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TGANC

38th Annual Report



Industry In Crisis



February 1, 2019 | 10:00 A.M. | Holshouser Building | NC State Fairgrounds

Agenda - 2019 Annual Report

TGANC 2018-19 Board of Directors

Call to Order

President Steve Griffin

Business Session

Adoption of Resolutions

Nominations of Directors

Recognize Retiring Directors

Budget Report

Special Presentations

Awards Presentations

Extension Service Award – Rod Gurganus, Beaufort County

TGANC Outstanding Director – Jeffrey Lee, Johnston County

Farm Family of the Year – Pace Family Farms, Johnston County

Lifetime Century Member – Commissioner Steve Troxler

Distinguished Service Award – Larry Boyd, Foxfire Farms
Lee Wicker, NCGA

Special Recognition- State Fair Tobacco Contest Winners

Keynote Topics and Speakers:

🌿 **The Global Tobacco Economy:** Antonio Ambrunhosa, Director, International Tobacco Growers Assn.

🌿 **NC Agricultural Update:** The Honorable Steve Troxler, Commissioner of Agriculture

🌿 **Congressional Update:** The Honorable David Rouzer, US Congressional 7th District NC

🌿 **Industry Perspective:** Tripp Wilson, Vice President, Reynolds American Services Company

Announcements and Prize Drawings

Adjourn for Lunch

GAP Training to Follow Lunch in same location.

Officers

Steve Griffin, President – Beaufort Co.

Jonathan Renn, Vice President – Franklin Co.

Billy Carter, Secretary – Moore Co.

Matt Grissom, Treasurer – Vance Co.

Rouse Ivey, VP Membership – Duplin Co.

Randy Smith, VP Marketing – Jones/Onslow Co.

Tony Jones, VP Public Relations – Duplin Co.

John Ashe, VP Research & Education – Rockingham Co.

Clay Strickland, Immediate Past President – Sampson Co.

Graham Boyd, Executive Vice President

Executive Committee

James “Rooster” Dail, Cumberland Co.

Brent Leggett, Nash Co.

Tim Yarbrough, Caswell Co.

George Simpson – Yara North America

Frank Grainger – Fair Products Inc.

Grower Directors

Richard Anderson, Edgecombe Co.

John Ashe, Jr., Rockingham Co.

Charlie Batten, Johnston Co.

Billy Carter, Moore Co.

B.H. Casey, Jr., Lenoir Co.

Andy Clapp, Guilford Co.

Jody Clemmons, Brunswick Co.

Sam Crews, Granville Co.

James “Rooster” Dail, Cumberland Co.

Lawrence Davenport, Pitt Co.

Randy Edwards, Wake Co.

Steve Griffin, Beaufort Co.

Matt Grissom, Vance Co.

Rob Hill, Greene Co.

David Hinnant, Wilson, Co.

Jart Hudson, Sampson Co.

Rouse Ivey, Duplin Co.

Eddie Johnson, Surry Co.

Tony Jones, Duplin Co.

Benny Lee, Chatham Co.

Jeffrey Lee, Johnston Co.

Brent Leggett, Nash Co.

Jim Morris, Bertie, Co.

Mel Ray, Columbus Co.

Richard Renegar, Iredell Co.

Jonathon Renn, Franklin Co.

David Rose, Nash/Edgecombe Co.

Mark Ross, Martin Co.

Thad Sharp, Wilson Co.

Thomas Shaw, Vance/Warren Co.

Jeff Simpson, Bladen/Cumberland Co.

Randy Smith, Jones/Onslow Co.

Stanley Smith, Stokes Co.

Steve Smith, Bladen Co.

Clay Strickland, Sampson Co.

Jackie Thompson, Wake Co.

Jimmy Thomas, Person Co.

Jeff Turlington, Harnett Co.

Linwood Vick, Wilson/Nash Co.

Craig West, Wayne Co.

Shane Whitaker, Randolph Co.

Tim Yarbrough, Caswell Co.

Supporting Directors

Mark Bradley – First Citizens Bank

Clay Frazier – Universal Leaf Tobacco

Robbie Fulford – RJ Reynolds Tobacco

Frank Grainger – Fair Products Inc.

