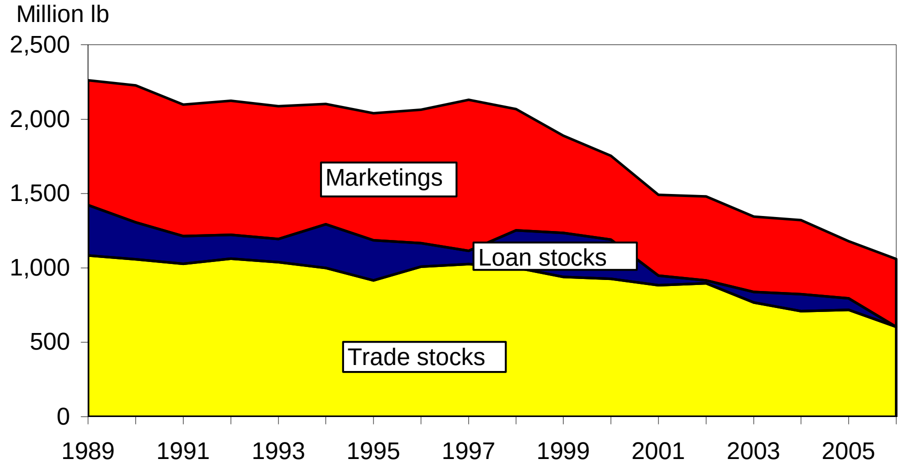
July-December disappearance of flue-cured tobacco rose 56 percent compared with the same period last season (table 17). Disappearance for the first half of the 2006/07 marketing year was estimated at 380 million pounds, compared with 244 million pounds in 2005/06. Yearend disappearance is likely to be close to 550 million pounds, assuming ending stocks in the range of 500 million pounds. Increased exports through January moderated the decline in disappearance.

During the July-January period, Germany increased purchases 27 percent to 40.5 million pounds, declared weight, while the Netherlands increased takings by 1.1 million pounds. China boosted imports by 7 million pounds, while Switzerland reduced imports by nearly 4 million pounds. During the 7-month period, flue-cured exports totaled 126.1 million pounds compared with 112.3 million pounds (revised) the same time last season. During the 2005/06 marketing year, flue-cured shipments totaled 176.0 million pounds.

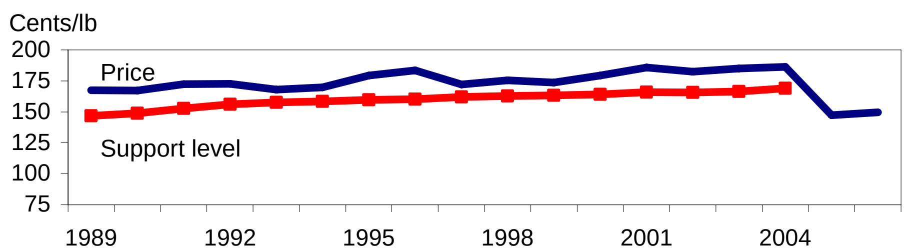
For 2007/08, March 1st harvest intentions for flue-cured tobacco are down 1 percent, from last season's actual acreage. Given typical yields, the 212,000 acres to be harvested should result in a crop of about 450 million pounds, a few million pounds above last season.

Figure 4

Flue-cured tobacco: Supply, price, and use



Trade stocks include those of manufactures and dealers.
Source: Agricultural Marketing Service, USDA.



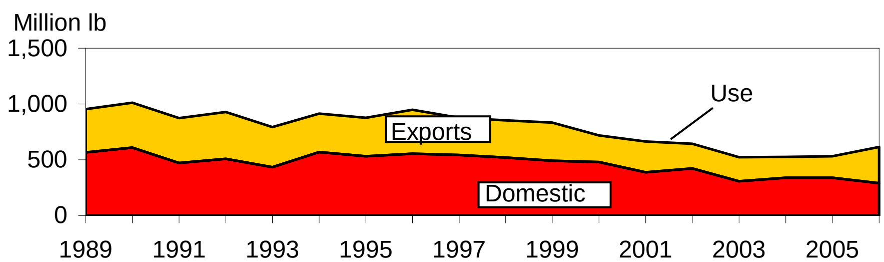


Table 17--Flue-cured tobacco, types 11-14, and burley tobacco, type 31: Acreage, yield, marketings, carryover, supply, disappearance, season average price, and price support operations, 1996-2007 (farm-sales weight)

Marketing year 1/	Acreage harvested	Yield per acre	Marketings 2/	Beginning stocks 1/: Manufacturers and others	Beginning stocks 1/: Under loan	Beginning stocks 1/: Total	Total supply
	1,000 acres	Pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
Flue-cured, types 11-14							
1996	422.2	2,151	897.3	1,008.9	157.6	1,166.4	2,063.8
1997	458.3	2,285	1,013.5	1,025.1	91.5	1,116.5	2,130.0
1998	368.8	2,204	814.8	1,002.2	250.9	1,253.2	2,068.0
1999	303.8	2,162	653.9	939.7	294.6	1,234.3	1,888.2
2000	250.0	2,396	564.1	925.6	263.9	1,189.5	1,753.6
2001	238.1	2,432	544.4	936.2	100.2	1,036.4	1,580.8
2002	238.1	2,064	564.8	896.5	19.4	915.9	1,480.7
2003	233.4	1,957	507.7	766.8	70.9	837.7	1,345.3
2004	228.4	2,283	499.3	708.8	114.0	822.8	1,322.2
2005	174.5	2,182	380.9	716.9	79.0	796.0	1,176.8
2006	213.1	2,095	446.5	604.0	0.0	604.0	1,050.5
2007 3/	212.0	2,122	449.9				
Burley, type 31							
1996	268.3	1,940	526.8	677.9	212.5	890.4	1,417.2
1997	335.3	1,934	8 628.2	645.4	105.6	751.0	1,379.2
1998	315.4	1,960	B 588.7	647.8	183.8	831.6	1,421.9
1999	300.6	1,829	/ 551.2	737.1	164.3	901.4	1,452.6
2000	193.8	1,957	315.4	619.4	420.7	1,040.0	1,355.5
2001	167.6	2,033	343.7	570.2	119.3	689.5	1,033.1
2002	157.7	1,861	299.8	516.7	131.1	647.9	947.7
2003	152.3	1,850	271.7	442.4	135.7	578.2	849.9
2004	153.2	1,908	143.1	412.3	127.7	540.0	820.1
2005	100.2	2,031	203.4	413.9	78.7	492.6	696.0
2006	103.6	2,095	217.1	403.4	0.0	403.4	620.5
2007 3/	107.5	1,949	209.5				

