

## Potential Economic Impacts on the U.S. and NC Tobacco Farm and Processing Sectors of Proposed Revisions to the European Union Tobacco Products Directive

Dr. Blake Brown, Professor and Extension Economist, North Carolina State University  
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### Summary:

- Proposed revisions to the EU Tobacco Products Directive could negatively impact demand for U.S. tobacco
- If U.S. tobacco exports to the EU declined 2 percent then the annual value of shipments from U.S. tobacco stemming and re-drying could decline by over \$7 million. Annual sales of tobacco from U.S. tobacco farms could decline by over \$8 million.
- If U.S. tobacco exports to the EU declined 8 percent then the annual value of shipments from U.S. tobacco stemming and re-drying could decline by over \$34 million. Annual sales of tobacco from U.S. tobacco farms could decline by over \$37 million.
- North Carolina would bear the largest share of this impact since the majority of U.S. tobacco production and processing occurs in the state.

The European Commission has adopted a proposal that would substantially alter the European Union Tobacco Products Directive (TPD). The revised directive would require sweeping changes to regulation of tobacco products in the EU, ranging from banning flavorings and regulating nicotine levels to changing cigarette packaging to include graphic health warnings. The proposal would have a substantial negative effect on the global demand for tobacco. This proposal is now under consideration by the European Parliament. Tobacco exports from countries such as the U.S., Brazil and Zimbabwe would be negatively impacted by the revised directive. This briefing provides assessment of the potential economic impacts of the revised TPD.

The U.S. exported \$1.1 billion in unmanufactured (processed raw leaf) tobacco to the world in the crop year ending June 30, 2012. From 2008-2012 U.S. tobacco exports averaged \$1.19 billion per year; an average of 394 million pounds per year of processed raw leaf. Exports to the European Union (EU-27) accounted for \$412 million of total U.S. tobacco exports, about 34%, of the yearly average. U.S. tobacco producers are known globally for producing a high quality premium style tobacco. While some health and smoking regulations are increasing demand for higher quality premium tobaccos, others will compromise trade in U.S. tobacco. Currently U.S. tobacco producers export over 50% of their tobacco crop.

One economic impact study commissioned by the European Commission only evaluates up to a 2 percent decline in tobacco use in the EU as a result of adoption of

the proposed revisions to the TPD. This conservative estimate is short run in nature. Little or no research exists on the potential combined effects of such broad increases in regulation of tobacco products. Other commissioned studies consider scenarios where the combined effects of broad regulatory changes decrease smoking prevalence by 25 percent in the longer run. This briefing provides a summary of the potential impacts on the U.S. tobacco farm and tobacco processing sectors of a revised EU TPD if the regulations resulted in declines in U.S. exports to the EU of 2, 5, and 8 percent. While the lack of precedence and research makes accurate projections at best difficult, scenarios of reductions in exports of 2, 5, and 8 percent seem conservative and reasonable.

Table 1 gives the value and quantity of processed raw tobacco exported from the U.S. to the European Union 2008 – 2012. Tables 2 – 5 give the potential economic impacts on the U.S. and N.C. tobacco processing and tobacco farming sectors. The impacts on the tobacco stemming and re-drying sector are derived from data from the Annual Survey of Manufacturers (U.S. Census Bureau). The impacts on the tobacco farming sector are derived using IMPLAN, an economic modeling program.

Under the most conservative scenario where exports to the EU fall by 2 percent, annual output from U.S. processors is expected to decline by \$7.35 million with a loss of 12 jobs and \$373,000 in employment income. If exports decline by 8 percent, then processor output declines by \$34.3 million with a loss of 57 jobs. Most of this decline would be in North Carolina where about 65 percent of the output of tobacco stemming and re-drying occurs. A 2 percent reduction in exports would be expected to decrease the annual value shipments from North Carolina processors by about \$4.8 million and an 8 percent reduction would decrease the value of shipments by about \$22.2 million.

Annual sales by U.S. tobacco farms would be expected to decline by about \$8.1 million if exports to the EU declined by 2 percent and about \$37.6 million if exports declined by 8 percent. Tobacco farming is labor intensive. IMPLAN analyses indicate the number of jobs (including seasonal and part-time) lost could range from 168 for a 2 percent reduction in exports to the EU to 787 for an 8 percent reduction.

Since North Carolina produces about 50 percent of U.S. tobacco, the North Carolina economy bears the largest economic impacts of a reduction in exports. Annual output from North Carolina tobacco farms could decline by \$4.1 million for a 2 percent export reduction and \$16.5 million for an 8 percent reduction in exports to the EU-27. Since flue-cured tobacco grown in North Carolina is less labor intensive than other tobacco types, job losses range from 42 for a 2 percent reduction to 168 for an 8 percent reduction. However, jobs in North Carolina flue-cured are higher earning than jobs in other tobacco types so the change in tobacco farm employment income for the state accounts for over one-half of the U.S. change in tobacco farm labor income.

Table 1. U.S. Exports of Unmanufactured (Raw Processed Leaf) Tobacco (All Types) to the European Union (EU-27 )

Year Ending June 30	2008	2009	2010	2011	2012
Value	\$519,426,000	\$378,092,000	\$489,895,000	\$355,536,000	\$317,090,000
Processed Weight (lbs)	174,323,713	117,922,919	169,321,430	128,452,184	111,139,303

Source: USDA-FAS Global Agricultural Trade System (GATS)

Table 2. Potential Impacts on U.S. Tobacco Stemming and Re-drying Sector of a Reduction in U.S. Tobacco Exports to the EU-27

% Reduction in U.S. Tobacco Exports to EU-27	Change in Number of employees	Change in Annual payroll	Change in Value added	Change in Total value of shipments
2 %	-12.2	\$(373,000)	\$(3,057,000)	\$(7,350,000)
5 %	-34.7	\$(1,057,000)	\$(8,661,000)	\$(20,825,000)
8 %	-57.1	\$(1,741,000)	\$(14,266,000)	\$(34,300,000)

Table 3. Potential Impacts on North Carolina Tobacco Stemming and Re-drying Sector of a Reduction in U.S. Tobacco Exports to the EU-27

% Reduction in U.S. Tobacco Exports to EU-27	Change in Number of employees	Change in Annual payroll	Change in Value added	Change in Total value of shipments
2 %	-7.9	\$(242,000)	\$(1,979,000)	\$(4,758,000)
5 %	-22.4	\$(684,000)	\$(5,606,000)	\$(13,480,000)
8 %	-37.0	\$(1,127,000)	\$(9,234,000)	\$(22,202,000)

Table 4. Potential Impact on U.S. Tobacco Farms of a Reduction in U.S. Tobacco Exports to EU-27

% Reduction in Exports to EU-27	Change in Employment	Change in Labor Income	Change in Value Added	Change in Output
2%	-168.6	\$(2,162,653)	\$(1,741,758)	\$(8,062,268)
5%	-477.6	\$(6,127,517)	\$(4,934,980)	\$(22,843,094)
8%	-786.7	\$(10,092,380)	\$(8,128,202)	\$(37,623,919)

Table 5. Potential Impact on North Carolina Tobacco Farms of a Reduction in Tobacco Exports to EU-27

% Reduction in Exports to EU-27	Change in Employment	Change in Labor Income	Change in Value Added	Change in Output
2%	-41.9	\$(1,307,240)	\$(905,645)	\$(4,133,101)
5%	-104.7	\$(3,268,101)	\$(2,264,113)	\$(10,332,752)
8%	-167.6	\$(5,228,962)	\$(3,622,580)	\$(16,532,403)