Marion Hawkins, III – Gold Leaf Seed Co.

Stephanie Keith – Granville Equipment

Barry Partlo – Agri Supply Co.

George Simpson – Yara North America

Advisors

Steve Troxler – NCDA&CS Commissioner

Stan Biconish – NCDA&CS

Dr. Bill Collins – NC State University

Dr. Loren Fisher – NC State University

Jay Boyette – NC Farm Bureau

Don Smart – Haywood Co. - Burley Producers



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- 35. We are opposed to the use of any tax dollars being allocated to any agency whose agenda is aimed toward the detriment of the tobacco industry.
- 36. We strongly urge the NC Legislature to restore full funding to the Tobacco Trust Fund Commission for future years.

Extension and Research:

- 37. We applaud and support the continued efforts of North Carolina State University, Extension Research Service and NCDA for managing and directing an appropriate research programs and Research Stations that enhance the profitability of growing and marketing tobacco.
- 38. We support the completion and full funding of the W.K. Collins Agronomy Endowment to provide for at least two permanent tobacco specific positions at NC State University.
- 39. We applaud the Tobacco Industry and related agribusiness for cooperating in the development of research programs and providing financial support for tobacco research.
- 40. Heat not Burn/FDA – We support FDA approval of technology advancements that provide consumers with diverse product choices and create products that can be proven to reduce risk/harm.
- 41. We further support FDA approval of technologies that stipulate manufacturing in the United States and using maximum quantity of US grown leaf.
- 42. We request that the North Carolina General Assembly provide the necessary funding support for the N.C. Department of Agriculture to serve the citizens of our state.
- 43. We request the North Carolina General Assembly recognize the economic value of budgeting research funds for tobacco and stipulate that funding provided for the Academic, Extension and Research Budgets of the College of Agriculture at NC State University be used for such designated purposes.
- 44. We are concerned that essentially no new funds are allocated by the Agricultural Research Service of USDA for tobacco research. We believe this is discriminatory to tobacco farmers and specifically request that additional funds be allocated for regional research on tobacco based upon the enormous tax contribution this industry makes to our governmental budgets. This is especially true as we continue to await FDA anticipated regulatory authority.
- 45. We support the mission of the Land Grant University and call upon the administration at NC State University to conduct full review of admission policies that may place student applicants from farming and rural areas at a competitive disadvantage when pursuing degrees in agriculture and agribusiness.

Economics and Finance:

- 46. Energy costs – We support technology and policy actions to help reduce energy expenses associated with growing and marketing the crop.
- 47. TGANC recognizes the importance of sound and prudent credit policy. We encourage banks, agricultural credit associations and any other public, private and governmental entities that provide credit to farmers and agribusinesses to be cognizant of changes that occur within the agricultural community. We encourage such institutions to continue to find ways to provide both long and short-term credit.
- 48. We encourage the Golden Leaf Foundation, which was formed to distribute 50% of North Carolina’s MSA proceeds to tobacco dependent communities, to recognize that the most effective means of revitalizing these communities is to employ the infrastructure that already exists, and is based on a tobacco farming economy.
- 49. TGANC encourages USDA in their statistical surveys to release by December 1st of each year estimates to the public on tobacco acreage produced in each state for that year.
- 50. Recognizing the scope and importance of the state’s # 1 industry - agriculture, and specifically farm land for agricultural production, we request all governmental regulatory agencies maintain an understanding and policy supporting the critical need and rights of water usage, particularly those sources traditionally used and developed for agricultural practices.
- 51. We support efforts to help create awareness about the consequences associated with loss of productive farmland. We applaud the NC Department of Agriculture and the NC General Assembly for its creation and funding of the Farm Land Preservation Trust in the mitigation of the disappearance of our farm land and natural resources.
- 52. TGANC remains concerned about the continued sharp escalation in costs of production in growing tobacco and the importance of those entities that purchase leaf tobacco to understand such expenses.
- 53. Aging infrastructure is a major concern of all involved in tobacco production. TGANC requests that purchasers of tobacco be aware that multiyear contracts and pricing sufficient to ensure long term profitability are necessary to inspire enough confidence in the grower base to allow for modernizing tobacco specific investments

Good Agricultural Practices (GAP)