Marketing year 1/	Disappearance: Total	Disappearance: Domestic	Disappearance: Exports	Average price per pound	Price support level 4/	Placed under loan: Quantity	Placed under loan: % of crop
	Million pounds	Million pounds	Million pounds	Cents	Cents	Million pounds	Percent
Flue-cured, types 11-14							
1996	946.6	555.4	391.2	183.4	160.1	1.8	0.2
1997	876.8	542.5	334.3	172.0	162.1	195.5	19.4
1998	833.7	492.1	341.6	175.5	162.8	82.4	10.2
1999	698.7	436.9	261.8	173.6	163.2	136.4	21.2
2000	717.2	479.2 4/	238.0	179.3	164.0	27.4	4.6
2001	664.9	388.9 4/	276.0	185.7	166.0	15.0	2.6
2002	643.0	423.4	219.6	182.5	165.6	24.8	4.8
2003	522.5	307.0	215.5	185.1	166.3	59.8	11.8
2004	526.2	337.6	188.6	184.5	169.0	94.9	18.5
2005	572.8 5/	314.4 5/	258.4 5/	147.4	6/	6/	6/
2006	550.5 5/	260.3 5/	290.2 5/	149.7	6/	6/	6/
Burley, type 31							
1996	666.2	456.8	209.4	192.2	173.7	0.0	0.0
1997	547.6	379.2	168.4	188.5	176.0	124.5	0.2
1998	520.5	351.6	168.9	190.3	177.8	73.2	12.4
1999	412.5	503.8	139.3	189.8	178.9	230.6	42.0
2000	666.0	524.0 4/	142.0	196.3	180.5	19.3	4.8
2001	385.2	245.4 4/	139.8	197.3	182.6	12.4	3.5
2002	369.6	220.9	148.6	197.4	183.5	24.3	31.0
2003	309.8	136.2	173.7	197.7	184.9	40.2	14.8
2004	327.5	99.9	227.6	199.4	187.3	48.0	16.4
2005	292.6	84.1	208.5	156.4	6/	6/	6/
2006	305.5 5/	100.5 5/	205.0 5/	163.8	6/	6/	6/

1/ July 1 for flue-cured; October 1 for burley. 2/ Actual marketings in the marketing year. 3/ September 1 Crop Production estimate used for acreage, yield, and marketings. 4/ 1999 loan forgiveness stocks included (230 million pounds burley, 78 million pounds flue-cured).
5/ Estimated. 6/ Price supports terminated beginning in 2005.

Sources: Agricultural Marketing Service, *Agricultural Prices Report*, various issues; *Tobacco Stocks Report*, various issues; *Flue-cured and Burley Tobacco Market Reviews*, various issues, National Agricultural Statistics Service, *Crop Production Report*, various issues; *Prospective Plantings*, March 2007; and U.S. Department of Commerce Census Bureau, Reports EM545 and IM146.

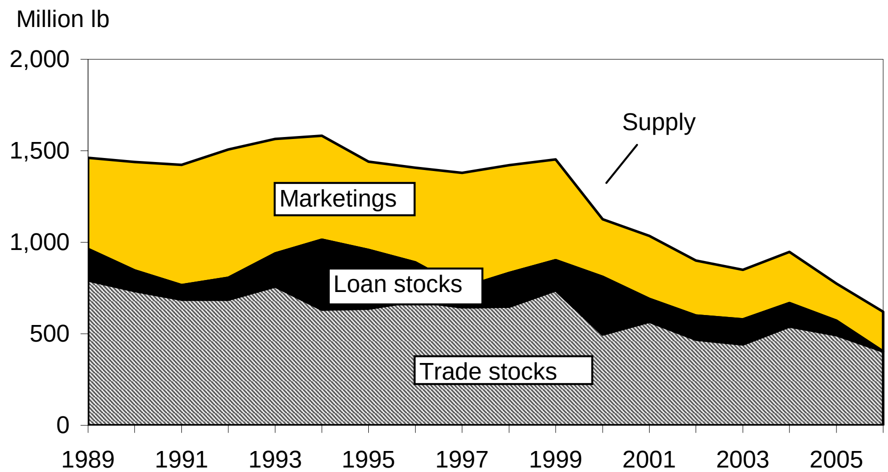
Burley Tobacco

Disappearance in 2006/07 is expected to advance 4 percent from 2005/06 (table 17). October-December 2006 use was 198 million pounds, compared with 189 million pounds during the same period in 2005. However, use is expected to slow slightly during the final three-quarters and end at just over 300 million pounds. Export shipments during October 2006-January 2007 (the first 4 months of the 2006/07 marketing year) were 36.9 million pounds, compared with 29.5 million pounds for the same period last season. This season, domestic use is expected to recover to about 100 million pounds, and exports will change little.

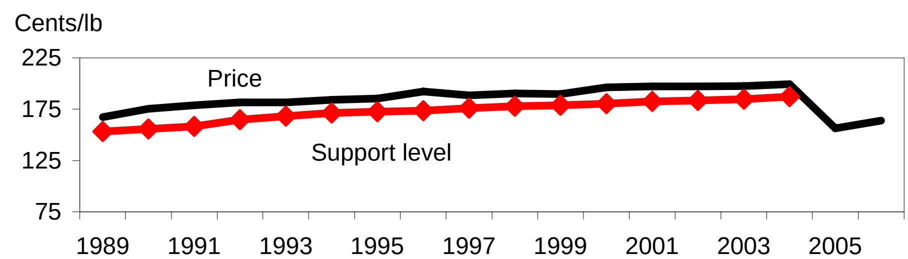
Farmers indicated as of March 1 their intention to harvest 107,500 acres of burley tobacco in 2007/08. Last season, 2006/07, intentions were 83,500 acres, but harvested acreage was 103,600 acres. This season's intentions are 4 percent over last year's harvested acreage. Acreage in 2004, the last year of the marketing quota and price support program, was 153,150 acres. With normal yields, the 2007 crop should be about 210 million pounds, about 8 million pounds below the 2006/07 crop. On-farm carryover is expected to be very small, with most tobacco being sold under contract.

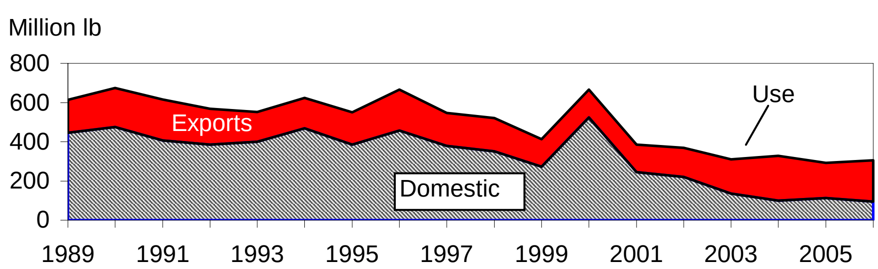
Figure 5

Burley tobacco: Supply, price, and use



Trade stocks include those of manufacturers and dealers.
Source: Agricultural Marketing Service, USDA.





Maryland Tobacco

Maryland tobacco (type 32) is grown in southern Maryland and Pennsylvania. For the first time since 1939, there will be no tobacco March auction in Hughesville in 2007. Auction sales for 2005/06 opened on March 21, 2006 and lasted for 3 days. During last year's auction, 321,000 pounds were sold, compared with 1.4 million pounds in 2004/05. The price averaged $153.7 per hundredweight (cwt). Production of type 32 in Maryland since 2005/06 is not available as data collection in the State of Maryland has ceased. In 2004/05, 1.9 million pounds were produced in Maryland. Production of Maryland-type tobacco in Pennsylvania reached 2.1 million pounds in 2006/07, compared with 3.0 million pounds in 2005/06, and 4.0 million pounds in 2004/05. In 2004/05, Maryland production (including both Pennsylvania and Maryland) was 5.8 million pounds (table 18).

Maryland-type leaf production declined in Maryland mostly because of the impact of the State-run tobacco buyout, which restricted future production of tobacco by participants. Now that the restrictions of the USDA tobacco program have ended, producers in Pennsylvania have shifted from Maryland and cigar binder types to burley, which is currently in greater demand.

Disappearance of Maryland-type leaf during the first quarter of 2006/07 was 2.4 million pounds, compared with 4.2 million pounds the same period a year earlier. Disappearance for the entire marketing year is expected to be about 2.6 million pounds, compared with 4.8 million in 2005/06.

Harvest intentions for Maryland tobacco in Pennsylvania for 2007/08 indicate 1,100 acres will be planted, which under normal conditions will produce about 2.0 million pounds of leaf. Harvest intentions are not available for the State of Maryland.

