

**GTNF 2015**

**Bologna, Italy**

**Sept. 15-17**

**Session 3: Leaf Sourcing Strategies**

The Leaf Sourcing Strategies panel debated the pressures on the tobacco supply chain as a result of declining demand, increasing regulatory requirements (and associated cost) and falling leaf prices.

Traditionally, tobacco consumption has been considered to be fairly immune to cigarette price rises or declines in disposable income. That changed after the global economic recession of 2008, which exacerbated the impact of high tobacco taxes and public smoking bans. Whereas in the past a 1 percent cigarette price increase was typically followed by a decrease in tobacco consumption of between 0.3 and 0.4 percent, a similar price increase today yields a much greater consumption decline. As one panelist lamented, “Tobacco has turned out to be less resilient than we once thought.”

The reverberations have been felt throughout the supply chain. Until recently, the leaf tobacco business was all about growth; tobacco farmers could produce anything and would almost certainly find a buyer. In today’s oversupply situation, that is no longer the case. Now, the industry must learn to manage decline. The drop in demand and tobacco prices comes at a time when production costs are rising due to increased regulatory requirements. The tobacco industry is now expected to have in place extensive, documented programs to reverse the deforestation associated with its operations, eliminate child labor and ensure good overall working conditions on its contracted farms.

The challenge is to ensure that tobacco farming remains a profitable business, because viable tobacco farmers are vital to the security of supply. One panelist who works closely with growers urged the industry to get the supply-demand balance right quickly. Currently, he said, many growers view the world in terms of “us and them.” They mistakenly believe the industry prefers oversupply. Such misperceptions, he cautioned, are dangerous because it could prompt farmers—the most vulnerable members of the tobacco supply chain—to seek partners in society outside of the industry. “We have enough outside enemies,” he said. “We don’t need to create enemies within our supply chain.”

Acknowledging the challenge, a tobacco buyers representative said leaf merchants needed to help farmers shift their focus from price to profit. With proper inputs and appropriate agronomic advice, farmers could lower their production cost while increasing their yields and leaf quality—which in turn should result in greater profitability. One participant pointed to an initiative where new technology had helped reduce the amount of wood required to cure a batch of tobacco to 6 kg from 27 kg.

The panelists also said the industry needed to reduce the complexity of its supply chain, by reducing the number of sourcing origins. The number of tobacco-producing countries has come down to 70 from 80 in recent years, and that is still too many, according to one buyer. “We won’t be able to support all origins,” he said. “That means making hard decisions: who will continue and who will have to stop.” And while such a cull would result in casualties, one speaker said that this would still be preferable over the current situation, in which all farmers live in uncertainty.

The panel agreed that, in order to survive in the new environment, the industry would have to establish solid partnerships, abandon any speculative approaches and embrace the long view.