- 54. GAP Certification - TGANC calls on the industry to commit that certification programs will demonstrate value to growers, including contract stability, compensation for extra costs incurred and long-term commitment to purchases.
- 55. We encourage GAP Connections to be more inclusive of grower perspectives and to increase the number of growers on its board of directors.
- 56. We call upon GAP Connections to not collect and archive any sensitive data.
- 57. Any data on file should be disposed of.
- 58. Call upon GAP Connections to ensure that a grower representative is a member of its Executive Committee.
- 59. We oppose increasing compliance costs associated with GAP certification programs.
- 60. We call on the industry to hold all growers around the world to the same GAP standards.
- 61. Given the unnecessary costs of multiple barn testing requirements, TGANC advocates that a single, standardize barn test program continues.
- 62. Understanding that GAP training is beneficial to the industry and that all growers are now required to comply, we support a continued standardized GAP training program.
- 63. GAP assessment visits should be conducted in a more streamlined approach with better consistency. We further request that attention should be given towards more careful handling of certain sensitive data and information while conducting assessments.
- 64. We call upon GAP Connections to provide a detailed outline of what farmers should expect in advance of an assessment visit/review.
- 65. We call upon the industry to adopt a single and standard GAP on-farm assessment and avoid duplicate visits to the same locations during the same crop year.
- 66. We encourage the industry to explore opportunities to achieve increased yields for conventional tobacco seed.
- 67. We call upon the tobacco industry to maintain awareness of the importance of social responsibility.
- 68. While US tobacco producers pride themselves on the integrity of what is known to be the most carefully produced, high quality tobacco in the world, we acknowledge that possible findings of any noxious materials from naturally occurring plants also present in the fields should be thoroughly investigated and require a cooperative effort to find solutions that resolves such concerns to the satisfaction of our customers.

Crop Insurance:

- 69. We request that tobacco be treated equally by RMA relative to all other fully covered and insurable crops.
- 70. We recommend that flue-cured tobacco producers need to furnish a valid contract affiliated with recognized purchasers in order to obtain full value multi peril crop insurance coverage, and that tobacco planted absent a valid contract only be insurable at a reduced rate in order to help discourage total over production.
- 71. We support review and revisions for final dates of insurance coverage that more accurately reflects the modifications to the current growing season lasting longer. In particular, wind coverage should extend beyond October 1st for wind and hail policies.
- 72. In situations of wide spread weather events and natural disasters, we call upon RMA and agencies to pay claims in a timelier manner.
- 73. We request that all states be treated equally by the Risk Management Agency in reference to the MPCI regulations and that production and price guarantees adequately reflect the true costs of production. The premium charges should be based on the same standards as all other commodities.

President’s Message – Industry in Crisis

Our industry faces constant changes and numerous challenges. Farming is the perpetual business of risk and chance. As we searched for the theme to describe our outlook for the 2019 season it is once again best influenced by the season we just completed.

The harsh reality as we begin 2019 is that we are an Industry in Crisis!

As an Association, we should always aim to be optimistic and positive in advocating for the members as well as strive to be a source of positive motivation for them collectively and individually. But sometimes reality can be so overwhelming it becomes difficult to see or imagine a light at the end of the tunnel.

We could fill the entire annual report with details about so many points of concern and topics of challenge. In the interests of space, I will describe the top four.

WEATHER:

The 2018 season was perhaps the most difficult we have endured when considering the combination of circumstances to navigate. There were two major hurricanes that left behind massive destruction in many parts of the state. But we have managed our way through numerous hurricanes in North Carolina. Every year we know that the risks of adverse tropical weather may be possible.

What compounded the impacts of Hurricane Florence and Michael was the excessive amounts of rain we witnessed throughout the season. In most locations 2018 became the new record for rainfall index. Parts of eastern and south eastern NC recorded greater than 110 inches for the year!