Table 18--Southern Maryland tobacco, type 32: Acreage, yield, production, carryover, supply, disappearance, season-average price, 1996-2007 (farm-sales weight)

Marketing year 1/	Acreage harvested	Yield per acre	Supply: Production	Supply: Stocks following Jan. 1 2/	Supply: Total	Disappearance: Total	Disappearance: Domestic	Disappearance: Exports	Avg. grower price per pound
	1,000 acres	Pounds	----------	----------	Million pounds	----------	----------	----------	Cents
1996	11.4	1,451	16.5	15.0	31.6	12.9	6.4	6.4	185.6
1997	11.2	1,629	18.2	18.7	36.9	16.3	9.8	6.5	158.5
1998	9.8	1,568	15.4	20.6	36.0	20.0	13.8	6.2	129.1
1999	9.5	1,511	14.4	16.0	30.4	17.0	12.8	4.2	134.5
2000	8.4	1,595	13.4	13.4	26.8	17.1	12.7	4.4	138.7
2001	3.3	1,620	5.3	9.7	15.0	6.8	4.1	2.7	155.4
2002	2.5	1,682	4.2	8.2	12.4	5.2	3.5	1.8	125.0
2003	2.4	1,748	4.2	7.2	11.4	6.4	4.6	1.8	130.0
2004	3.3	1,767	5.8	5.0	10.8	8.2	6.9	1.3	125.0
2005	1.5	2,000	3.0	2.6	5.6	4.8	3.2	1.6	135.0
2006 3/	1.1	1,900	2.1	0.8	2.9	2.6	1.6	1.0	155.0
2007 4/	1.1	1,819	2.0						

1/ Year beginning October 1. 2/ Adjusted to reflect calendar 1987-1996 sales of tobacco produced in Pennsylvania. 3/ Betinning in 2005, does not include Maryland. 4/ March 1 crop estimate.

Sources: Agricultural Marketing Service, *Agricultural Prices Report* , various issues; *Tobacco Stocks Report* , various issues; *Flue-cured and Burley Tobacco Market Reviews* , various issues, National Agricultural Statistics Service, *Crop Production Report* , various issues; Prospective Plantings, March 2007; and U.S. Department of Commerce Census Bureau, Reports EM545 and IM146.

Fire-Cured Tobacco

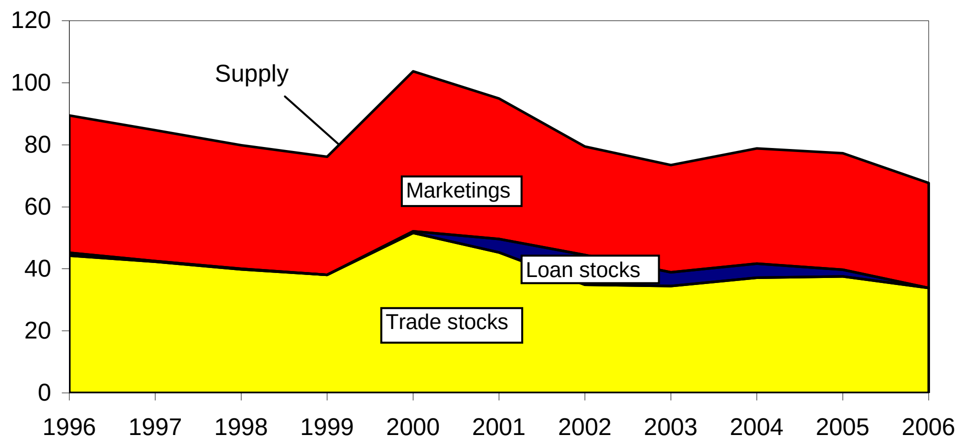
Production of fire-cured tobacco (types 21-23) during 2006/07 is estimated at 38.7 million pounds, 3 percent over the previous season (table 19). Yields increased 143 pounds per acre. Supply for 2006 is estimated at 140.2 million pounds, 2.3 million pounds below 2005. During the first 3 months of the crop year, disappearance advanced 2 percent. End-of-year disappearance is expected to approach 40 million pounds. Domestic use will increase and exports will decline.

For 2007/08, grower harvest intentions for Kentucky-Tennessee fire-cured tobacco (types 22 and 23) indicate an increase in acreage to 12,700 acres. Last season, intentions were 11,400 acres, compared with 2006/07 actual acreage of 11,300 acres. With normal yields, production in 2007/08 should be about 41.5 million pounds, 3.3 million pounds over the 2006/07 season.

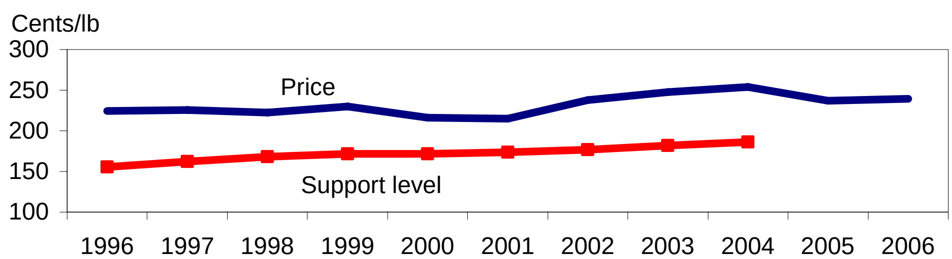
March 1 harvest intentions indicate growers of Virginia fire-cured tobacco will plant the same acreage as the previous season. Production is expected in the 0.6 to 0.8 million pound range.

Figure 6

Fire-cured tobacco: Supply, price, and use



Trade stocks include those of manufacturers and dealers. Crop year beginning July 1. 2001 and 2002 are preliminary.
Source: Agricultural Marketing Service, USDA.



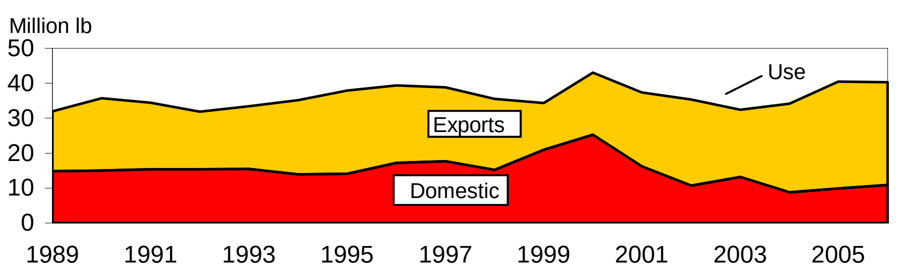


Table 19--Fire-cured tobacco, Kentucky-Tennessee, types 22-23, and Virginia fire-cured, type 21: Acreage, yield, production, carryover, supply, disappearance, season-average price, and price support operations, 1996-2007 (farm-sales weight)

