FOIA Number: 2008-1524-F

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Tobacco-Cigars, Smokeless [2]

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Swisher International, Inc.

SWISHER INTERNATIONAL, INC.

SWISHER INTERNATIONAL, INC.

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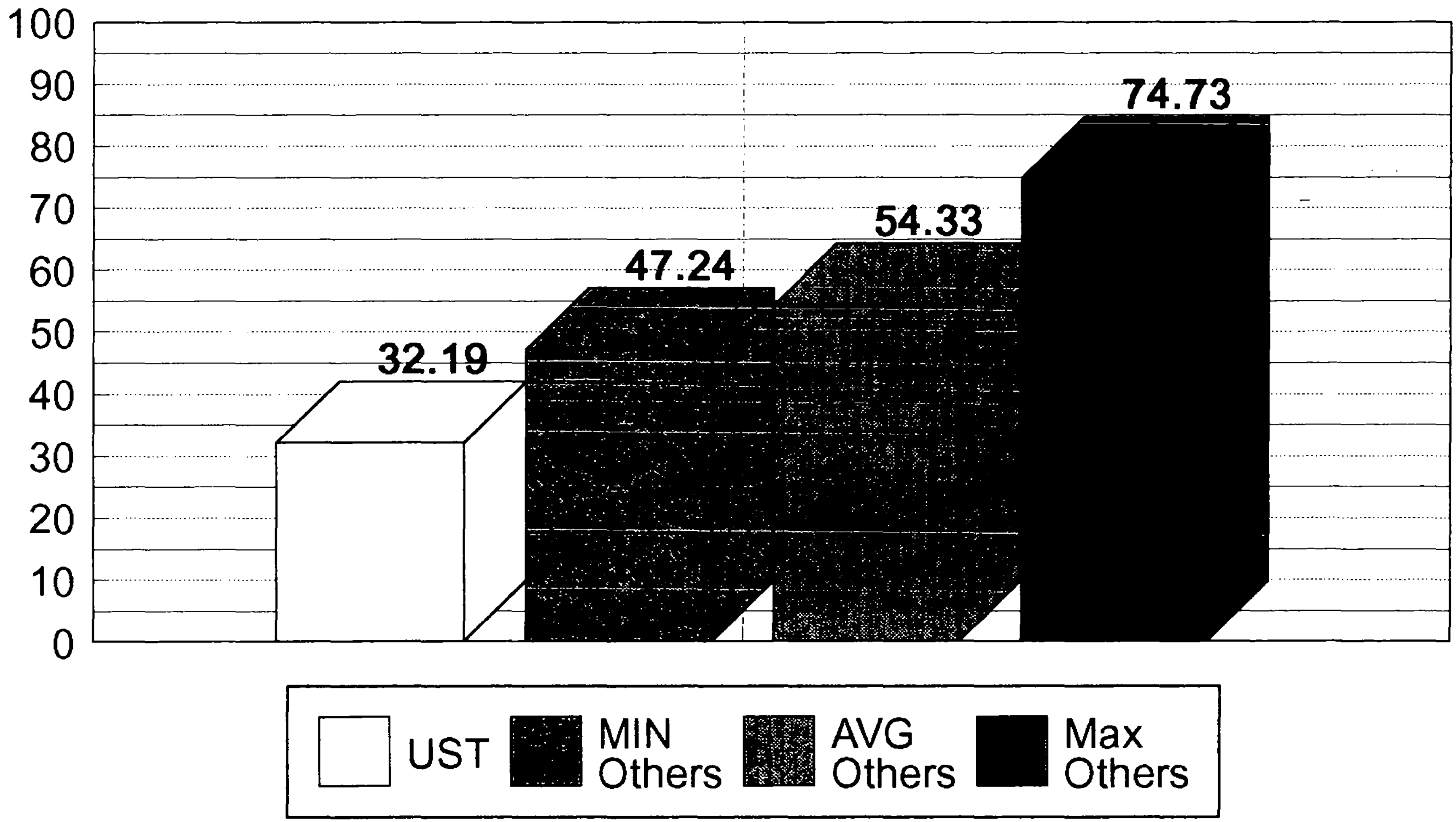
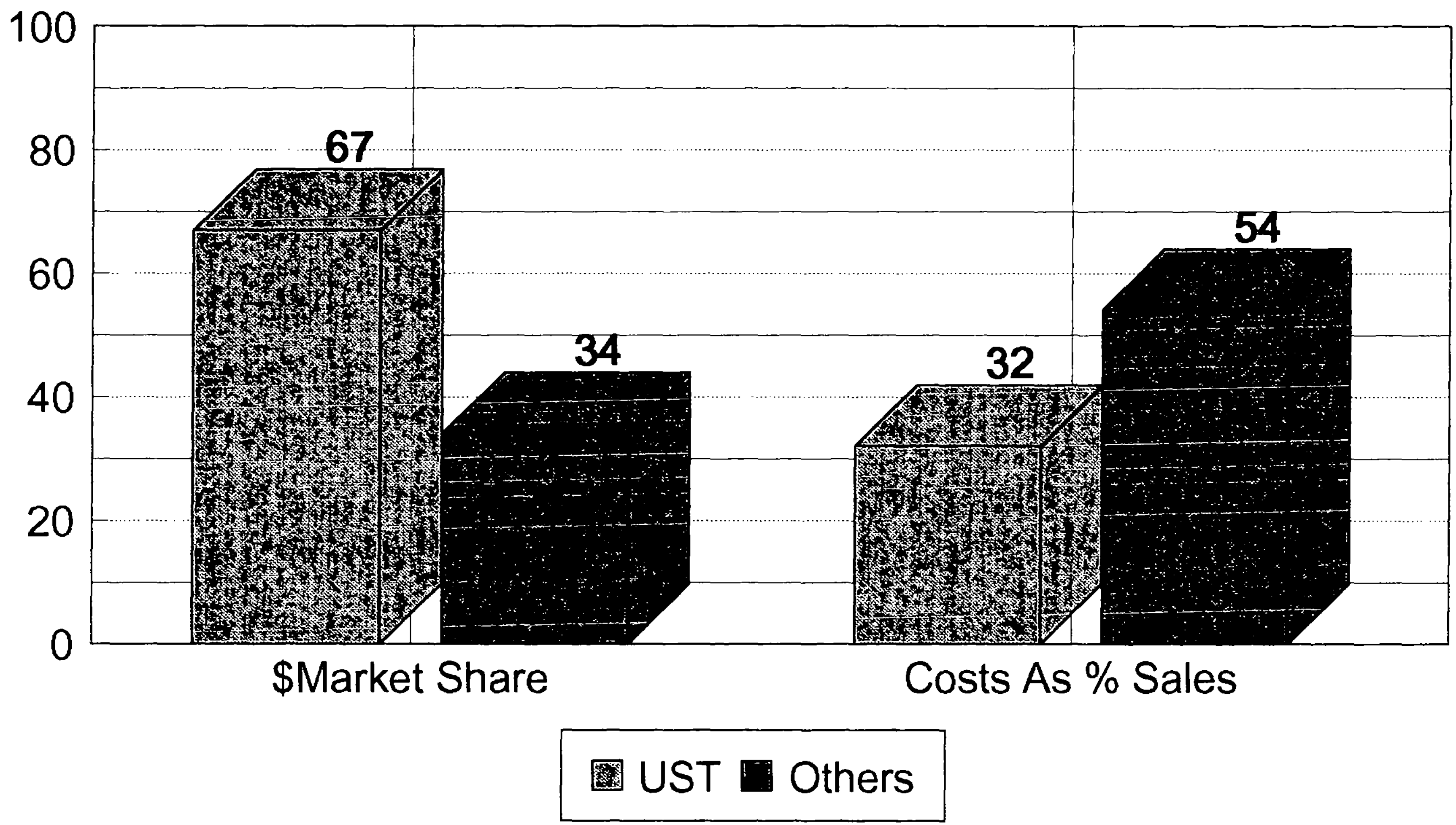
Smokeless Tobacco Industry Estimated Cost As % Sales