This accounted for a difficult crop management scenario. Tobacco this past year was absent its normal harvest and curing characteristics. That results in tobacco that becomes challenging to achieve desired grades and quite often realizes lower prices. On top of that was the general reductions in yields. It’s impossible to cash flow a tobacco farming operation on yields below 2,100 pounds and for much of the State that was exactly where we found ourselves. We know from agricultural economist’s data that the reality is farmers must achieve greater than 2400 pounds to be profitable. Very few obtained that threshold in 2018. Consider this simple calculation: Our marketing statistics suggest NC marketed 268 million pounds of flue-cured. We estimate that 155,000 acres were planted. This would suggest the average crop yield was about 1,729 pounds per acre. This is down from the previous low average in 2017 of 1,950 pounds. And of course, far below the necessary target range for success.

Weather wasn’t the only crisis for our industry. There’s an old saying that farmers are engineered to cope with weather challenges. What we are less equipped to fully understand and manage are the circumstances that plague us off the farm. The policy that effects tobacco is becoming too extreme.

TRADE:

This time last year no one anticipated a trade tariff battle between China and the United States would dominate the news since April 2018. Agriculture of course is feeling the full brunt of the trade disputes and retaliations by China aimed at our farm products. Tobacco, while not the largest volume export commodity to China, does represent net export benefits for the United States. And, on a per acre consideration, tobacco has suffered the greatest impact of the Chinese actions to suspend orders from our country last year.

Today we await any indications from China whether it will resume and purchases in the U.S. for 2019. This is a huge factor in the size and value of the crop moving forward. China may represent as much as 75 million pounds purchased annually. And, we know that China still has the potential to serve as an expanding export market for the US.

TGANC has written directly to the Chinese on three occasions in 2018 to express our appreciation for past business and to encourage in every way that we know how for them to please reconsider the decision not suspend orders.

On the topic of trade in general, the strong U.S. dollar (completely outside of our control) creates a giant hurdle for our exports. World-wide there is over production of tobacco and the dollar makes our leaf expensive by comparison.

LABOR:

Perhaps the number 1 crisis topic on the farm officially became reality on Wednesday January 9th when the H2A program Adverse Effect Wage Rates (AWER) were published in the Federal Register escalating already high wages an additional 7%. This means labor costs immediately



Steve Griffin - TGANC President

increased by 79 cents per hour to \$12.25 plus the additional fixed costs associated with the program such as housing and transportation. Labor is the single greatest variable costs of producing tobacco in North Carolina.

A coalition of industry leadership and advocates have been working tirelessly on this challenge for over two decades. But in recent years the pressure of this cost is having more acute impact as we realize the burden of earning profits, servicing debt and trying to survive off fewer acres. This is occurring at a time of rising costs of just about every other variable as well.

We are grateful for the leadership of Judiciary Committee Chairman, Representative Bob GoodLatte (6th District VA) and his staff for their longstanding efforts to advance and achieve the Ag Act. His legislation would have delivered “farm saving” modifications and changes that would have been of great value. Unfortunately for us he retired from Congress on January 3rd without passage of any form of legislation.

Today there is a diverse coalition working with Congress asking for a two-year wage freeze at 2018 rates so we can restart the process of guest worker reforms. We want to especially applaud groups such as the Farm Labor Organizing Committee (FLOC) for its written confirmation to congress in November to also support the two-year wage freeze and work cooperatively for program reforms. Finally, they recognize that we are losing American farms at an alarming rate. As goes the farm, so goes the jobs! And obviously any wage rate times zero hours equals zero earnings. We need our North Carolina delegation to continue to lead in a bi-partisan effort to achieve solutions.

CROP SIZE – STABILITY:

The Executive Vice President and I attended the ITGA conference in Brazil in late October. We both gave remarks and presentations at the meeting. We attended the round table discussion with farm leadership organizations from more than a dozen tobacco growing nations. In addition, we made visits to Brazilian tobacco farms and engaged with growers.

What we learned and saw was a validation of the enormous challenge for tobacco growers around the globe. There is an oversupply of too much cheap tobacco. The farmers we visited with from South American countries, African countries and parts of Europe are just like us. They are striving to make a living and provide for their families by farming land much the way we do.

In most other regions of the world, these farmers receive inputs and other provisions from the contracting companies. They have drastically lower costs for labor and the have limited use of self powered equipment and other tobacco specific machinery. We can not grow tobacco cheaper than a farmer on another continent that transplants by hand, chops with a hoe, plows with an ox, pays only dollars per day in wages and cures with wood! More importantly, we should not be expected to produce cheaper than those farms or even be compared. Ours is a premium product, with stringent standards and highly compliant. It deserves and is worth premium value.