Marketing year 1/	Acreage harvested	Yield per acre	Production	Beginning stocks: Manufacturers and others	Beginning stocks: Under loan	Beginning stocks: Total	Total supply
	1,000 acres	Pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
			Kentucky-Tennessee fire-cured, types 22-23				
1996	15.5	2,745	42.5	79.3	0.9	80.2	122.7
1997	15.4	2,625	40.3	83.2	0.1	83.3	123.6
1998	15.3	2,444	37.5	84.6	0.2	84.8	122.3
1999	15.0	2,365	35.4	86.7	0.0	86.7	122.1
2000	16.2	3,023	49.1	87.8	0.0	87.8	136.9
2001	13.4	3,211	43.1	89.8	4.0	93.8	136.9
2002	10.2	3,265	33.4	90.8	8.7	99.5	132.9
2003	10.7	3,147	33.7	93.2	4.4	97.6	131.2
2004	11.0	3,249	35.8	94.3	4.5	98.8	134.6
2005	11.5	3,209	36.9	98.4	2.1	100.5	137.4
2006	11.3	3,319	37.5	98.5	0.0	98.5	136.0
2007 2/	12.7	3,238	41.1				
			Virginia fire-cured, type 21				
1996	1.1	1,580	1.7	3.4	0.1	3.5	5.2
1997	1.2	1,640	2.0	2.3	0.1	2.4	4.4
1998	1.5	1,560	2.3	2.4	0.0	2.4	4.7
1999	1.6	1,670	2.7	2.6	0.0	2.7	5.3
2000	1.3	1,700	2.5	3.0	0.4	3.4	6.0
2001	1.2	1,835	2.2	3.9	0.3	4.2	6.4
2002	0.7	2,015	1.5	3.9	0.9	4.8	6.3
2003	0.6	1,525	0.8	4.3	0.0	4.3	5.1
2004	0.7	1,895	1.3	3.8	0.0	3.8	5.1
2005	0.3	2,150	0.7	4.2	0.1	4.3	5.1
2006	0.4	2,100	0.7	3.4	0.0	3.4	4.1
2007 2/	0.4	1,937	0.7				

Marketing year 1/	Disappearance: Total	Disappearance: Domestic	Disappearance: Exports	Price per pound	Support level	Placed under loan: Quantity	Placed under loan: % of crop
	Million pounds	Million pounds	Million pounds	Cents	Cents	Thousand pounds	Percent
			Kentucky-Tennessee fire-cured, types 22-23				
1996	39.4	22.1	17.2	224.5	155.7	71	0.2
1997	38.9	21.2	17.7	225.6	162.3	368	0.9
1998	35.5	20.4	15.2	222.5	168.1	218	0.6
1999	34.3	13.4	21.0	229.8	171.6	28	0.1
2000	43.1	17.8	25.3	216.3	171.6	4,850	9.9
2001	37.4	21.2	16.2	214.9	173.6	6,904	16.0
2002	35.3	24.7	10.7	237.8	176.7	488	1.5
2003	32.4	19.2	13.2	245.5	181.7	14	0.0
2004	34.1	25.3	8.8	251.3	186.3	28	0.1
2005	38.9	29.1	9.8	237.7	4/	4/	4/
2006	39.2 3/	28.4 3/	10.8 3/	240.0	4/	4/	4/
			Virginia fire-cured, type 21				
1996	2.8	0.3	2.5	179.0	145.5	27.0	1.6
1997	2.0	1.4	0.6	212.5	149.8	0.0	0.0
1998	2.0	1.5	0.6	193.6	153.6	153.0	6.5
1999	1.9	0.9	1.0	181.9	155.9	407.0	15.2
2000	1.8	0.8	1.0	163.7	155.9	607.0	23.8
2001	1.6	1.4	0.2	175.8	157.2	495.0	22.5
2002	2.0	1.9	0.1	188.4	160.3	18.2	1.2
2003	1.4	1.3	0.1	164.1	163.6	35.2	4.2
2004	0.8	0.3	0.5	179.8	163.6	268.5	20.0
2005	1.6	1.5	0.1	197.4	4/	4/	4/
2006	1.1 3/	1.0 3/	0.1 3/	2.0	4/	4/	4/

1/ Marketing year beginning October 1. 2/ September 1 Crop Production estimate used for acreage, yield, and marketings.. 3/ Estimate.

4/ Price supports terminated beginning in 2005.

Sources: Agricultural Marketing Service, *Agricultural Prices Report* , various issues; *Tobacco Stocks Report* , various issues;
Flue-cured and Burley Tobacco Market Reviews , various issues, National Agricultural Statistics Service, *Crop Production Report* , various issues;
Prospective Plantings , March 2007; and U.S. Department of Commerce Census Bureau, Reports EM545 and IM146.

Dark Air-Cured (Types 35-36)

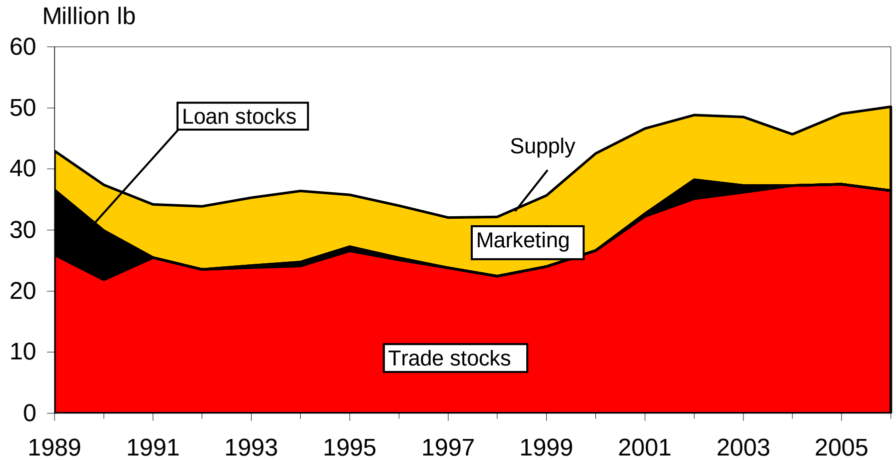
The 2006/07 crop of dark air-cured tobacco is estimated at 13.8 million pounds, 2.2 million pounds greater than for the previous season. Beginning stocks as of October 2006 were slightly smaller than in the previous season, which resulted in supplies for 2006 of 50.2 million pounds, compared with 49.1 million the previous season. Disappearance for the first quarter of 2006 recovered by 2.4 million pounds, and yearend disappearance is projected at about 14.9 million pounds. Estimated yearend disappearance will likely be close to 11.8 million pounds, 2.3 million pounds over last season (table 20).

Grower harvest intentions as of March 1, 2007 indicate 4,850 acres will be planted to One Sucker and Green River dark air-cured (types 35-36) tobacco, 8 percent greater than last season's actual harvest. With usual yields, production in 2007/08 should be about 13.8 million pounds, slightly over the previous season.

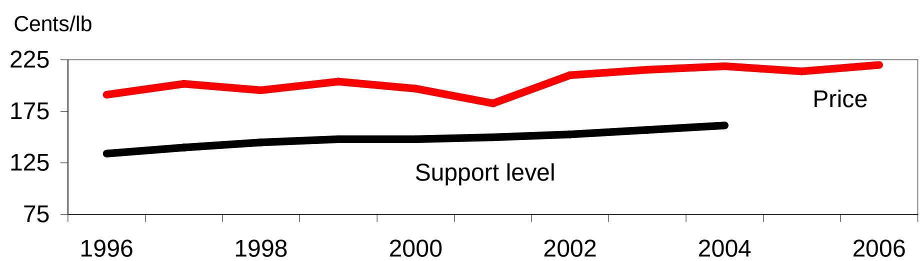
There has been no Virginia sun-cured (type 37) tobacco production since 2004 and none is intended for 2007. Supplies in 2006, consisting solely of stocks, totaled 25,000 pounds.

Figure 7

Dark air-cured tobacco: Supply, price, and use



Trade stocks include those of manufacturers and dealers. Crop year beginning October 1. 2001 and 2002 are preliminary.
Source: Agricultural Marketing Service, USDA.