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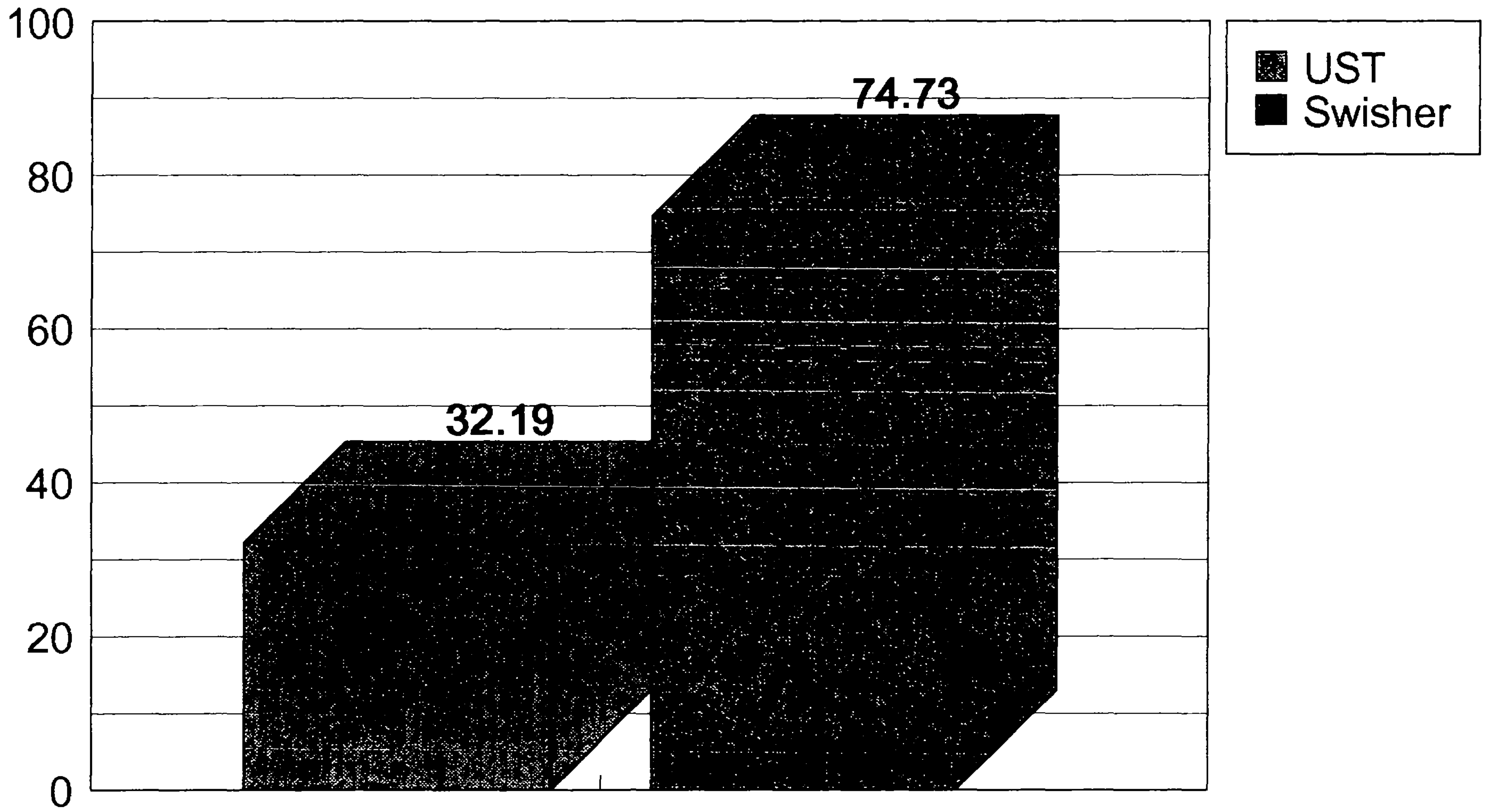

GLOBAL SETTLEMENT - IMPACT ON SWISHER INTERNATIONAL, INC.

I. Swisher International, Inc. was not at the table but the settlement negotiated commits Swisher to pay unbearable penalties.

- The settlement announced on June 20, 1997, is the product of negotiations between the five largest US Tobacco companies, trial lawyers and the attorneys general of the States now suing tobacco companies for Medicare/Medicaid reimbursement.

- Swisher sought to be a part of the negotiations once it learned they were taking place but were excluded from the process.

- Swisher is not a named party in any of the 40 class actions and State lawsuits that the agreement is designed to settle.

- Nevertheless, the agreement purports to force Swisher to pay a portion of the $368.5 billion cost of settling those suits. To date, Swisher has not been advised by the negotiators how the settlement amount was determined or what portion of it Swisher is expected to bear. Swisher's rough calculation, however, using publicly available data as to the ratio of Swisher's unit sales to those of the whole cigarette and smokeless sector, suggests that Swisher's annual share will exceed its annual pretax profit.

II. The method of allocating the settlement cost is unclear and may unintentionally impose harsher than intended penalties on Swisher and other smokeless tobacco manufactures not involved in the negotiations.

- The settlement provides for payments to be allocated among the tobacco companies on the basis of their relative domestic "unit sales volume". It is unclear what is meant by "unit sales volume". As negotiated, the settlement amount is analogous to a tax levied on all products whether they agree to it or not. Therefore, fairness requires that the allocation of that amount should be done on the same basis that taxes are levied on cigarettes and smokeless tobacco products.

- Unlike the cigarette and moist snuff manufactured by the negotiating tobacco companies which are for the most part sold in standard packages, many of the products sold by Swisher and others absent from the process are packaged in a wide variety of different-sized containers. For that reason, taxes on smokeless tobacco products are typically levied on the basis of the weight of product sold rather than the number of packages sold. Even this practice has proved unreasonable, however, in an industry whose products are as non-uniform as smokeless tobacco products. Because of the disparate values added in the manufacture of the different smokeless tobacco categories (and the concomitant differences in the pricing structures) a uniform per pound tax for all smokeless products has long been recognized as too onerous.

- In 1986, Congress re-imposed a federal excise tax on smokeless tobacco products (the prior excise tax had been repealed in 1965). That tax has been increased twice since then and a proposal for an additional increase was part of the recently signed budget agreement.