As we are forced to jump through more hoops of compliance such as GAP certification, EPA, FDA, USDA, etc. it must demonstrate value and market protection. So far it has failed to demonstrate that worth. We are frustrated with doing more for less. It is a safe analysis to summarize that we have witnessed four consecutive crop years with contract volume reductions. Will this year become #5?

2019 is shaping up to be the smallest crop (in terms of contract volumes) that we have planted in the United States since the end of the Civil War. Keep in mind that is the era of time that Washington Duke made his pilgrimage from New Bern to Durham aligning farmers along the way to supply him tobacco in his vision to begin mass manufacturing cigarettes. Hence the Duke Homestead became the birthplace of the modern cigarette industry. I encourage you to visit the historic Duke Homestead site and see this collection of history. Knowing our history is an important tool in forecasting our future.

As we gear up to plant +/- 325 million pounds of flue-cure under contract this year it validates that tobacco farming has a crisis in the United States. In little over a decade we have witnessed major attrition. TGANC once recorded greater than 12,000 farmers in its data base. Today the roster is around 2,300 and the actual number of farming operations is considerably fewer than that when factoring partnership combinations among the 2,300. No one knows yet what attrition will add up to equal in 2019 but it’s expected to shrink yet again. I am concerned by the large numbers of growers telling TGANC they have already exited or will come to that determination very soon once contract signing has concluded.

These numbers suggest we are not sustainable. For many we have already passed the point of no return. Fewer farms growing more acres is not a healthy model for the industry. Rising costs, more compliance and shrinking margins combine to serve as obstacles for future generations. Farm foreclosures and massive liquidation of tobacco specific assets means retirement aged growers are seeing accumulated net worth vanish.

If we are resigned to grow less tobacco it must provide increased returns. The guiding principle of all business in net margins. As growers we are losing confidence and optimism in long term sustainability. Now is the time for strategic planning by the entire industry to deal with the hard realities and develop meaningful solutions. I know purchasers grow tired of our persistent advocacy to increase prices. But we are an industry in crisis and the only action that will save us is to restore profitability. And that, my fellow growers, is always about price.

Our pledge at TGANC is continuing to do all we can as you advocate to advance these points on our behalf.

TGANC 2019 Proposed Resolutions
Proposed for Approval at Annual Meeting, February 1, 2019

We believe tobacco production to be essential to the economy and well-being of the people of North Carolina. We further recognize that tobacco plays a vital role in the economy of the United States. In the interest of preserving that contribution, we offer the following resolutions:

By Category and new or modified are indicated by BOLD type.

Production and Marketing

- 1. We call upon the industry to treat every farmer with dignity and respect regardless of the size and scope of their operation or its geographical location.
- 2. We call upon tobacco companies that contract with growers to continue to develop policies and practices that are fair and inclusive of all growers with regards to the economic welfare of tobacco producers as a whole.
- 3. **Size of Crop – We are concerned that the US crop is approaching an all time low when measured in planted acres. We call on the domestic and export buyers to be aware of the economy of scale and risks associated with steady decline in acres that may have irreparable harm.**
- 4. We oppose multi-tier contract conditions and markets that do not publish a retail price for tobacco that reflects its market value.
- 5. We request that NCDA continue working to devise a method to forecast intended planting and actual planted acres of tobacco for each current crop year.
- 6. We support the Plant Industry Division of the North Carolina Department of Agriculture in maintaining its “Apparent Freedom” status of enforcing those regulations relative to requiring zero (0) tolerance of any pest on any agricultural, horticultural, floral, or nursery plants imported to North Carolina.
- 7. We support tobacco growers and purchasers to collectively develop strategies, systems, and procedures that will enhance the integrity and quality of flue-cured and burley tobacco and reduce the cost of marketing.
- 8. Observing the increasing markets for liquid nicotine we support having U.S. grown tobacco as the source for such materials.
- 9. Any transgenic tobacco for commercial production should not be planted in such a way that it creates a risk for cross-contamination with conventional.
- 10. We presently oppose the commercialization of tobacco cultivars for traditional uses whose genetic makeup has been modified with non-tobacco genes. We feel that such cultivars should be limited to controlled experimental situations and restricted from entering the commercial trade until such tobacco has been accepted in general commercial usage.
- 11. **Restriction of use or elimination of crop protection products– We call on the industry to support research, development and use of crop protection agents that are essential to Best Management Practices and overall crop yield success.**

