U.S. Flue-Cured Tobacco
Situation & Outlook
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How much are contracted pounds down for 2015??

- 15%
- 20%
- 25%
## Acreage & Production for 15, 20, & 25% Reduction in 2015 Contracted Pounds

<table>
<thead>
<tr>
<th>% Cut in Pounds</th>
<th>-15%</th>
<th>-20%</th>
<th>-25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted Pounds</td>
<td>408 million</td>
<td>384 million</td>
<td>360 million</td>
</tr>
<tr>
<td>Production at 10% Overage</td>
<td>449 million</td>
<td>422 million</td>
<td>396 million</td>
</tr>
<tr>
<td>Acreage</td>
<td>204 thousand</td>
<td>192 thousand</td>
<td>180 thousand</td>
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**Assumptions:**
- 480 million pounds contracted in 2014
- 2,200 lb/acre average yield
So what’s causing such a large reduction?...

- Global supplies?
- Imports?
- Anticipation of large reductions in cigarette consumption?
- Exports...exchange rates, etc?
  - Greater deterioration of EU Market?
  - A slowing of exports to Asia?
Global Supply: U.S., Brazil and Zimbabwe Flue-Cured Tobacco Production

Imports: Domestic Use of U.S. Flue-Cured Tobacco & Imported Tobacco

- **Imported Flue-Cured**
- **Imported Other Leaf**
- **Domestic Use of U.S. Flue-Cured**


Values: 118, 1170 million
Declining Cigarette Consumption

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

– Will e-cigs or “heat-not-burn” products dominate?
  • E-cigs: very different tobacco required
  • “heat-not-burn:” high quality tobacco needed…& maybe substantial quantity needed

– US & EU combustible sales may be heavily impacted
U.S. Unmanufactured Exports of Flue-Cured Tobacco (lbs farm weight)

Source: USDA-FAS
▪ Exports to EU follow the same path as Domestic use in the US

▪ But 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
Real Commodity Exchange Rate for US Tobacco

Source: USDA-ERS
Brazilian Real/EURO & US$/EURO: 2010-2015
Competitor’s exchange rates matter.

Source: ONADA
Domestic Use and Exports of U.S. Flue-Cured Tobacco

Millions


Domestic
Exports

380 118 262
What can we conclude?

• Large 2014 crops in U.S. & Zimbabwe, but crops in Brazil, Zimbabwe & U.S. are smaller for 2015…should reduce inventories
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• **Will exports to China increase fast enough to offset declines in exports to EU?**
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- Imports of flue-cured to U.S. have increased, but is this temporary?
- Combustible cigarettes could experience even greater declines in US and EU…much uncertainty
- Exchange rates for US exports are not favorable
- Will exports to China increase fast enough to offset declines in exports to EU?
- **Reduction in 2015 contracted pounds is probably due to some combination of all of the above**
Quality is *the* strategic advantage of U.S. flue-cured producers.