- The 1986 tax and each subsequent revision has provided for a per pound tax on smokeless products that recognizes the three-to-one price differential between snuff and chewing tobacco products. Accordingly, the formulas have provided, for example, that the tax on a standard 1 or 1.2 ounce can of moist snuff is about the same as that on a standard 3 ounce pouch of looseleaf chewing tobacco.

III. Stiff penalties imposed for failure to reduce underage usage of Swisher's products will be difficult to avoid despite government studies finding that underage use of smokeless tobacco products is low and decreasing.

- The recently released 1996 National Household Survey on Drug Abuse reported that underage use of smokeless tobacco products among 12 to 17 year olds was 3.9% in 1994 and decreased to 2.8% in 1995 and to 1.9% in 1996. The 1994 Healthy People 2000 review found that use of smokeless tobacco had dropped form 6.6% in 1988 to 4.8% in 1992 for the same group. Further, the NIH standard adopted by the settlement negotiators this year as the baseline measure of underage use puts use of smokeless tobacco by minors at 2.6%.

- This low and decreasing trend has even been acknowledged by critics of the industry, Matt Myers, General Counsel of the National Center for Tobacco Free Kids, testified on June 26, 1997, before the Senate Judiciary Committee that "The smokeless numbers [for underage use] actually surprised me...use of smokeless tobacco among teenagers over the last five years has not shown the same trends [as cigarettes]."

- Despite the fact that smokeless tobacco use among minors is trending downward, the "look back" provisions of the settlement will penalize all smokeless manufactures unless de minimis underage usage is further diminished. The smaller the incidence of underage usage, the more difficult it will be to measure decreases and the unfairer the "look back" penalties become.

- Further, the "look back" provisions, as written, penalize all manufacturers equally for failures to reduce indusrty-wide underage usage. Fining companies uniformly without regard to whether they are equally responsible for the usage the negotiators seek to reduce is inequitable and counterproductive. A company-by-company or product-by-product system would be more just and effective.

IV. The Global Settlement improves the competitive position of larger companies at the expense of Swisher.

- o Swisher and the other smokeless tobacco manufactures which did not participate in the settlement account for only 34% of the smokeless tobacco sales. The sole smokeless tobacco manufacturer represented at the table accounts for the rest. As negotiated, the settlement strengthens the position of the large manufacturers which participated in the process and weakens that of those which were not at the table;

  - oo By curbing or prohibiting use of the marketing tools that Swisher and most smokeless tobacco manufacturers have relied upon to introduce and support products, the negotiators have favored the larger, stronger companies with the more established products over the smaller companies trying to gain (or hold onto) a foothold in the market.

  - oo By requiring Swisher to share the cost of settling the larger companies' lawsuits, the larger companies not only reduce their liability but increase the cost of doing business for their smaller competitors. Further, those costs can be expected to impact the smaller companies more harshly than the larger, more diversified companies who agreed to them. By using the settlement to cripple Swisher and other small manufacturers, larger manufacturers are able to consolidate their competitive positions.

  - oo By arranging for small companies like Swisher to be subjected to disproportionate fines under the "look back" provisions, the negotiating companies make further inroads into the small companies' profitability while laying off part of the fines that they would otherwise pay alone.

  - oo By agreeing to marketing restrictions that are more restrictive than those struck down by the Federal District Court in Greensboro in the litigation over the new FDA regulations and which reward larger companies by, for example, permitting them to use more "point of purchase" marketing tools than small companies, the negotiating manufacturers are able to tilt the playing field further to make it more difficult for Swisher and other small companies to market their products to adult customers and to make headway against products that monopolize the market.

  - oo By forcing small companies which were locked out of the settlement talks to bear a share of the settlement expense (by requiring, in the alternative, punitive up-front payments), the negotiating companies seek unjustly to force companies which were not at the table to accept a portion of the burden undertaken by those which were, without receiving comparable value for the expense.

SWISHER INTERNATIONAL, INC.

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Jacksonville, FL 32206
1-800-874-9720

America's Smokeless Tobacco Manufacturers

Support Responsible Tobacco Retailing Education

[redacted]

UNDER 18
No Tobacco

Smokeless
Tobacco
Council, Inc.

Jeffrey L. Schlagenhauf
President

1627 K Street, NW, Suite 700
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Smokeless Tobacco Council, 1627 K Street NW, Suite 700, Washington, DC 20006 • (202) 452-1252

UNDER 18
No Tobacco

The Smokeless Tobacco Council supports education programs to encourage responsible tobacco retailing.

EDITORIALS

Good News: The Kids Ain't Chewin'

The new numbers are out from the National Household Survey on Drug Abuse. They look good —if you don't look too closely. While teens' overall drug abuse may have fallen, too many are still flocking to the hard stuff.

The survey, done by the Department of Health and Human Services, said illegal drug use by 12- to 17-year-olds fell from 10.9% in 1995 to 9.0% last year.

The Clinton administration hailed that drop as evidence of "the beginning of an arrest of the astronomical level of drug use among our children."

Drug czar Barry McCaffrey said, "This survey has some tentative good news."

Perhaps the best news is that marijuana use took a slight downturn in 1996. The number of 12- to 17-year-olds who smoked pot in the last month fell 13.4% from last year. Still, 7.1% of teens reported marijuana usage.

Cocaine use also showed a decrease — continuing a trend begun in the 1980s. Past-month use dropped from 0.8% to 0.6%.

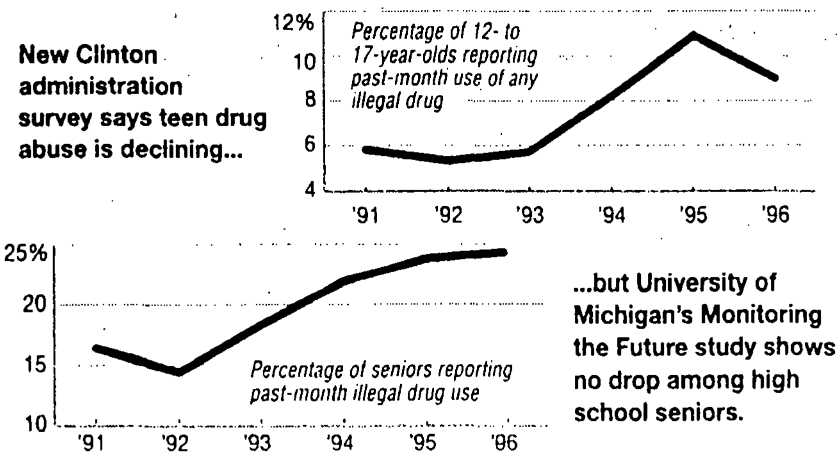
Cigarette use by adolescents stayed about the same, but Johnny's chewing less. The use of smokeless tobacco fell from 2.8% in 1995 to 1.9% in 1996. Alcohol use dropped from 21.1% to 18.8%.

But before the administration breaks its arm patting itself on the back, it should look at the grim numbers for especially dangerous, addictive drugs such as heroin and hallucinogens. And if it wants to take credit for a mildly good year, it also has to assume the blame for three prior years of miserable failure. Illegal drug use by adolescents is still up more than 69% since 1992, when it bottomed out after a decline that started in the '80s.

