MEMORANDUM

TO: TOM FREEDMAN, MARY L. SMITH

FROM: DREW HANSEN

RE: ASSISTANCE FOR TOBACCO FARMERS

DATE: JULY 10, 1997

SUMMARY

There seem to be four possible policy options for the assistance of tobacco farmers: limiting the use of foreign tobacco in US-produced cigarettes, financial compensation for tobacco farmers, "buying out" the quotas of tobacco farmers, and providing assistance for crop diversification.

1. LIMITING FOREIGN TOBACCO IN U.S. CIGARETTES

In 1993, Senator Wendell H. Ford and Representative Charles Rose inserted a provision into the budget mandating that American-made cigarettes had to contain at least 75% American-grown tobacco. Industry negotiator J. Phil Carlton has indicated that he is willing to talk about a guarantee that cigarette makers will use a certain amount of domestic tobacco. (1993 *New York Times* article attached)

2. FINANCIAL COMPENSATION FOR TOBACCO FARMERS

Mr. Carlton has also suggested that the tobacco industry might be willing to consider paying for tobacco crop insurance and the tobacco price-support program's administrative costs if Congress cuts off the funding. (July 4, 1997 AP article attached)

3. QUOTA BUYOUTS

In 1994, Rep. Rose introduced a bill that would have paid tobacco farmers $7.50/lb to give up their federally assigned quotas. Rep. Rose said that the price-support system should be phased out as a way to invigorate sales of domestic tobacco and give farmers a financial incentive to convert to other crops. (1994 *News and Record* (Greensboro, NC) article attached)

4. ASSISTANCE FOR CROP DIVERSIFICATION

S.598 on 3-22-95 and S.804 on 5-15-95, both introduced by Sen. Bradley, would have created a "Tobacco Conversion Trust Fund," supported with revenue from tobacco taxes, to assist farmers to convert from tobacco to other crops. Both bills were referred to the Senate Finance Committee. (Full text of S.598 attached) it both as a cushion for farmers against higher cigarette taxes and because it complicated the GATT world trade talks.

The Health Care Angle

At one point, Mr. Gibbons said to Mr. Rose, according to a transcript of the meeting, 'I didn't realize this has to do with health care.'

'Well, it does,' Mr. Rose replied in the meeting.

'That may never become law,' Mr. Gibbons said in the budget conference. 'But this is going to become law. Wouldn't it be more appropriate to deal with this in the health care legislation rather than something that is not related to health care?'

But in the vote on the tobacco provision, Mr. Gibbons was the only Democrat in opposition.

Already, executives from R. J. Reynolds, which employs more than 11,000 people in the United States, have said they could be forced to move several hundred production jobs overseas within a year after the regulation takes effect. That date has not yet been determined.

Then there are the international trade officials straining to conclude the trade talks. Like Mr. Sutherland, the GATT Director General, they view the domestic content provision as a provocation, almost certain to be rebuffed the way Thailand's was. Back then, one of those leading the charge against Thailand was the Democratic Senator from Kentucky, Mr. Ford.

Caption:

Graph: 'Imported Tobacco' tracks annual volume of tobacco imported into the United States since 1985. (Source: Agriculture Department) (pg. D2)

Access No: 9300014038 ProQuest - The New York Times (R) Ondisc
Title: PANEL SUPPORTS $1.25 INCREASE FOR CIGARETTES
Authors: ROBERT PEAR, Special to The New York Times
Source: The New York Times, Late Edition - Final
Date: Wednesday Mar 23, 1994 Sec: A National Desk p: 16
Length: Long (1091 words) Illus: Photo
Subjects: MEDICINE & HEALTH; REFORM & REORGANIZATION; HEALTH INSURANCE; LAW & LEGISLATION; TAXATION; SMALL BUSINESS; TAXATION ; SALES TAX; UNITED STATES
Names: STARK, PETE (REPR); CLINTON, BILL (PRES); PEAR, ROBERT

Abstract: The Health Subcommittee of the House Ways and Means Committee voted on Mar 22, 1994 to increase the federal tax on cigarettes by $1.25 a pack as part of a comprehensive bill to guarantee health insurance for all Americans. The panel also voted to impose a new payroll tax of 0.8% of payroll on all employers. The votes came as the subcommittee neared completion on an alternative to President Clinton's health plan proposed by its chairman, Rep Pete Stark (D-CA).