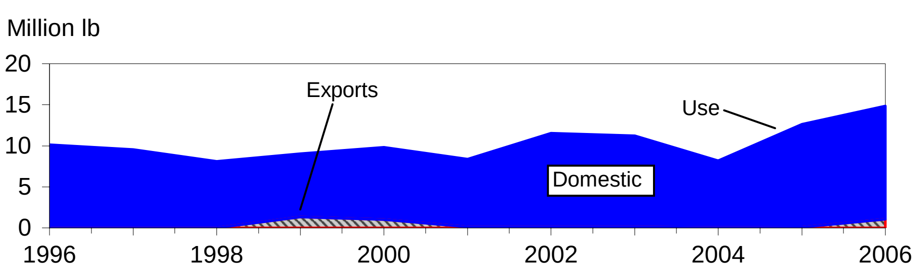


Table 20--Dark air-cured tobacco, types 35-36, and sun-cured tobacco, type 37: Acreage, yield, production, carryover, supply, disappearance, season-average price, and price support operations, 1996-2007 (farm-sales weight)

Marketing year 1/	Acreage harvested	Yield per acre	Production	Beginning stocks: Manufacturers and others	Beginning stocks: Under loan	Beginning stocks: Total	Total supply
	1,000 acres	Pounds	Million pounds				
Dark air-cured, types 35-36							
1996	3.8	2,262	8.6	25.1	0.3	25.4	34.0
1997	3.6	2,258	8.2	23.8	0.0	23.8	32.0
1998	4.3	2,229	9.7	22.5	0.0	22.5	32.1
1999	5.0	2,328	11.6	24.0	0.0	24.0	35.7
2000	5.5	2,901	15.9	26.6	0.0	26.6	42.5
2001	5.0	2,807	13.9	32.2	0.5	32.7	46.6
2002	3.8	2,811	10.6	35.1	3.1	38.3	48.8
2003	4.1	2,746	11.2	36.2	1.1	37.3	48.5
2004	4.2	2,816	11.8	37.3	0.0	37.3	49.1
2005	4.2	2,778	11.5	37.5	0.0	37.5	49.1
2006	4.5	3,061	13.8	36.4	0.0	36.4	50.2
2007 2/	4.9	2,842	13.8				
Sun-cured, type 37							
1995	0.1	1,600	0.1	0.0	*	0.05	0.10
1996	0.1	1,490	0.1	0.0	*	0.02	0.14
1997	0.1	1,220	0.1	0.0	*	0.05	0.17
1998	0.1	1,550	0.2	0.1	*	0.07	0.23
1999	0.1	1,650	0.2	0.1	*	0.09	0.25
2000	0.1	1,540	0.2	0.2	*	0.18	0.34
2001	0.1	1,655	0.1	0.1	*	0.11	0.23
2002	0.1	1,400	0.1	0.1	*	0.10	0.18
2003	0.1	1,770	0.1	0.1	*	0.11	0.23
2004	na	na	0.0	0.1	*	0.05	0.05
2005 5/				0.0	*	0.03	0.03
2006						0.02	0.02

Marketing year 1/	Disappearance: Total	Disappearance: Domestic	Exports	Avg. price per pound	Avg. support level	Placed under loan: Quantity	Placed under loan: % of crop
	Million pounds			Cents		Thousand pounds	Percent
Dark air-cured, types 35-36							
1996	10.1	10.1	0.0	191.1	133.9	20.0	0.2
1997	9.6	9.6	0.0	201.7	139.8	14.0	0.2
1998	8.1	8.1	0.0	195.5	145.0	73.0	0.8
1999	9.0	7.7	1.3	203.9	148.1	48.0	0.4
2000	9.8	8.8	1.0	197.1	148.1	810.0	5.1
2001	8.4	8.3	0.1	182.9	149.9	1615.0	11.6
2002	11.5	11.4	0.1	210.1	152.6	151.3	1.4
2003	11.2	11.2	0.0	215.4	157.1	182.5	1.6
2004	11.5	11.5	0.1	218.7	161.2	293.9	2.5
2005	12.6	12.6	0.1	213.7	4/	4/	4/
2006	14.9 3/	13.8 3/	1.1 3/	220.0	4/	4/	4/
Sun-cured, type 37							
1995	0.08	*	0.05	178.20	128.80	0.00	0.00
1996	0.10	*	0.05	190.80	132.60	0.00	0.00
1997	0.10	*	0.04	170.90	136.00	8.70	7.13
1998	0.14	*	0.04	159.00	138.00	21.60	13.94
1999	0.07	*	0.05	180.00	138.00	4.00	2.42
2000	0.22	*	0.00	182.20	139.20	38.00	24.68
2001	0.13	*	0.00	206.10	142.90	1.20	1.03
2002	0.08	*	0.00	208.60	145.80	1.24	1.47
2003	0.18	*	0.00	210.20	145.80	25.99	20.64
2004	0.02	*	0.00	0.00	0.00	0.00	0.00
2005	0.02	0.02	0.00	5/	4/	4/	4/

* = Negligible. 1/ Marketing year beginning October 1. 2/ September 1 Crop Production estimate used for acreage, yield, and marketings.. 3/ Estimate.

4/ Price supports terminated beginning in 2005. 5/ No Virginia sun-cured produced beginning in 2005.

Sources: Agricultural Marketing Service, *Agricultural Prices Report* , various issues; *Tobacco Stocks Report* , various issues;
Flue-cured and Burley Tobacco Market Reviews , various issues, National Agricultural Statistics Service, *Crop Production Report* , various issues;
Prospective Plantings , March 2007; and U.S. Department of Commerce Census Bureau, Reports EM545 and IM146.

Cigar Tobacco

Filler Tobacco

The supply of filler tobacco totaled 13.4 million pounds in 2006 (table 21). Lower disappearance in 2005 resulted in higher beginning stocks, boosting supply to 13.4 million pounds. First-quarter disappearance is ahead of the previous year, and disappearance in 2006/07 is expected to advance to about 2.9 million pounds from 2.0 million pounds

March 1 harvest intentions, at 1,800 acres, were 500 acres higher than the previous year's actual harvest acreage. Production may increase by as much as a million pounds. Type 41 filler tobacco is nearly all used by domestic industry.

The shift to burley production by cigar filler growers in Pennsylvania is likely to continue this season. Nearly all type 41 is sold at the farm gate. Most Pennsylvania seedleaf filler is sold during March and April.

Binder Tobaccos

Connecticut Valley Broadleaf binder tobacco (type 51) harvest intentions were 2,700 acres as of March 1, 2007, 50 acres greater than last year's actual acreage. With usual yields, production in 2007/08 should reach 4.4 million pounds. Disappearance during the first quarter of marketing year 2005/06 was up 7 percent from the same period last season. Disappearance at the end of the first quarter of the 2006 marketing year (October-December 2006) is projected at 4.5 million pounds, compared with 4.0 million pounds the same quarter last season. Disappearance in 2006/07 was 4.5 million pounds.

Wisconsin binder production data is no longer collected. Supplies of Wisconsin binder for 2006/07, including tobacco produced during this season, were 7.5 million pounds, compared with 8.5 million pounds last season.

Planting intention estimates were discontinued for Wisconsin binder tobacco (types 54 and 55) beginning in 2005. Southern Wisconsin binder (type 55) is expected to be produced in 2007/08, but no production of Northern Wisconsin binder (type 54) is expected.

Wrapper Tobacco

Production of Connecticut Valley cigar wrapper (type 61) tobacco in 2006/07 reached 1.5 million pounds, slightly lower than 2005. Acreage continued shrinking, but yield was up. Harvest was 1,050 acres. For 2007/08, harvest intentions as of March 1 indicate 1,170 acres will be harvested. Last season, 1,050 acres were harvested after intentions of 1,100 acres. Assuming usual yields, 2007/08 production should be slightly above last season at about 1.6 million pounds. For the 2006/07 marketing year, disappearance of Connecticut Valley cigar wrapper is expected to increase to about 2.6 million pounds.