This is also the *only* recent study showing a downturn in drug use by teens. This raises the possibility that its modestly optimistic result may be due to sampling errors.

"Don't break out the champagne yet," said Lloyd Johnston, director of Monitoring the Future, an HHS-funded study at the University of Michigan. "I have serious concerns there has been a decline. There has been a coincidence (of increase) in all recent study results — except this one."

Something To Crow About?



Sources: Department of Health and Human Services, 1996 Monitoring the Future study

Johnston's latest Monitoring the Future study, released in December, showed illegal drug use — especially marijuana use — up sharply among high schoolers.

It said lifetime marijuana use by eighth-graders grew from 19.9% to 23.1% in 1996. And nearly 40% of 10th-graders had taken marijuana. Current use of the drug — within the prior 30 days — was also up, increasing 18.6% among 10th-graders since 1995. Use of hallucinogens, PCP, tranquilizers, cocaine and heroin had also risen.

Another study, released in September by the Parents Resource Institute for Drug Education, found student drug use at the "highest level in nine years." According to PRIDE, more than one in four of all high school seniors — some 26.5% — had used an illicit drug once a month or more during the past school year.

In fact, more students reported getting "very high, bombed or stoned" when they use drugs. Almost three-quarters of 12th-graders said they get very high when they smoke marijuana — up from 62.8% in 1988.

The Centers for Disease Control's survey of youth-risk behavior also backed up these findings.

Even the new HHS survey has its share of bad news.

First-time use of heroin among all age groups is soaring. The survey said 141,000 people tried it for the first time in 1995, the latest year reported. That's up from 40,000 in 1992. And the age of first-time heroin users is plunging — a reliable sign of drug chic. The average age for a first-time heroin user was 25 in 1988. Today the average age is 19.3 years old.

Hallucinogen use is also exploding. Two percent of the teens in the 1996 HHS survey said they had used them, up from 1.7% in 1995 and nearly double the 1.1% reported in 1994.

We'd love to say that teen drug use has stopped its upward trajectory. But we should wait and see before we start the celebration.

No Clear Outlook From Tobacco Settlement

By BARNABY J. FEDER

FOR the tobacco industry, how good is last month's deal to settle most of the legal and regulatory conflicts that have long depressed its stocks?

Health advocates, lobbying in Washington to include more restrictions and bigger payments, are certain that the proposed settlement is far too sweet. From Wall Street's perspective, though, there are still so many unknowns that it would be foolish for investors in the industry to light up victory cigars. Indeed, after tobacco stocks rose repeatedly on reports that a settlement was being negotiated, they fell after the deal, and, despite a modest recent rebound, have not regained their earlier levels.

Some of the decline undoubtedly resulted from investors' locking in their profits from the stocks' rise earlier this year. Some also came from growing fears that the industry, in order to get a final deal, will have to take a much deeper hit than it initially negotiated. Even without those factors, though, investors face plenty of unknowns that make them cautious about the settlement.

Here are some of the key uncertainties:

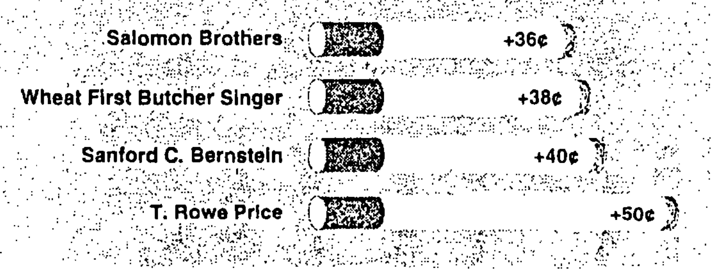
PRICES The tax picture began to clear up last week, when Congress and the President agreed to a 10-cent-a-pack increase in 2000, and an additional 5-cent increase in 2002. But analysts are still uncertain how much tobacco companies will raise prices to help recoup the $368 billion they would pay over a 25-year period under the agreement. Projected increases in the first year alone range from 36 to 50 cents a pack.

"I expect them to go after their compensation costs plus a little bit more," said Emanuel Goldman, an analyst at Paine Webber, who predicts wholesalers and retailers will add a couple of cents to the per-pack price.

Some analysts see additional price increases of 30 cents a pack or more in the next few years as the industry's annual compensation payments grow, for a cumulative increase of at least 35 percent. In general, each penny the industry adds to the price of a pack of cigarettes without losing sales generates an additional $230 million in profits.

A Cloud Over Prices

Last month's proposed tobacco settlement has left many questions, including this one: How much will companies raise cigarette prices over the next several months to recoup the deal's costs? Here are some analysts' estimates of price increases on a pack of cigarettes, which now costs an average of $1.92.



The New York Times

SMOKERS' BEHAVIOR The rule of thumb has been that there is a 4 percent decline in the number of cigarettes sold for every 10 percent increase in price. Many analysts apply this formula to their projected price increases in the first year, but opinions vary on what could happen later. Roy D. Burry, an analyst at Oppenheimer, argues that the people who don't quit after the first increases will be hard-core smokers — and thus more likely to keep smoking when prices go up again.

Other analysts expect different attrition rates at different companies. Mr. Goldman figures that the popularity of Philip Morris's Marlboro brand will allow the company to hold the volume decline to 8 percent in the first year and 2 percent annually in later years, while the brands of R. J. Reynolds could decline 10 percent in the first year and 3 percent annually thereafter.

What about the broad marketing restrictions in the settlement, and the sharp increase in spending for stop-smoking programs? Most analysts doubt that these provisions will have any measurable effect on smoking rates. But they also say they could be wrong.

"We just can't estimate an impact for these things," Mr. Burry said. "It's going to a place we've never been."

And how much will the changes in the smoking rate affect the industry's performance? Retail tobacco sales are close to $45 billion a year in the United States, and, assuming a price increase of 36 cents a pack, each 1 percent decline in unit sales would cost about $540 million in retail revenue next year. About $200 million of that would have gone to the manufacturers.

SAVINGS Some analysts say the settlement will lead to virtually no savings in legal and marketing expenses. However, Gary Black of Sanford C. Bernstein & Company disagrees, saying the big spenders' savings could approach 20 percent. He estimated that Philip Morris alone could shave $570 million from its marketing budget and $50 million from its annual legal bills.

OVERSEAS BUSINESS Most analysts expect that, for the largest companies, the settlement's impact will be cushioned by growing overseas earnings. But Mark Duffy of SBC Warburg in London, who follows B.A.T. Industries, the British parent of the Brown & Williamson Tobacco Corporation, warned that the settlement would stimulate litigation and regulation in other countries, driving down the value of the foreign operations of B.A.T., Philip Morris and R. J. Reynolds. Indeed, Mr. Duffy said he was tracking tobacco lawsuits in Australia, Brazil, Britain, Canada, France, Israel, Italy and Japan.

EARNINGS MULTIPLES Many tobacco companies have other businesses — Philip Morris owns Kraft Foods and Miller Brewing, for example — that can greatly affect their stocks. But the settlement's uncertainties are one big reason that tobacco companies have been trading at price-earnings ratios in the low to mid-teens, compared with an average multiple of nearly 24 for the Standard & Poor's 500-stock index.