Title: A CURB ON IMPORTED TOBACCO AIDS FARMS AND PHILIP MORRIS
Authors: MICHAEL JANOFSKY
Source: The New York Times, Late Edition - Final Correction Appended
Date: Wednesday Sep 29, 1993 Sec: A Financial Desk p: 1
Length: Long (1711 words) Illus: Graph
Subjects: TOBACCO; INTERNATIONAL TRADE & WORLD MARKET; SMOKING; LAW & LEGISLATION ; MEDICINE & HEALTH; HEALTH INSURANCE; TAXATION; NORTH CAROLINA; KENTUCKY; UNITED STATES ; UNITED STATES
Names: FORD, WENDELL (SEN); ROSE, CHARLES (REPR); CLINTON, BILL (PRES)
Companies: PHILIP MORRIS COMPANIES INC

Abstract: Sens Wendell H. Ford (D-KY) and Charles Rose (D-NC) have rolled a provision into the federal budget bill that will require American-made cigarettes to contain at least 75% American-grown tobacco, which is more than twice the amount now used in some. The regulation would give a boost to Ford's and Rose's home states, which are both big tobacco growers.

Correction: October 4, 1993, Monday

An article on Wednesday about a law that limits foreign tobacco in American cigarettes misstated the amount to be raised by a new tariff on imported tobacco. The tariff would raise about $29 million over five years, not $29 billion.

Article Text:

Faced with the likelihood that taxes on cigarettes will soar as part of the Clinton Administration's health care plan, two leading tobacco state lawmakers, worried about declining sales, rolled a little-noticed provision into the Federal budget bill that gives American tobacco farmers -- and the nation's biggest cigarette maker -- a big lift.

In the final, harried days of legislative deal-making over the budget, Senator Wendell H. Ford of Kentucky and Representative Charles Rose of North Carolina, both Democrats from major tobacco growing states, pushed through a regulation that American-made cigarettes must contain at least 75 percent American-grown tobacco. That is more than twice the amount now used in some cigarettes.

As the country's first law regulating tobacco content, it instantly lifted the fortunes of America's troubled tobacco farmers, already squeezed by declining consumption, rising costs and competition from imported tobacco that costs as much as 40 percent less.

It also puts additional cost pressure on cigarette manufacturers who, facing higher excise taxes, must decide whether to pass on to smokers the expense of using more domestic leaf.

Could Complicate Trade Talks

And by limiting imports of tobacco, it could further complicate the troubled world trade talks under the General Agreement on Tariffs and Trade. 'This is the poster child of duplicitous trade policy,' Hank Brown, the Republican Senator from Colorado, said of the content rule. He had argued strongly against the measure in the Senate, contending that it would prompt the larger cigarette makers, led by the Philip Morris

Companies, to increase production in overseas plants at the expense of jobs here.

'There will be immediate and severe job loss in the U.S. tobacco manufacturing plants,' said Representative Stephen L. Neal, Democrat of North Carolina, who opposed the regulation. 'There will be trade retaliation. And over the longer term, U.S. tobacco growers will be hurt.'

The law also for the first time places a kind of tariff, in the form of an 'assessment,' on imported tobacco to help finance the Federal tobacco crop subsidy program. The assessment would raise an estimated $29 billion over five years, which was the main justification for including it in the deficit reduction package.

But critics like Representative Sam M. Gibbons, a Democrat from Florida who is chairman of the House subcommittee on trade, suggested that the new regulation was merely a politically motivated exchange to give lawmakers from tobacco-growing states something for their support on the budget measure when the Federal cigarette tax of 24 cents a pack could quadruple.

A Link Is Seen

The budget squeaked by both in the Senate and the House by one-vote margins. Among the 34 Democrats from House districts dependent on the tobacco industry, 30 supported the budget package. So did the five Democratic Senators from states in which tobacco is a leading crop -- Kentucky, North Carolina, South Carolina, Tennessee and Virginia.

The White House, Senator Ford and others insisted there was no deal made. But Representative Rose, during a July 28 House-Senate conference committee in which the content provision was approved, acknowledged a clear link between that law and the prospect of using higher cigarette taxes to finance health care.

'Those who are drafting the health care proposals for this country have singled out tobacco for special treatment,' he said. 'And we are working very closely with the White House in an effort to find a middle ground where we can be helpful.'