Table 21--Cigar tobacco, types 41-61: Domestic supplies, disappearance, and season-average prices, 1996-2007 (farm-sales weight)

Crop year 1/	Acreage harvested	Yield per acre	Supply: Production	Supply: Beginning stocks 1/	Supply: Total supply	Disappearance: Total	Disappearance: Domestic	Disappearance: Exports	Avg. price per pound to growers
	1,000 acres	Pounds	Million pounds						Cents
Pennsylvania seedleaf filler (type 41)									
1996	4.8	2,140	10.3	17.9	28.2	15.0	15.0	*	155.0
1997	4.8	2,140	10.3	17.9	28.2	15.0	15.0	*	160.0
1998	4.5	2,100	9.5	13.0	22.1	10.7	10.7	*	130.0
1999	4.5	2,100	9.5	13.0	22.1	10.7	10.7	*	130.0
2000	2.4	2,100	5.0	9.5	14.6	2.5	2.5	*	7/
2001	2.4	2,100	5.0	9.5	14.6	2.5	2.5	*	na
2002	2.1	2,100	4.4	12.3	16.7	6.0	6.0	*	145.0
2003	2.1	2,100	4.4	12.3	16.7	6.0	6.0	*	140.0
2004	1.8	2,300	4.1	9.7	13.9	4.0	4.0	*	145.0
2005	1.8	2,300	4.1	9.7	13.9	4.0	4.0	*	145.0
2006 2/	1.3	2,000	2.6	10.8	13.4				155.0
2007 3/	1.8	2,160	3.9						
Connecticut Valley binder (types 51-52)									
1996	1.6	1,780	2.9	1.6	4.5	3.3	2.9	0.4	628.0
1997	2.0	1,783	3.6	1.2	4.8	2.8	2.2	0.6	741.4
1998	2.4	1,539	3.7	2.1	5.7	2.2	1.4	0.8	549.9
1999	2.5	1,668	4.2	3.5	7.7	4.9	4.6	0.3	473.7
2000	0.9	1,283	1.2	2.8	3.9	1.6	1.3	0.3	491.6
2001	2.2	1,786	4.0	2.3	6.3	4.5	4.3	0.2	558.9
2002	2.2	1,828	4.0	1.8	5.8	3.8	2.4	1.4	537.2
2003	2.4	1,429	3.4	2.1	5.5	3.9	2.7	1.2	358.4
2004	2.4	1,557	3.8	1.6	5.3	4.1	3.5	0.6	530.9
2005	2.4	1,701	4.1	1.2	5.3	3.6	2.9	0.7	564.5
2006 2/	2.7	1,705	4.5	1.7	6.2				675.0
2007 3/	2.7	1,644	4.4						
Southern Wisconsin binder (type 54)									
1996	1.9	1,900	3.6	--	--	--	--	--	148.0
1997	1.8	2,330	4.2	--	--	--	--	--	150.0
1998	1.5	2,180	3.3	--	--	--	--	--	149.0
1999	0.9	2,530	2.3	--	--	--	--	--	148.0
2000	0.7	2,500	1.8	--	--	--	--	--	150.0
2001	1.2	2,535	3.0	--	--	--	--	--	165.0
2002	1.2	2,740	3.2	--	--	--	--	--	175.0
2003	1.4	2,480	3.5	--	--	--	--	--	175.0
2004 2/	1.4	1,960	2.7	--	--	--	--	--	175.0
2005 8/									
Northern Wisconsin binder (type 55)									
1996	1.0	1,600	1.6	--	--	--	--	--	150.0
1997	0.8	1,995	1.5	--	--	--	--	--	152.0
1998	0.6	1,745	1.0	--	--	--	--	--	149.0
1999	0.3	1,952	0.6	--	--	--	--	--	145.0
2000	0.2	1,865	0.4	--	--	--	--	--	150.0
2001	0.3	1,860	0.6	--	--	--	--	--	152.0
2002	0.3	2,145	0.7	--	--	--	--	--	175.0
2003	0.4	1,865	0.8	--	--	--	--	--	173.0
2004 2/	0.4	1,950	0.8	--	--	--	--	--	175.0
2005 8/									
Total Wisconsin binder (types 54-55)									
1996	2.8	2,254	6.2	24.6	30.8	9.0	9.0	0.0	145.0
1997	2.9	1,799	5.2	21.7	26.9	9.1	8.9	0.2	148.6
1998	2.6	2,231	5.7	17.8	23.5	7.3	6.9	0.4	150.5
1999	2.1	2,063	4.2	16.2	20.4	6.1	5.0	1.1	149.8
2000	1.2	2,388	2.8	14.3	17.1	4.4	3.4	1.0	149.0
2001	0.9	2,399	2.3	12.7	14.9	5.2	4.2	1.0	155.0
2002	1.5	2,397	3.6	9.7	13.3	4.6	4.4	0.2	165.0
2003	1.5	2,632	3.8	8.7	12.5	4.4	4.3	0.1	175.0
2004 2/	1.8	2,338	4.3	8.1	12.4	3.8	1.3	2.5	175.0
2005 8/	1.8	1,956	3.5	8.6	12.2	3.7	3.3	0.4	174.6

See footnotes at end of table.

Continued--

Table 21--Cigar tobacco, types 41-61: Domestic supplies, disappearance, and season-average prices, 1996-2007 (farm-sales weight)

Crop year 1/	Acreage harvested	Yield per acre	Supply: Production	Supply: Beginning stocks 1/	Supply: Total supply	Disappearance: Total	Disappearance: Domestic	Disappearance: Exports	Avg. price per pound to growers
	1,000 acres	Pounds	---------- Million pounds ----------						Cents
	Total Cigar binder (types 51-55)								
1996	4.4	4,034	9.1	26.1	35.2	12.3	12.0	*	773.0
1997	4.9	3,582	8.8	22.9	31.7	11.9	11.1	*	890.0
1998	4.9	3,770	9.3	19.9	29.2	9.5	8.3	*	700.4
1999	4.6	3,731	8.4	19.7	28.1	11.0	9.6	*	623.5
2000	2.1	3,671	4.0	17.1	21.0	6.0	4.7	*	640.6
2001	3.2	4,185	6.2	15.0	21.2	9.7	8.5	*	713.9
2002	3.7	4,225	7.6	11.6	19.2	8.4	6.8	*	702.2
2003	3.8	4,061	7.2	10.8	18.0	8.3	7.0	*	533.4
2004	4.2	3,895	8.0	9.7	17.7	7.9	4.8	*	358.4
2005	4.2	3,657	7.7	9.9	17.5	7.3	6.2	*	564.5
2006 2/	2.7	1,705	4.5	1.7	6.2				675.0
2007 3/	2.7	1,644	4.4						
	Connecticut Valley shade-grown (type 61)								
1996	1.4	1,473	2.1	2.3	4.4	2.4	0.2	2.0	4/
1997	1.7	1,431	2.4	2.0	4.4	2.3	0.2	2.1	4/
1998	1.7	1,413	2.4	2.0	4.5	3.2	0.5	2.7	4/
1999	1.9	1,951	3.6	1.3	4.9	4.1	1.1	3.0	4/
2000	1.3	1,437	1.8	0.8	2.6	1.5	0.2	1.3	2,530.0
2001	1.3	1,327	1.7	1.1	2.8	1.9	1.1	0.8	2,300.0
2002	1.0	1,201	1.2	0.9	2.0	1.3	0.6	0.8	4/
2003	1.1	1,164	1.2	0.7	1.9	1.6	1.1	0.5	2,600.0
2004	1.2	1,540	1.8	0.4	2.2	1.2	0.4	0.8	2,530.0
2005	1.2	1,481	1.6	1.0	2.6	1.5	0.7	0.8	4/
2006 2/	1.1	1,381	1.5	1.2	2.6				4/
2007 3/	1.2	1,353	1.6						
	Grand total cigar tobacco (types 41-61)								
1996	10.7	1,905	20.4	43.5	63.1	28.9	24.7	4.2	231.7 6/
1997	11.2	2,015	22.5	34.1	55.5	23.4	20.3	3.1	232.7 6/
1998	10.6	1,857	19.8	33.3	52.7	22.3	17.7	4.6	233.7 6/
1999	8.7	1,892	16.5	30.4	47.0	21.2	16.9	4.3	234.7 6/
2000	5.5	1,865	10.3	25.8	36.0	10.7	8.1	2.6	235.7
2001	7.0	1,913	13.4	25.3	38.7	15.0	13.9	1.2	236.7 6/
2002	6.7	1,997	13.4	23.7	37.1	15.5	13.3	2.2	237.7 6/
2003	7.7	1,850	14.2	21.6	35.7	15.4	11.3	4.2	238.7 6/
2004	7.2	1,840	13.3	20.3	33.6	13.0	11.2	1.8	239.7
2005	4.9	1,778	8.6	20.6	29.2	8.0	6.3	1.8	240.7 6/
2006 2/	5.0	1,714	8.6	21.2	29.8	1.0	-0.3	1.3	241.7 6/
2007 3/	5.7	1,836	10.4						