Many analysts say the settlement will bring the earnings multiples closer to the market average. Translation: sharply higher stock prices. Some see the stock of Philip Morris climbing 30 percent or more over the next year, and the optimists are even more bullish about RJR Nabisco Holdings, the parent of R.J. Reynolds. But there are skeptics.

"The deal, if it goes through, is the worst thing that could ever happen to the industry because it would fall completely under Government control," said John C. Maxwell, of Davenport & Company in Richmond. "The multiple could actually fall."

The settlement could have other effects, but analysts call them too unclear to factor into their thinking. For example, brands that are losing money or are only marginally profitable may be killed quickly because settlement payments in coming years would be based on each company's share of overall sales, not on profitability.

In addition, entire companies could disappear or be drastically reshaped. The Liggett Group, the struggling tobacco unit of the Brooke Group, is likely to be acquired by a larger competitor, and some analysts expect the Loews Corporation to sell Lorillard, its tobacco subsidiary, or expand it through acquisitions or overseas alliances. RJR Nabisco has promised to split off its Nabisco food subsidiary from its tobacco operations when the legal dust has settled.

But don't expect the tobacco companies to help investors sort out these and other uncertainties. They have been resolutely silent on the issue.

"Any indication we are planning to stay in business works against us," said a senior executive at one company on the eve of the announcement of the deal. These days, they just say "no comment." □

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOR IMMEDIATE RELEASE
Wednesday, Aug. 6, 1997

Contact: SAMHSA Press Office
(301) 443-8956

NATIONAL DRUG SURVEY RESULTS RELEASED
Overall Drug Use Levels Stay the Same; Possible Decrease in Youth Drug Use

The overall use of illicit drugs among Americans of all ages remained flat from 1995 to 1996, but illicit drug use among teens 12 to 17 years old declined for the first time since 1992, according to the 1996 National Household Survey on Drug Abuse (NHSDA). The rate of teenage use for all illicit drugs declined from 10.9 percent in 1995 to 9.0 percent in 1996.

While the rate of marijuana use by teens remained statistically unchanged from last year's survey, falling very slightly from 8.2 percent to 7.1 percent, the decline indicates a possible shift in the trend that has seen marijuana use by teens double from 1992 to 1995.

"These findings on teen drug use offer a glimmer of hope, but they also remind us that we cannot rest in our efforts against drugs," said HHS Secretary Donna E. Shalala. "Every new class of middle schoolers and every new generation of high school students needs to hear and understand for themselves that drugs are illegal, dangerous and wrong."

The survey also shows that while tobacco and alcohol use by teens continues to be high, there have been improvements. For example, alcohol use among 12- to 17-year-olds declined significantly from 21.1 percent in 1995 to 18.8 percent in 1996. In addition, the rate of smokeless tobacco has declined significantly from 2.8 percent in 1995 to 1.9 percent in 1996. "Here again, we cannot waver in our efforts to stop teens from engaging in these risky behaviors," Shalala said. "We need to send a strong message to young people that smoking and drinking are dangerous to their health."

White House National Drug Policy Director Barry McCaffrey said, "This survey has some tentative good news. Marijuana, the primary drug abused by youth, may show signs of leveling off. While there is a slight drop in youth drug use, every cabinet member in the Administration is committed to working to make this more than a short-term development. However, although marijuana use has dropped a bit, we remain concerned that cocaine may be inching back up, and heroin use is definitely increasing.

- More -

"Overall drug use in America has fallen by half in 15 years. However, drugs are a sustained threat to our young people. That is why the President's budget increases funding by 21 percent for the number one goal of the National Drug Control Strategy - to educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco. We are particularly pleased that a key component of this effort, the proposed $175 million youth drug prevention national media campaign, is moving successfully in Congress."

Among the findings of concern in the 12- to 17-year-old age group are that more teenagers are trying heroin for the first time; that children's perception of cocaine as risky is down; and that the use of some drugs, such as hallucinogens, continues an upward trend.

Secretary Shalala and Director McCaffrey highlighted HHS' new "Youth Substance Abuse Prevention Initiative." The cornerstone of the initiative is new state incentive grants for community-based action. In partnership with HHS, governors are developing comprehensive strategies for youth substance abuse prevention in their states. State plans must account for all federal and state funding streams in the state, identify gaps and propose how resources can be brought together and used in a sustained strategic way to reduce youth substance abuse.

Dr. Nelba Chavez, Administrator of the Substance Abuse and Mental Health Services Administration (SAMHSA), the lead agency for HHS' Youth Initiative said, "We are working with other federal agencies, states, communities, families, corporate America and the health care industry to bring all the nation's resources to bear on creating an environment where America's youth refuse to use illicit drugs as well as alcohol and tobacco. Our past work has shown prevention programs should target all forms of drug abuse, including the use of tobacco, alcohol, and illicit drugs."

Shalala and McCaffrey noted that Congress has recognized that drug use is a significant American problem, which will require a bipartisan effort to achieve the goals of the National Drug Control Strategy. In most areas, the President's budget request has been met for HHS anti-drug abuse research, prevention and treatment program priorities by relevant Congressional committees. However, Shalala and McCaffrey called on Congress to fully fund the expansion of the National Household Survey on Drug Abuse. The expansion will help provide measurable outcomes to track the success of anti-drug efforts. They also urged Congress to fully fund the President's request for a national advertising campaign through ONDCP to give children the hard facts about drugs.

The National Household Survey on Drug Abuse, which is conducted by SAMHSA, annually provides estimates of the prevalence of illicit drug, alcohol, and tobacco use in the U.S. and monitors the trends in use over time. It is based on a representative sample of the U.S. population aged 12 and older, including persons living in households and in some group quarters such as dormitories and homeless shelters. In 1996, a sample of 18,269 persons was interviewed for the survey. Additional findings:

Tobacco

- An estimated 62 million Americans were current smokers, including 4.1 million adolescents aged 12-17. This represents a national smoking rate of 29 percent.

- Youths age 12-17 who currently smoked cigarettes were about nine times as likely to use illicit drugs and 16 times as likely to drink heavily as non-smoking youths.

Alcohol

- There were about 9 million current alcohol (including beer, wine, and distilled spirits) drinkers under age 21 in 1996. Of these, 4.4 million were binge drinkers, including 1.9 million heavy drinkers.

Marijuana

- In 1996, an estimated 10.1 million Americans were current (past month) marijuana or hashish users. This represents 4.7 percent of the population aged 12 and older.

- Marijuana is by far the most prevalent drug used by illicit drug users. Approximately three-quarters (77 percent) of current illicit drug users were marijuana or hashish users in 1996.

Cocaine

- The number of occasional cocaine users (people who used in the past year but on fewer than 12 days) was 2.6 million in 1996, similar to what it was in 1995. The number of users was down significantly from 1985, when it was 7.1 million.

Hallucinogens

- The rate of current use of hallucinogens among youth age 12-17 has nearly doubled in two years (1.1 percent in 1994, 1.7 percent in 1995, and 2.0 percent in 1996). However, the increase from 1995 to 1996 was not statistically significant in and of itself.

