July 16, 2019

Dear Fellow Growers:

As we begin the harvest for 2019, there is a considerable amount of stress on the crop, and each of us as growers as well. Generally speaking, the weather has not been favorable statewide for the type of production performance we would desire. Nonetheless, we are confident that North Carolina farmers will once again prove their resilience and uphold our reputation as the producers of the worlds best premium leaf despite difficult weather conditions. That being said, purchasers should maintain every expectation for a good delivery of quality.

The Executive Committee members of TGANC completed a series of information exchange meetings with each of the tobacco contracting companies between mid-March and the end of May. These were very good, professional opportunities for us to advocate for the critical needs of our farmers for the future and discuss current topics of priority.

Among our key points to convey and seek support included:

1. **Margin –** in the current market place our cost of production have escalated to a point that the margin of earning per pound may be as narrow as 25 cents. As always, the price of tobacco is an ultimate solution. This is especially true given the reality that inputs such as labor, fuel, infrastructure, fertilizer, crop protection agents and GAP compliance costs continue to increase.
2. **Workforce –** the supply of workers and the ratcheting costs of the governments H-2A guest worker program is a difficult factor in our crop success. Tobacco remains a labor-intensive crop. The current rate of $12.25 this season is forecast to increase a minimum of 55 cents next year.
3. **Decline in Yields** – for the past five years our crop yield average has been on the decline. Granted we had two hurricanes in 2018 and additional adverse weather in the previous crops. Another factor is that we leave our crop in the filed longer during the season to achieve “overripe” features for the market. But this reduces poundage. Also, most growers utilize cleaning reels and picking lines. This removed waste and NTRM also contributes to reduced marketing’s.

In fact, the RMA data for the NC 2018 average was one of the lowest on record at 1,509 pounds per acre. Economists report that to be successful a farmer needs to target 2,450 pounds per acre. The facts suggest that the five-year sate average is below 2,100 pounds. Couple this with market averages in a range of $1.80 -1.90 and we easily realize why margins can show negative returns.

1. **Loss of Markets** – this is an obvious topic. The current trade dispute with China caused them to suspend all purchases in 2019. That is an adverse impact between 60-80 million pounds of farm weight. Export markets are challenging as we compete with a global over supply and strong currency value of the US dollar. This makes our tobacco seem too expensive, when in fact other competing nations that are less compliant, lower in quality and over producing are in fact marketing “too cheap”. Finally, we feel the impact or reduced domestic consumption as well. Mostly triggered by rising per pack costs, smoking restrictions and the impact of alternatives such as vape.

In our company visits we asked for assistance in navigating these aforementioned market impacts. We also need long term commitments to the profitable stability of supply for the US tobacco farmer and allied industry as well. The current crop contract size may fall in a range of 260-280 million pound for flue-cured. It could be as low as 80-100 million pounds for US burley. At these levels it is described as the smallest crop we have planted since the civil war. Why is that relevant? Because Washington Duke launched the modern cigarette industry in Durham, NC following the end of the war.

We remain concerned about diminished volume opportunities and reduced prices in some instances. The US crop size has reached a point of diminishing return and unless we are able to reverse this trend, we might find ourselves completely void of the crop altogether.

Control what we can:

So, we aren’t in a position to change global currency values. We really can’t do much about the trade tariff. We can advocate for higher prices but in the end, farming is by definition “a price takers business”. And we most certainly can’t control the weather.

So, what can we control? The top aspect we can control is the integrity and quality of our product. We ae the most efficient and technologically advance farmers on the planet. We are the most solvent growers in the world. We maintain the highest levels of education and applied research. We have the highest compliance standards and are the most regulated crop under cultivation. We have exceptional soils for ideal production and very favorable climates for generating excellent sugars, full flavor and other characteristics. And we have a stable system of government where all farms are individual and independent small businesses.

It is critical in 2019 that we prevail in the appeal that quality should matter over cheap prices. The only way we can attract, and recapture acres and desirable prices is to prove our worth. We call on the global industry to reward the US farmer for being GAP compliant and eventually GAP certified. To reward us for rejecting the cheaper alternative of using child labor that we have observed and documented exists in other regions of the globe. We should be rewarded for environmental sustainability practices as being stewards of the land. We do not cut down our forest or pollute our surface and drinking water.

We achieve these standards, not because it is required, but because it is the “right thing to do”. But for such achievements we must not be regarded as “too expensive” and effectively price ourselves out of the market.

In closing we want to ask and encourage all of you to once again strive to exceed market expectations. It is critical that we harvest the crop by stalk position to maximize market appeal. It is very important that we keep our crop clean of NTRM and residues. Ripe tobacco still wins the day and if we are to place ourselves in position to realize a rebound on lost acres and prices, having a superior quality product is the strongest argument we have.

Thanks, and we wish you every success in the months ahead.

Sincerely,

Steve Griffin, President Graham Boyd, Executive Secretary