* = Negligible. ** = Not applicable. -- = Not available. 1/ October 1 for types 41-55; July 1 for type 61. 2/ Subject to change. 3/ September 1 *Crop Production Report*.
4/ Growers of type 61 no longer provides price information. 5/ Subsequent years negligible. 6/ Does not include type 61. 7/ Ohio filler type 41 price not available as there is no production and stocks are negligible. 8/ Data no longer reported in *Crop Production Report.*

Sources: Agricultural Marketing Service, *Agricultural Prices Report*, various issues; *Tobacco Stocks Report*, various issues;
Flue-cured and Burley Tobacco Market Reviews, various issues, National Agricultural Statistics Service, *Crop Production Report*, various issues;
Prospective Plantings, March 2007; and U.S. Department of Commerce Census Bureau, Reports EM545 and IM146.

Special Article

Changing Economic Forces in Tobacco-Markets Altered Tobacco Returns, 1996-2004

Linda Foreman

Overview

Changes in the U.S. and world tobacco economic situation have ultimately affected U.S. tobacco production costs and residual returns.[1] The rising production costs of tobacco leaf led to declining net returns from tobacco production. In 1996, the residual returns to management and risk from burley tobacco production averaged an estimated $764 per acre, but fell to minus $119 per acre by 2004 (table 22).[2] The average return to management and risk for flue-cured tobacco fell from an estimated $668 per acre in 1996 to minus $824 per acre by 2004 (table 1).

U.S. tobacco producers face global competition from producers in countries with lower tobacco production costs, leading to falling foreign demand for higher priced U.S. tobacco leaf. In addition, domestic leaf demand fell as U.S. cigarette prices rose. Reduced foreign and domestic demand for U.S. tobacco leaf forced the Farm Service Agency to reduce the quota levels. Lower quota levels raised the quota rental costs, which helped to boost the price of U.S. tobacco leaf and made it more difficult for U.S. tobacco producers to compete in international markets.[3] The quota reductions led to the development of tobacco marketing contracts and an increased interest in tobacco buyouts. The Fair and Equitable Tobacco Reform Act of 2004, also known as the Tobacco Program Buyout, ended price supports and marketing quotas for all U.S. tobacco, beginning with the 2005 crop. This paper focuses on the reasons behind the declining demand for U.S. tobacco and the impacts from declining quotas on burley and flue-cured tobacco production costs from 1996 to 2004.

[1] Changes in labor costs and interest also influenced the tobacco costs of production, but they will not be discussed in this article since these changes are not specifically generated from tobacco market conditions.

[2] See Appendix for information on the calculation of residual net returns.

[3] By law, the Farm Service Agency set quota levels based on the sum of the purchase leaf intentions of U.S. cigarette manufacturers, the 3-year average of unmanufactured leaf exports, and an adjustment to maintain a specific stock level.

Quota Declines as Demand Falls

Effective quota for burley tobacco declined from 720 million pounds in 1996 to 331 million pounds by 2004 (Capehart, Dec. 2005). Over half of this decline was spurred by a 54-percent fall in the purchase intentions of U.S. cigarette manufacturers. During the same period, the 3-year average of unmanufactured exports declined 7 percent. Reductions in the reserve stock levels contributed significantly to the quota decline, with inventory adjustments changing from positive in 1996 to negative by 2004.

Effective quotas for flue-cured tobacco declined less sharply than burley quotas over the same period. Flue-cured quota fell from 944 million pounds in 1996 to 500 million pounds in 2004 (Capehart, Dec. 2005). About half of that decline was due to the 47-percent drop in the purchase intentions of domestic manufacturers, while the 3-year average of unmanufactured exports of flue-cured tobacco leaf declined 34 percent. Adjustments to flue-cured tobacco stock levels contributed nearly as much to the decline as reduced exports. As with burley, the adjustments to flue-cured tobacco stocks were positive in 1996, but negative by 2004.

Reduced quota forced producers to compete with one another for enough quota to maintain viable farm operations. This competition pushed up the quota rental rates. As a result, the estimated rental costs of burley tobacco quota rose from $710 per acre in 1996 to $1,011 in 2004.[4] Flue-cured quota rental costs rose from $817 per acre in 1996 to $1,502 per acre in 2004.

Why Tobacco Demand Fell

Reduced domestic demand for U.S. tobacco leaf resulted primarily from lower domestic consumption of U.S.-made cigarettes, which fell 20 percent from 1996 to 2004, while cigarette exports fell 51 percent (Capehart, Dec. 2005). Cigarette exports to the European Union, the major importer of U.S. cigarettes in 1996, dropped from 71.1 billion pieces in 1996 to 2.3 billion pieces in 2003 (Capehart, Dec. 2004), while exports to other countries dropped by smaller percentages.

Higher retail prices of cigarettes in the United States and increased health concerns about smoking reduced U.S. consumption of cigarettes from 487 billion pieces in 1996 to 388 billion pieces in 2004 (Capehart, Dec. 2005). Cigarette prices rose sharply in 1998 and 1999 when U.S. cigarette manufacturers were facing payments to States under the Master Settlement Agreement (MSA) for reimbursement of health care costs from smoking. Wholesale cigarette prices climbed 45 cents per pack when the MSA was enacted (Capehart, *Amber Waves*). Two increases in the Federal excise tax, in January 2000 and January 2002, pushed the tax from 24 cents per pack to 39 cents (Ivey). In addition, the weighted State excise taxes on cigarettes rose from an average of $0.32 per pack in 1996 to an average of $0.59 per pack in 2004.

Foreign demand for U.S. tobacco leaf and cigarettes fell. U.S. tobacco leaf is more expensive than foreign leaf, and the price gap between them grew until 2005 when the U.S. ended its tobacco program. Some of the price difference is due to the higher quality of U.S. tobacco. However, the quality of foreign tobacco has improved, and new manufacturing processes can use lower quality tobacco. As a result, U.S. cigarette manufacturers are using more foreign-produced tobacco, lessening the demand for U.S. tobacco leaf.