Heroin

- There were an estimated 141,000 new heroin users in 1995, and there has been an increasing trend in new heroin use since 1992. A large proportion of these recent new users were smoking, snorting, or sniffing heroin, and most were under age 26. The rate of heroin initiation for the age group 12-17 reached historic levels.

Perceived Risk of Harm and Availability

- There was no change in perceived risk of marijuana use among youths 12-17 between 1994 and 1996. The perceived risk of harm increased from 1985 to 1990, then decreased from 1990 to 1994. This trend in perceived risk usually mirrors or foreshadows the trend in the use of marijuana among youths.

- The percent of youths 12-17 reporting great risk in using cocaine once a month decreased from 63 percent in 1994 to 54 percent in 1996.

- More than half of youths age 12-17 reported that marijuana was easy to obtain in 1996, and about one-quarter reported that heroin was easy to obtain. Fifteen percent of youths reported being approached by someone selling drugs in the month prior to the interview.

SAMHSA is the federal government's lead agency for improving the quality and availability of substance abuse prevention, addiction treatment and mental health services in the U.S., and is one of the Public Health Service agencies in HHS.

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Note: HHS press releases are available on the World Wide Web at: http://www.dhhs.gov.

FOR RELEASE UPON DELIVERY
WEDNESDAY, AUGUST 6, 1997

*REMARKS BY

DONNA E. SHALALA

U.S. SECRETARY OF HEALTH AND HUMAN SERVICES

PRESS CONFERENCE ON

THE 1996 NATIONAL HOUSEHOLD DRUG SURVEY

WASHINGTON, D.C.

*THIS TEXT IS THE BASIS OF SECRETARY SHALALA'S ORAL REMARKS. IT SHOULD BE USED WITH THE UNDERSTANDING THAT SOME MATERIAL MAY BE ADDED OR OMITTED DURING PRESENTATION.

General McCaffrey and I are here to announce the results of the 1996 National Household Drug Survey. As you know, this survey provides an annual yardstick of our progress in the war on drugs.

Overall, from 1995 to 1996, the use of illicit drugs among Americans of all ages remained flat. Illicit drug use is still unacceptably high. But, there is a glimmer of hope.

Here is the good news:

The percentage of teenagers using drugs may – finally -- be inching down. The percentage of teenagers using alcohol came down significantly -- as did the percentage using smokeless tobacco.

This morning I shared this good news with Joe Garagiola, whose National Spit Tobacco Education Program has worked tirelessly with Major League Baseball – players and owners – as well as parents and Little League coaches across America – to break the one hundred year link between baseball and spit tobacco.

The decline in spit tobacco use - from 2.8% in 1995 of 12-to-17 year olds to 1.9 % in 1996 - is the result of the kind of public-private partnership we will need to bring down the use of dangerous drugs across the board.

It's the same kind of partnership that we believe is helping us make progress against marijuana, too. At long last, after three years of skyrocketing marijuana use among teens, the rate remains steady this year.

There are actually hopeful signs that we may be seeing the beginning of a reduction in marijuana use among teenagers. That's good news.

But, no one should hang a victory flag yet.

There is also some bad news: More teenagers are trying heroin for the first time. More of them are using hallucinogens. Fewer of them understand that cocaine can harm them. And far too many continue too smoke.

It's a different story for young adults. In 1996, more young adults between 18-25 were using illicit drugs -- continuing the upward trend. Cocaine was particularly popular among this age group. That's a cause for great national concern.

Too many young people are still picking up drugs and receiving a one-way ticket to a lifetime of dreams deferred. And too many adults in their lives still haven't sat them down, looked them straight in their eyes and said, "No, drugs are not cool. Drugs are not safe. Drugs will rip apart your family and kill your dreams."

So while overall, the current rate of drug use is still half of what it was during its peak in 1979, this is not a time to relax our guard. It's time to redouble our efforts.

Whenever I am talking to high school students, I always ask their advice on how to fight teen drug use. They always tell me to start with middle school kids. And, the middle school kids? They tell me to start in elementary school.

The fact is kids have good anti-drug attitudes when they're younger. But as they reach adolescence, this attitude erodes. They are bombarded with mixed messages: Messages that say that drugs are cool. That they'll calm you down or pep you up. Messages that say, drugs won't hurt you. That drugs are not that bad.

That's dead wrong.

We need to reach kids when they're younger. We need to wrap our arms around them. We need to give them a steady drumbeat of clear no-use messages – over and over and over again. And, we need to never let them go.

These results are a sign of progress. But they should also be an inspiration to all of us as we continue to work on this issue.

This problem is not insurmountable. When we as a nation focus on a problem, when we raise our voices, when we involve parents and teachers, we can make a difference.

I'm pleased that the Congress recognized this by joining together with President Clinton – across party lines – to enact the Drug Free Communities Act to support Americans who are fighting for drug free futures. And, by supporting our Youth Substance Abuse Initiative.

But our work is still not done.

We must call on Congress to fund the expansion of the National Household Survey on Drug Abuse so we can measure the results of our efforts – and our investments – state by state. State by state data is crucial – the governors and citizens need to know what is going on in their states.

And, we must ask them to reauthorize SAMHSA – our lead agency in substance abuse prevention treatment – and a critical partner in all of our country's anti-drug efforts. But government will never solve this problem alone.

We need to work with the people who teenagers listen to – the voices that have the best chance of getting through. We need parents, the media, coaches, clergy and everyone else involved in our children's lives to tell them: Heroine is not chic. It is not fashionable. It's ugly. It's deadly. You should never try it.

We need to tell all teens that Marijuana is a passport to hard times and dead end futures. And, we need to do more than tell them what not to do. We need to find them something better to do. We need to show them that drugs have no place in a healthy life.

We need to give them opportunities and activities – sports, theater, music – that make them not only too strong for wrong, but too busy for wrong. And, we need to ensure that caring voices never grow silent as long as even one young person is willing to trade in their dreams for drugs.

Now it is my pleasure to introduce a colleague in the struggle for a drug free America who has provided a beacon of leadership and vision for the future of our children and our nation, a true American hero, General Barry McCaffrey.

BULLETIN

Government Reports Indicate Smokeless Tobacco Use by Minors Low and Decreasing

UNDER 18
No Tobacco

BULLETIN:

Government Reports Indicate Smokeless Tobacco Use by Minors Low and Decreasing

We believe the long-held commitment of the Smokeless Tobacco Council and its members to keep smokeless tobacco out of the hands of minors is working.

Contrary to the allegations by tobacco critics that smokeless tobacco use among minors is increasing...government reports indicate that smokeless tobacco use among minors *is low and decreasing.*

- *Healthy People 2000 Review, 1993,* published by HHS in June 1994, reports smokeless tobacco use by 12-17 year-old males declined in 1992 to 4.8% from 5.3% in 1991 and 6.6% in 1988.

- 1992 Gallup report, *Teenage Attitudes and Behavior Concerning Tobacco,* reported weekly smokeless tobacco use by teens to be 3%.

- *1993 National Household Survey on Drug Abuse,* published in October 1994, reports that smokeless tobacco use by 12-17 year-old males declined to 3.9% in 1993. It also reported that smokeless tobacco use by the total 12-17 year-old population declined to 2.0% in 1993.