Labor and Workforce:

- 12. **Goodlatte AG Act– We applaud and support the leadership of Rep Goodlatte and his legislative efforts to advance the AG Act.**
- 13. **AERW- Solutions for streamline the wage rate formula are critical to achieving an affordable labor force and we support legislative or administrative resolve.**
- 14. **We support the current agricultural industry collective request to freeze the AEWR at 2018 levels**
- 15. Recognizing that North Carolina is a “right-to-work” state, we oppose any regulations or sanctions that would cite labor union membership as a absolute requirement for any agricultural laborer, regardless of that workers citizenship status.
- 16. We understand and support workers rights and regard the employees of the family farm as critical to the operations success.
- 17. We implore all commodity groups and the tobacco leadership groups and governmental entities to come together with commitment and support to resolve the farm worker labor concerns that impact the livelihood of the farm families in North Carolina, including comprehensive immigration reform.
- 18. We encourage all farmers to understand and adhere to the requirements of the Fair Labor Standards Act in regards to lawful employment of any person working on a farm.
- 19. We remain opposed to the employment of persons (with exceptions for members of the farm family), under the age of 16 working in tobacco production in the United States and abroad. We further call upon the industry to hold the world markets to the same standards.
- 20. **We support and call upon the USDOL to review the protocols used to determine the Adverse Effect Wage Rate (AEWR) and the need for a wage formula correction more in line with prevailing wages.**

Trade and Export:

- 21. **We oppose detrimental federal intervention, lawsuits and other unwarranted attacks on a legal industry. We recognize that tobacco is a legal commodity representing an extremely large amount of international trade; therefore, we insist that all agencies and individuals representing the United States in any area of trade be allowed to promote the high quality, comparative value of U.S. tobacco, including fair treatment in all trade agreements.**
- 22. **We support an immediate solution to the current tariff situation.**
- 23. **We oppose any efforts to unfairly target, designated differently, or omit tobacco, a legal commodity from future trade agreement negotiations.**
- 24. We are categorically opposed to any trade agreement present in force or being considered in the future that does not include any and all legally grown U.S. agricultural commodities.
- 25. We support a full review of the Tariff Rate Quota (TRQ) formula and any implementation of corrective measures to make it effective with the global market and import/export trade circumstances that will benefit U.S farmers.

Policy and Regulatory:

- 26. Proposed USTC Settlement(s) – The expense and negative impacts of the ongoing lawsuits are averse to the success of the USTC to serve members and support the overall industry moving forward. We encourage all parties involved to reach meaningful solutions and bring litigation to an end.
- 27. We request that the USDA-FSA and USDA-NRCS be more sensitive to the need for a more common sense approach to the enforcement of rules as stated in the Foods Securities Act of 1985, i.e. Sodbuster, Wetlands, and Conservation Compliance. We further request that said rules be interpreted uniformly on a county-by-county basis and that penalties be applied on each individual tract basis.
- 28. We request that the Environmental Protection Agency and the FDA refrain from acting in a discriminatory manner with respect to the approval for labeling of pesticides for use on tobacco.
- 29. We maintain that all lending practices of the Agricultural Credit Division of the Farm Service Agency be fair, equitable, and timely to all applicants.
- 30. We support individual property rights for all agricultural enterprises, provided they meet all County, State, and Federal regulations.
- 31. We oppose any future increase in the state or federal excise tax on tobacco products.
- 32. We further recommend that our Association and other tobacco supportive organizations continue to publicize the economic benefits of tobacco to our nation’s policy makers in terms of jobs and tax revenue.
- 33. We are opposed to additional legislation and regulation that would restrict when and where adults choose to smoke.
- 34. **We implore all tobacco interest and tobacco communities to come together with commitment and support to solve the issues and problems that threaten the economic contributions of tobacco to our state, our nation and our growers.**