Contracts

Reductions in burley and flue-cured tobacco quota, along with concerns over nitrosamine levels in flue-cured tobacco, played a role in the initiation of tobacco marketing contracts. Star Scientific and R. J. Reynolds began contracting with tobacco producers in 1999 to buy tobacco that was flue-cured by using heat exchangers. Heat exchangers reduce the creation of carcinogenic nitrosamines. In 1999, Philip Morris expressed concern about its ability to purchase desired tobacco styles and grades with the advent of quota reductions. The following year, Philip Morris announced its intention to purchase burley tobacco through contracts under a pilot program (Philip Morris). By 2001, most U.S. tobacco companies had declared that they would contract for some or all of their burley and flue-cured tobacco needs.

Several factors led to growers' rapid acceptance of marketing contracts, despite concerns over their potential loss of independence, the loss of data on market prices,

[4] The land rental rate for burley tobacco production in Kentucky and Tennessee averaged $71 per acre in 2004, compared with $41 per acre in 1996. The land rental rate for flue-cured tobacco production in Virginia, North Carolina, South Carolina, and Georgia averaged $47 per acre in 2004, compared with $37 per acre in 1996.

the lack of transparency in contracts, and whether buyers would purchase tobacco in the auction markets. Anecdotal evidence suggests that growers accepted contracts partly due to their concerns about obtaining marketing contracts in the future if they did not accept one in the first year or two of contract availability. By 2004, about 75 percent of U.S. burley and flue-cured tobacco was marketed through contracts.

Tobacco contracts offered producers higher prices while lowering their marketing costs. On average, producers with contracts received 3½ cents more per pound for burley and 7 cents more per pound for flue-cured tobacco from 2000 through 2004 (Agricultural Marketing Service). Higher prices compensate producers for the additional contract requirements, such as separating tobacco in three or more stalk positions, delivering tobacco leaf to a specified warehouse on a specified date, and curing flue-cured tobacco using heat exchangers. The requirement to use heat exchangers likely accounted for the larger price differential for flue-cured tobacco compared with burley.

Tobacco growers with contracts experienced lower marketing expenditures. Initially, most tobacco marketing contracts stipulated that the tobacco buyer rather than the tobacco grower pay the warehouse and grading fees. Hence, a sudden increase in the proportion of burley and flue-cured tobacco marketed through contracts in 2001 significantly lowered that year's average marketing expenses per acre (table 1). In 2002, USDA amended regulations to require Federal grading of all burley and flue-cured tobacco. This change shifted payment for tobacco grading back to the tobacco growers.

Conclusions

Domestic demand for U.S. tobacco leaf fell from 1996 to 2004. One reason was the decline in the domestic cigarette demand as retail prices climbed. Also, lower priced foreign tobacco replaced higher priced U.S. tobacco in U.S.-made cigarettes. At the same time, foreign demand for U.S. tobacco leaf fell as U.S. tobacco production costs rose, while quality differences between U.S. and foreign tobacco narrowed as the price gap widened.

Reductions in domestic and foreign demand for U.S. tobacco forced the Farm Service Agency to reduce quota levels. As quota levels fell, U.S. producers bid up the tobacco quota rental rates, raising production costs. Marketing contracts reduced the tobacco marketing expenditures and provided higher prices to contract holders that offset some of their increased quota rental costs.

Appendix -- ERS Tobacco Cost of Production Estimates

Residual returns are the estimated returns from the value of production after subtracting the economic costs. Economic costs include cash and noncash costs. Noncash costs include capital recovery and opportunity costs for owned capital. Capital recovery is an estimate of the annual cost to replace machinery, equipment, and buildings that are consumed during production.

The burley tobacco costs of production estimates are based on a 1995 survey of tobacco producers in Kentucky and Tennessee, while flue-cured estimates are based on a 1996 survey of tobacco producers in Virginia, North Carolina, South Carolina, and Georgia. The survey data are updated using annual price indices, tobacco yields and acreages, interest rates, and other data. The 2004 tobacco cost of production figures will be the last set of estimates produced by the Economic Research Service due to many changes that have occurred in tobacco farming since the last tobacco surveys were conducted.

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Table 22--U.S. burley and flue-cured tobacco estimated production costs and returns, 1996-2004

Item	1996	1997	1998	1999	2000	2001	2002	2003	2004
Burley tobacco					Dollars per acre				
Gross value of production	3,775	3,663	3,629	3,471	3,942	4,094	3,777	3,801	3,863
Total economic costs	3,010	2,850	2,936	3,134	3,560	3,667	3,528	3,811	3,982
Variable cash expenses[1]	1,243	1,240	1,288	1,321	1,349	1,335	1,266	1,389	1,485
Marketing[1]	139	129	165	161	153	64	60	57	57
General farm overhead	163	210	203	206	211	218	223	228	234
Taxes and insurance	40	44	45	45	46	47	48	49	49
Capital replacement [2]	91	97	100	104	134	142	153	164	176
Operating capital [3]	32	32	31	31	41	23	11	7	10
Other nonland capital [4]	104	113	105	103	94	88	89	79	79
Land and quota [5]	751	513	532	633	991	1,082	998	1,098	1,082
Unpaid labor	585	600	632	690	693	731	740	797	867
Residual returns to management and risk	764	813	693	337	382	427	249	-10	-119
Flue-cured tobacco									
Gross value of production	3,941	3,922	3,847	3,744	4,283	4,518	3,836	3,600	4,173
Total economic costs	3,274	3,425	3,652	3,932	4,421	4,449	4,235	4,355	4,997
Variable cash expenses[1]	1,627	1,707	1,725	1,820	2,027	1,983	1,940	2,083	2,372
Marketing[1]	143	151	146	161	187	89	92	84	163
General farm overhead	116	150	182	185	189	195	200	205	209
Taxes and insurance	112	123	141	141	142	148	148	152	154
Capital replacement [2]	256	273	284	295	313	321	336	324	335
Operating capital [3]	42	44	42	43	59	34	16	11	16
Other nonland capital [4]	78	84	80	79	78	77	78	69	66
Land and quota [5]	854	844	974	1,132	1,370	1,433	1,245	1,228	1,549
Unpaid labor	190	200	225	236	241	257	272	284	295
Residual returns to management and risk	668	497	195	-187	-137	68	-399	-755	-824
Burley price (dollars/lb.)	1.92	1.89	1.90	1.90	1.97	1.97	1.98	1.98	1.99
Burley yield (lbs./acre)	1,966	1,938	1,910	1,827	2,001	2,078	1,912	1,920	1,945
Flue-cured price (dollars/lb.)	1.84	1.72	1.75	1.74	1.79	1.86	1.83	1.85	1.84
Flue-cured yield (lbs./acre)	2,142	2,280	2,198	2,152	2,393	2,429	2,096	1,946	2,268

Source: Burley tobacco estimates were developed from the *1995 Farm Costs and Returns Survey* , while flue-cured tobacco estimates were developed from the *1995 Agricultural Resource and Management Survey* . Survey year estimates are updated with current price indices, yields, interest rates, prices, and other data.

[1] Variable cash expenses consist of expenses for seed, plant beds, fertilizers, chemicals, custom operations, fuel, lube, electricity, repairs, hired labor, marketing, and other. Marketing is one component of variable expenses.

[2] Capital replacement is the value of machinery, equipment, and buildings consumed annually in tobacco production.

[3] Operating capital is the opportunity cost for inputs invested in production, such as fertilizers, chemicals, and fuel.

[4] Other nonland capital is the opportunity cost for using machinery.

[5] Land and quota are the opportunity and rental cost for land and quota.

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