The U.S. Government's national goal is to reduce use of smokeless tobacco by teenage males to 4.0% by the year 2000. That goal was established in HHS's *Healthy People 2000 Review*, published and presented to Congress in 1993.

The Smokeless Tobacco Council's goal for underage sales of smokeless tobacco is *zero.*

Share the commitment. **UNDER 18--NO TOBACCO**

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BULLETIN:

Coalition of Interests Agree:
Responsible Tobacco Retailer Education Most Effective Vehicle Against Underage Tobacco Sales

UNDER 18
No Tobacco

BULLETIN:

Coalition of Interests Agree: Responsible Tobacco Retailer Education Most Effective Vehicle Against Underage Tobacco Sales

Most law enforcement experts agree that enforcement of the law through retailer education is more effective than enforcement by the law.

National Association of Police Chiefs (1994)
"Retail education is the most effective manner of reducing underage sales of tobacco and other age-restricted products. We have found that particular attention needs to be placed on instructing store employees on how to say no to those who appear to be under the legal age. If the retail industry can convincingly address this issue, law enforcement officers can focus on the areas of the community where the public's safety is in jeopardy."

Recommendations of State Attorneys General (1994)
"...(Retailers should) develop an effective training program on (eliminating) tobacco sales to minors and give this training emphasis with that given to training on avoiding illegal alcohol sales to minors."

The Smokeless Tobacco Council and its members join law enforcement officials, the state attorneys general, responsible community leaders and America's retailers in supporting voluntary compliance with age-of-purchase laws. Retailer education is the most effective means of reducing and eliminating underage sales of tobacco. Many retail companies already have some form of tobacco or age-restricted product training, but realize that more needs to be done to ensure that their employees voluntarily follow the practice of responsible tobacco retailing. We believe that responsible tobacco retailing education meets this objective.

The Smokeless Tobacco Council is very concerned about underage sales of smokeless tobacco. The industry has a long-established strict sampling and advertising code to help prevent underage sales of smokeless tobacco. The Smokeless Tobacco Council's UNDER 18--NO TOBACCO initiative is a continuation of the industry's commitment to eliminate underage sales. UNDER 18--NO TOBACCO is a national education effort to support retail organizations, law enforcement organizations and community leaders in organizing retailer education programs in their communities to encourage compliance with age-of-purchase laws.

Interactive program includes:

- How to understand the law
- How to determine a customer's age
- How to handle attempts at underage purchases
- How to handle second-party sales
- How to handle an abusive customer

Employees will receive a certificate of completion and, most important, make responsible tobacco retailing a state of mind.

2. **Share the Commitment Partnerships**
   The Smokeless Tobacco Council will offer support to retail organizations to establish community coalitions which bring together retailers, law enforcement officials and community leaders in a cooperative effort to ensure that these groups work together towards community-wide responsible tobacco retailing.

3. **In-Store Reminder Program**
   Research has concluded that in-store visual communications assist in reminding employees about their responsibilities in preventing underage sales of tobacco and put potential underage purchasers on notice that the store's employees adhere to the law. Various UNDER 18--NO TOBACCO materials will be utilized to present the message to store employees creatively and to maintain a high level of awareness of their responsibility. These materials will be posted in the sales area of the store and in the employee-only areas.

The Smokeless Tobacco Council will also be communicating with other groups to ask for their assistance and support of responsible tobacco retailing and to encourage them to adopt the theme, UNDER 18--NO TOBACCO.

Underage sales of tobacco are unacceptable and illegal. The Smokeless Tobacco Council believes that the issue of eliminating underage tobacco sales can be addressed by a common-sense approach by all who share in the goal of assuring that no one under the age of 18 purchases tobacco products.

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BULLETIN:

Law Enforcement Officials, Retailers, Tobacco Industry Concur: All Must Help Eliminate Underage Tobacco Sales

UNDER 18
No Tobacco

BULLETIN:

Law Enforcement Officials, Retailers, Tobacco Industry Concur: All Must Help Eliminate Underage Tobacco Sales

Retailers have an important part to play in preventing underage sales of tobacco, not only because it is the law, but because they are in the best position to reduce minors' access to tobacco through responsible tobacco retailing. If retailers working with law enforcement officials and the industry fail to prevent underage sales through our own education initiatives, it is likely that others will seek to impose taxes, restrictions on adult purchases, or other forms of prohibition.

Nevertheless, the burden does not fall solely on the shoulders of the retailers...all should share in the goal of keeping tobacco out of the hands of those under the age of 18.

The Smokeless Tobacco Council supports retailer education through a variety of programs.

Responsible Tobacco Retailing Workshops
By providing responsible tobacco retailing workshops to state grocer associations, gas marketer associations, convenience store associations and wholesalers and distributors, the members of the Smokeless Tobacco Council are demonstrating their continuing commitment to preventing underage sales of tobacco.

The 50-state initiative will be conducted in more than 60 cities during 1995 and will have reached every state by the end of 1997. The initial states include: Alabama, Arkansas, California, Connecticut, Colorado, Georgia, Florida, Illinois, Kentucky, Minnesota, Missouri, Montana, North Carolina, North Dakota, Nevada, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, West Virginia and Wisconsin.

The workshops for employees, store managers and owners will focus on:

- Understanding the law
- Determining a customer's age
- Asking for identification
- Providing examples of acceptable forms of identification
- Detecting false identification
- Refusing an illegal sale
- Detecting and refusing second-party sales
- Understanding the consequences of making an illegal sale

To help pass this valuable information on to their employees, each participant will receive:

- Responsible Tobacco Retailing Workbook
- Responsible Tobacco Retailing Video
- State-by-state ID Checking Guide

In-Store Continuing Education for Responsible Tobacco Retailing
In-store education efforts in the area of responsible tobacco retailing are becoming more important as companies try to address issues such as turnover and employees' lack of familiarity with tobacco sales laws. To address these issues, the Smokeless Tobacco Council is funding programs in an effort to improve employees' compliance with the law and reduce underage sales of tobacco.

1. **"I'm a Star" Retail Education**
   A 12-month, in-store education effort will bring the UNDER 18--NO TOBACCO message on a regular basis to store employees and store managers and will recognize employees for completing and complying with the program. Tobacco sales can be addressed by a common-sense approach by all who share in the goal of assuring that no one under the age of 18 purchases tobacco products.

The Smokeless Tobacco Council, through its UNDER 18--NO TOBACCO efforts, encourages local communities to support retailer education (including responsible compliance techniques such as secret shopper programs conducted by retailers).

Again, adherence to the law by retailers is more effective than enforcement of the law by enforcement authorities.

6. **What are the Smokeless Tobacco Council's policies regarding not advertising to those under the age of 18?**

The Smokeless Tobacco Council and its members believe that no one under the age of 18 should be sold smokeless tobacco. In keeping with its belief that tobacco use is an adult custom, the members of the Council have voluntarily adopted a Code which provides, among other things, that:

- Advertisements are not printed in youth-oriented magazines.
- Models who appear in smokeless tobacco advertising must be at least 25 years old.
- Neither professional athletes actively competing in professional sports nor professional entertainers who appeal primarily to persons under the age of 18 are used in connection with any smokeless tobacco advertisement.

