U.S. Flue-Cured Tobacco
Situation & Outlook
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Situation
## Flue-Cured Acres Harvested:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>210,900</td>
<td>206,900</td>
<td>206,000</td>
<td>228,800</td>
<td>232,000</td>
</tr>
<tr>
<td><strong>NC</strong></td>
<td>166,000</td>
<td>160,000</td>
<td>164,000</td>
<td>170,000</td>
<td>181,000</td>
</tr>
</tbody>
</table>

*October 2014 Forecast. USDA-NASS

USDA-NASS Crop Estimates
## Flue-Cured Production: (million pounds)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>451</td>
<td>345</td>
<td>473</td>
<td>454</td>
<td>557*</td>
</tr>
<tr>
<td><strong>NC</strong></td>
<td>349</td>
<td>248</td>
<td>377</td>
<td>360</td>
<td>434*</td>
</tr>
</tbody>
</table>

*USDA-NASS October 2014 Estimate
2014 Flue-Cured Crop

- Global production was up
  - 2014 Brazilian crop was better than anticipated
  - 2014 Zimbabwe crop up 29% at 215 million kg (473 million lbs)
- Prices were lower than in 2013
  - US average price down
  - 2014 Zimbabwe prices down 14% at $3.17/kg ($1.44/lb)
U.S., Brazil and Zimbabwe Flue-Cured Tobacco Production

Outlook: *Major Trends in Global Tobacco Manufacturing*
1. *Tobacco products will undergo a technological revolution over the next 5-10 years*

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

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

FDA has proposed deeming regulations
- New products must pass FDA review
- Minimum age restriction
- Register with FDA and report ingredients
- Only make reduced risk claims if FDA confirms evidence
- No vending machines if youth access
- Requirements to include health warnings
“heat-not-burn” products
CONTAINS TOBACCO LEAF

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

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

• Reynolds American to introduce heat-not-burn product in Wisconsin in February 2015
2. Traditional cigarette demand will remain strong, even growing, in Asia

- Global number of adults aged 34 to 64 expected to increase
- Global per capita income expected to grow
China’s cigarette demand remains strong

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

Global Market Share

- China National Tobacco Corp: 29.60%
- PMI: 15.30%
- BAT: 13.90%
- JTI: 13.00%

Source: IBISWorld
China’s cigarette demand remains strong

“As China’s domestic economy continues to strengthen,…more consumers will trade up to premium brands,…” IBISWorld Industry Report
Outlook: *Impacts of Trends in Global Tobacco Manufacturing*
Export demand remains firm

• US quality is paramount to continued strong exports

• Exports to China mostly or fully offset declining exports to EU
U.S. Unmanufactured Exports of Flue-Cured Tobacco (lbs farm weight)

Source: USDA-FAS
Impacts of Technological Change

- **Scenario 1: E-Cigarettes dominate US & EU**
  - Tobacco production for nicotine production
  - Separate tobacco production for exports and combustibles

- **Scenario 2: heat-not-burn products dominate US & EU**
  - Quality of tobacco is more important than ever
  - Change in quantity demanded?
What about 2015 market for flue-cured?

• Supply shortage has been alleviated

• Some reduction in amount contracted for 2015

• Prices offered moderate…but still aren’t bad

• Still depends on how the current Brazil crop turns out