Key Industries: Tobacco [1]

The tobacco industry has traditionally been one of the most important industries in North Carolina and a backbone of the state's agricultural heritage. Yet as the North Carolina economy continues to transition from an agricultural economy to a manufacturing and, increasingly, service-based economy, the industry faces new challenges, both at home and abroad. Internationally, as barriers to free trade in agricultural products slowly fall away, new competitors have arisen to challenge the North Carolina industry. In this section, we look to describe the outline of the industry, the industry in North Carolina, important global competitors, and the key trends and dynamics that are shaping this industry now and in the future.The industry can be generally divided into two sections:

- **Farming.** This includes not only the planting, tending, and harvesting of tobacco leaf, but generally also includes initial processing steps, including curing tobacco to dry out the leaves and stems. Farmers also sort and grade tobacco, based on criteria like color and aroma.
- **Processing.** This includes both initial processing of tobacco leaf (cleaning and resorting, stemming and redrying, aging) and specific manufacturing processes for a variety of final products, including cigars, cigarettes, and chewing tobacco.

Tobacco in North Carolina

[2]

Two Lucky Strikes structures stand over the American Tobacco Campus in Durham, North Carolina. The campus was historically the site of tobacco company operations in Durham, but was reinvented as a complex of offices, shops, and restaurants in 2004.

The introduction of tobacco into North Carolina has a long history. When settlers moved from Virginia to North Carolina around 1663, they struggled to grow any other crop besides tobacco in the dry, sandy soil. During this time, the Europeans viewed tobacco as a luxury and bought it from Spain. The new colonists saw the opportunity in the overseas demand for tobacco and started growing tobacco in North Carolina as a way to gain entry into the European tobacco market.

As centuries passed, the tobacco business became an integral part of North Carolina's culture. James B. Duke formed the American Tobacco Company in Durham and, as it expanded around the world, it continued to be based in Durham. Even today, tobacco is an instrumental part of North Carolina, especially because of its role in the employment and economy of the state. In 2005, tobacco represented 15.5% of the total value of all crops grown in North Carolina. In apition to these farmers, the tobacco business employs many workers in processing, manufacturing, wholesale, and retail outlets, and related industries.

Every stage of production of tobacco, from tobacco growing to final product manufacture, is located in North Carolina, and this state has been one of the centers of the US tobacco industry. North Carolina ranks first in the United States in the production of tobacco, with 2006 annual farm income of $506.2 million. Tobacco is a crop that can be grown in a wide range of soil and climate conditions, and 16 states and approximately 120 countries produce it across the world. Geographical differences exist in the production of the two main types of tobacco produced in this state: air- and flue-cured tobacco. Air-cured tobacco differs from flue-cured tobacco in a number of ways, including the filling power and pH of the smoke. North Carolina's soil is, in general, more adept at growing flue-cured tobacco, and, thus, smaller amounts of air-cured tobacco are produced in North Carolina.

Many prominent companies in the tobacco industry are linked in some way to North Carolina. Phillip Morris, the country's largest cigarette company, is one example. Phillip Morris held 50.4% of the cigarette market in the first quarter of 2007. While Phillip Morris' headquarters is located in Virginia, they maintain a manufacturing facility in Cabarrus County. Other well-known companies are entirely based in North Carolina. Reynolds American Inc. is another tobacco giant that recently formed when R.J. Reynolds Tobacco Co. joined with the Brown & Williamson Tobacco Corp. in 2004. R.J. Reynolds is the second-largest tobacco company in the country and is centered in Winston-Salem, North Carolina. R.J. Reynolds produced nearly one out of every four cigarettes sold in the United States, and they own four of the nation's ten best-selling brands (Camel, Winston, Salem, Doral). Finally, the Lorillard Tobacco Co., the third largest U.S. tobacco firm, is centered in Greensboro, NC.

Recent industry trends and developments

Until 2004, the tobacco industry operated within a system of quotas in place since 1938. Recently, quotas have become concentrated within relatively fewer hands. In the past couple of decades, demand for cigarettes has declined while foreign competition in tobacco production has increased, thus threatening the livelihood of U.S. tobacco farmers. As a result, the U.S. government has decided to limit quotas and price supports in recent years. In apition, these changes affect other areas of the industry, most notably the cigarette producers.

In October 2004, Congress legislated the end of tobacco quotas in exchange for a one-time buyout. This will affect North Carolina substantially. One-third of the buyout money is going to 10% of the owners, some being paid over $7 million due to the size of their quota holdings. Most experts predict that these huge farms will prosper after the buyout because of their size. However, smaller farms will most likely start to disappear.

Many farmers are responding to these and other competitive challenges by diversifying some of their crop production. In 1997, 95% of farmers interviewed responded that they had grown or raised a commodity other than tobacco within the past year. The commodities included a variety of livestock, grains, fruits, and vegetables. Only a small percentage of these farmers, however, reported a profit from these enterprises. This is, in part, due to the high profitability per acre that tobacco provides. There were internal and external barriers to diversification, including rates of personal tobacco use, high relative income from tobacco, lack of college education of many farmers, and the size of their farms. As imports continue to climb and smoking rates in the general population fall, farmers should prepare themselves for declining demand by diversifying their crops. By finding the commodities that are a good fit for their fields as well as profitable on the market, this could prepare them for the future decline of tobacco.

User Tags:
agriculture [3]
farm life [4]
farming [5]
history [6]
industry [7]
NC [8]
North Carolina [9]
North Carolina History [10]
Page [11]
State of North Carolina [12]
Students [13]
Teachers [14]
tobacco [15]

From:
ANCHOR: A North Carolina History Online Resource [17]

3 January 2018

Links
[1] https://www.ncpedia.org/anchor/key-industries-tobacco [2] https://www.ncpedia.org/media/american-tobacco-campus [3] https://www.ncpedia.org/category/user-tags/agriculture [4] https://www.ncpedia.org/category/user-tags/farm-life [5] https://www.ncpedia.org/category/user-tags/farming [6] https://www.ncpedia.org/category/user-tags/history [7] https://www.ncpedia.org/category/user-tags/industry [8] https://www.ncpedia.org/category/user-tags/nc [9] https://www.ncpedia.org/category/user-tags/north-carolina-5 [10] https://www.ncpedia.org/category/user-tags/north-carolina-6 [11] https://www.ncpedia.org/category/user-tags/page [12] https://www.ncpedia.org/category/user-tags/state-north [13] https://www.ncpedia.org/category/user-tags/students [14] https://www.ncpedia.org/category/user-tags/teachers [15] https://www.ncpedia.org/category/user-tags/tobacco [16] https://www.ncpedia.org/category/user-tags/creative-commons [17] https://www.ncpedia.org/category/entry-source/anchor-north