7. **What steps do the members of the Smokeless Tobacco Council take to ensure that samples of smokeless tobacco do not get into the hands of anyone under the age of 18?**

Consistent with their beliefs that no one under the age of 18 should be sold smokeless tobacco, and to help ensure that only adults obtain samples of smokeless tobacco, the smokeless tobacco manufacturers have long adhered to a strict set of voluntary sampling guidelines.

Sampling provisions in the Code include:

- Smokeless tobacco samples shall be distributed only to persons who are at least 18 years of age or older as required by state law. Persons who appear to be under the age of 25 shall be required to furnish proof of age.
- Sample products shall be kept secure and under control at all times, so that samples will not be obtained by anyone under the age of 18.
- All persons conducting sampling activities shall be trained and furnished with copies of the Code and shall agree to comply with its terms.
- Persons found to have violated any provisions of the Code shall be immediately removed from sampling activities and disciplined.

8. **What role have the members of the Smokeless Tobacco Council played in getting states to pass minimum age-of-purchase laws prohibiting the sale of smokeless tobacco to minors?**

The Smokeless Tobacco Council actively encouraged state legislatures to limit the sale and distribution of smokeless tobacco products to persons 18 years of age or older, and supported Congressional action to impose such an age limit nationwide. In 1984, only 22 states had laws setting 18 as the minimum age-of-purchase for smokeless tobacco products. Today, all 50 states have laws prohibiting the sale of tobacco to minors.

The Smokeless Tobacco Council believes that persons under the age of 18 should not be sold smokeless tobacco. Simply stated, **UNDER 18--NO TOBACCO!**

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BULLETIN:

Under 18--No Tobacco
Most Commonly Asked Questions

UNDER 18
No Tobacco

BULLETIN:

Under 18--No Tobacco
Most Commonly Asked Questions

1. **Aren't the industry's efforts to support retailers nothing more than a public relations distraction away from the allegations of industry critics?**

   The Smokeless Tobacco Council's support of responsible tobacco retailer education is a common-sense approach to addressing the most important issue facing tobacco... how can we eliminate underage tobacco sales?

   UNDER 18--NO TOBACCO, the Smokeless Tobacco Council's initiative is a matter-of-fact, pragmatic effort to support retailer education programs consistent with the goal of law enforcement organizations, retailers and community leaders: the elimination of underage sales of tobacco.

   UNDER 18--NO TOBACCO reflects a commitment on the part of the Smokeless Tobacco Council, retailers, wholesalers and distributors, law enforcement organizations, community leaders and others to support the most effective tool in eliminating underage sales...responsible tobacco retailer education.

2. **What are the most effective techniques for reducing and eliminating underage sales of tobacco?**

   The most successful means for eliminating underage sales of tobacco is education. Everyone shares in the goal to eliminate underage sales of tobacco. The success of that effort will be achieved through a combination of educating minors that tobacco cannot and will not be sold to them, and educating retail employees that it is against the law to sell tobacco to any person under the age of 18.

   The Smokeless Tobacco Council's UNDER 18--NO TOBACCO education initiative is designed to assist retailers, state retail associations, law enforcement organizations and community leaders. The education initiative is intended to help all these groups work together to comply with the law regarding the purchase of tobacco products.

   Many retail companies already have some form of tobacco or age-restricted product training. The National Association of Convenience Stores (NACS), for example, has enhanced its comprehensive responsible tobacco retail training programs for 1995 by launching a series of responsible tobacco retailing workshops in cooperation with state grocer, gas marketer and convenience store associations. NACS is also assisting in implementing the in-store continuing education and awareness programs. Southland Corporation has its "Coming of Age" program which educates employees to be more responsive to the law regarding complying with age-of-purchase restricted products. Other retailers have specific programs which assist employees to understand their responsibility to enforce laws prohibiting underage sales of tobacco. For more information on the various Responsible Tobacco Retailer programs, call 1-800-487-8829.

3. **Is underage use of smokeless tobacco increasing as alleged by critics of the industry or is it decreasing as documented by recent HHS, NIDA and Gallup reports?**

   The *Healthy People 2000 Review* is the Department of Health and Human Services' (HHS) official statistical profile of a number of matters, including underage tobacco use.

   The 1992 HHS report, and its 1993 update, refute the claims of smokeless tobacco critics that underage smokeless tobacco use is increasing...these reports show that underage smokeless tobacco use is low and decreasing.

   The 1992 report noted that smokeless tobacco use decreased from 6.6% of 12-17 year-old males in 1988 to 5.3% in 1991, and decreased again in 1992 to 4.8%.

   The 1992 HHS report established a national goal of reducing smokeless tobacco use by teenage males to 4.0% by the year 2000.

   The 1993 National Household Survey on Drug Abuse, published in October 1994, reports that smokeless tobacco use by 12-17 year-old males declined to 3.9% in 1993. It also reported that smokeless tobacco use by the total 12-17 year-old population declined to 2.0% in 1993.

   The 1992 Gallup report, *Teenage Attitudes and Behavior Concerning Tobacco,* reported weekly smokeless tobacco use by teens to be 3%.

4. **Why does the Smokeless Tobacco Council believe that retailer education is the most effective means of keeping smokeless tobacco out of the hands of persons under the age of 18?**

   The Smokeless Tobacco Council believes that everyone must help to achieve the goal of eliminating underage use and sales of tobacco products. The fundamental, core element of this effort is education.

   The Smokeless Tobacco Council and its members believe, and this is a view shared by many in the law enforcement field, that adherence to the law by retailers is more effective than enforcement of the law by law enforcement authorities.

   Many retail organizations already have some form of tobacco or age-restricted product training because they recognize that there are few more important goals than preventing the sale of tobacco products to underage customers.

   Organizations like NACS (National Association of Convenience Stores) created the "It's the Law" program. The Southland Corporation has a very effective program called "Coming of Age" and the Smokeless Tobacco Council, through its UNDER 18--NO TOBACCO initiative, is supporting retailer efforts in all 50 states.

   These programs work to educate employees to understand the laws relating to the sale of tobacco products and at the same time, teach employees how to deal successfully with individuals who attempt to break those laws.

   These programs are most effective when used in conjunction with ongoing, in-store awareness programs. Follow-up training programs, mystery shopper programs (conducted by the retailers), in-store signage, employee recognition programs for increased awareness and compliance and good coaching and counseling skills by the store manager will all be necessary to obtain quality results.

5. **How effective are the programs sponsored by the tobacco industry in curtailing underage use of tobacco products?**

   According to data in U.S. Government surveys, smokeless tobacco use by those under the legal age is low and decreasing. We believe that the Smokeless Tobacco Council's long-held commitment to keep smokeless tobacco out of the hands of minors is working. The Council and its members feel that the most successful way to eliminate underage tobacco sales is through retailer education and that is why the Council supports retailer education through its UNDER 18--NO TOBACCO initiative.

   The elimination of underage purchases of tobacco can only be achieved when all those interested in eliminating underage tobacco sales work together and support retailer education.

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WHAT IS THE HISTORY OF

SMOKELESS TOBACCO