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## Optimism for Burley???

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For those of you who have gotten past the title, it is not a typo. Yes, the Kentucky burley sector has lost over 70% of its market over the past couple of decades, while the number of farms growing burley in the Commonwealth has dwindled by more than 90%. Certainly, a large portion of the decline can be explained by domestic cigarette consumption falling by one-half since 2000. However, a significant amount of the loss can be attributed to leaf exports almost being non-existent in recent years after exceeding 200 million pounds pre-buyout. Plus, imports of foreign burley into the U.S. market now account for well over 50% of burley usage by U.S. cigarette manufacturers. These trade trends would clearly reveal that price has become more important to global burley buyers relative to quality in today's market as lower/filler style burley from African markets have increased market share relative to higher quality U.S. and South American burleys.

For years tobacco organizations and growers have claimed that declining yield trends and higher costs of production amidst stagnant leaf prices have caused profit margins to erode, leading to a mass loss of U.S. burley growers – many of them large growers. While their arguments are valid, my response has always been that the price incentives offered by tobacco companies have been, in aggregate, “adequate enough” to get the volume burley leaf buyers desired from the U.S. market.

But market conditions have changed for 2022. Despite declining cigarette sales in the U.S. and abroad, global burley supplies are extremely tight relative to demand levels. Companies anticipating this situation made a few modest upward adjustments in contract prices prior to the 2022 planting season. But global burley supplies have tightened even further since the beginning of the year.

Earlier this month, I participated in the regional 2022 International Tobacco Growers Association meeting in the Dominican Republic. Grower reports from member countries were consistent -- 2022 burley crop volumes outside the U.S. were lower, while foreign burley prices have been much higher. During the ITGA meeting, Argentina reported burley grower prices this past season were up 33%, Malawi, 36% higher and Brazil, 73% higher.

So what does that mean for the 2022 U.S. burley season? Contract prices for the 2022 U.S. burley crop vary from company to company, but based on buyer purchase shares from recent years and

assuming a crop is sold as 50% graded as a #1 and 50% as a #2, generates an average price in the neighborhood of \$2.25 to \$2.30/lb for the 2022 crop. This compares to an average price of \$2.10/lb for the 2021 crop. If this average price increase of 7 to 10% materializes for the 2022 crop, it would not offset our projected 15 to 20% increase in production costs meaning that yields would have to be above average to sustain (dwindling) profit levels from last year.

In the latest crop report (August 2022), [USDA estimates the 2022 U.S. burley crop](#) at nearly 70 million pounds, which some would argue is on the “high” side given projected acres and yields. Based on current inventory levels and forecast leaf exports and domestic needs, the industry would likely prefer a U.S. burley crop in the 75 to 80 million pound level.

Consequently, the 2022 market could be interesting with the companies battling over limited pounds. For the first time in recent history, U.S. and global burley supply availability among manufacturers is (or at least should be) a concern for the 2022 marketing season and looking forward into 2023. Certainly, U.S. burley faces a multitude of longer-term issues such as regulatory, labor, and infrastructure challenges, along with an escalating reduction in domestic premium cigarette sales at the expense of generics and alternative tobacco products which use little or zero U.S. burley. Collectively these issues could further reduce the need for U.S. burley in the coming years. But for the interim, existing growers with a decent quality 2022 crop should receive a record high price for their leaf. Unfortunately, it will be the most expensive crop they have ever produced. While the current supply/demand balance for U.S. burley is favorable for growers, the question remains if the market will boost prices even higher for the 2022 crop and for the 2023 marketing season to improve future U.S. burley supply security among a declining and discouraged grower base.

## Update on a New Tobacco Organization

As most of you are probably aware, the Burley Tobacco Growers Cooperative dissolved last year following a class-action lawsuit settlement. As part of the settlement, the court approved a distribution of funds to eligible growers, with a portion of the funds being devoted to forming a new grower’s organization to represent both U.S. burley and dark tobacco growers. This new entity plans to work closely with the existing Council for Burley Tobacco which receives the grower check-off contributions for tobacco sold in Kentucky. Joe Cain, former Director of Commodity Programs at Kentucky Farm Bureau, will serve as the new leader of this organization. Stay tuned for further updates as this organization evolves to represent burley and dark tobacco growers with tobacco companies, policymakers, government agencies, and others with ties to tobacco.

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