Or, as Mr. Gibbons said in an interview: 'They're going to tax the hell out of tobacco. This was a kiss-off.'

Representative Rose failed to respond to repeated attempts over a two-week period to reach him for comment.

For years, growers have pushed for a domestic-content law to slow the growth of imported tobacco, the bulk of which has been coming from Brazil, Zimbabwe, Argentina, Thailand and Malawi. Imports more than doubled from 1989 to 1992, according to the Agriculture Department, while domestic tobacco output rose only 26 percent.

Law Is Divisive

'Imports have been killing us,' said Danny McKinney, chief executive of the Burley Tobacco Growers Cooperative Association in Lexington, Ky. 'The playing field was not level. So the growers sat around and decided what had to be done.'

Yet unlike most issues facing the tobacco industry, including attacks by antismoking groups, which tend to unify all segments, the domestic-content law has been divisive. Philip Morris, which made Senator Ford and Representative Rose its No. 1 and No. 3 recipients of political contributions in the last election campaign, supported the idea.

But the R. J. Reynolds Tobacco Company and other, smaller cigarette makers favored an alternative plan that would have relaxed the regulation for American-made products for export. The regulation, as written, gives Philip Morris a decided advantage because of its ability to shift production offshore to a worldwide network of plants in 26 countries or territories, from where it can satisfy foreign demand. Just this week, Philip Morris announced that it was acquiring a major interest in the state tobacco operation in Kazakhstan, with plans to produce 20 billion cigarettes a year from there.

Other companies either have more modest international operations or none at all.

For that reason, many tobacco growers say that any law imposing a content regulation on cigarettes made in America to send abroad is unfair. The higher-cost tobacco places farmers at a competitive disadvantage in world markets, where demand for American cigarettes is growing.

Why did the provision that only Philip Morris favored pass Congress?

'Philip Morris got a deal first,' said an executive from a rival tobacco company who spoke on the condition he not be identified. 'Once it was penciled in, it was tough to change.'

Philip Morris declined to discuss the matter. Barry Holt, a spokesman, said that the company would not respond to questions about its position on the content provision or any role it might have played in helping it pass.

Like the farmer groups, the smaller companies recognize the possibility that benefits from the regulation might be short-lived. They contend that companies will eventually move more of their operations offshore to avoid the law or simply reduce domestic production because of the increased costs. Either way, it would eliminate American jobs and reduce the demand for domestic tobacco after the rule takes effect.

Warning From One Company

James W. Johnston, the chairman and chief executive of R. J. Reynolds, said in a letter to 3,000 growers in June that a content rule would lower the demand for domestic tobacco in the long run and eventually cost some farmers their jobs. He later warned that the proposal 'will do more harm than good.'

Mr. Johnston declined to be interviewed for this article.

Other objections have come from free trade advocates who view the measure as an excuse by other countries to impose their own laws to restrict imports. When the measure was still under debate in Congress, the ambassadors from several tobacco-producing countries protested. Rubens Ricupero, the former Brazilian Ambassador, recalled that the United States had formally protested before a GATT panel several years ago when Thailand imposed a similar import fee on tobacco.

'The U.S. was successful,' Mr. Ricupero said in an interview. 'The panel decided against Thailand, and Thailand had to change its provision.'

Earlier this month, eight countries -- including Brazil, the leading tobacco exporter to the United States, and Thailand -- filed a formal protest with GATT officials in Geneva. Last week, the United States agreed to respond.

Peter Sutherland, the Director General of GATT, said in an interview last week that any new tariff would be 'extremely dangerous,' with negotiators trying to conclude world trade talks by Dec. 15. He added, 'Within sight of the line, you really have to recognize that if serious disputes are breaking out on specific items, it could have a negative effect.'

A spokeswoman for the United States trade representative, Mickey Kantor, declined to comment.

In an interview, Senator Ford stressed that his primary motivation for pushing the content requirement was to protect the interests of tobacco farmers back home in the face of new cigarette taxes. He said he made his feelings clear in a meeting with Hillary Rodham Clinton as she was gathering information on health care changes. He said he told her, 'The higher the tax, the greater my emotions.'

Rising tobacco imports, he said, have forced 69 percent of the tobacco farmers in Kentucky to take other jobs.

Before the conference members voted for the tobacco content provision, 13 to 8, Mr. Gibbons, the Florida Democrat, said he and others objected to

102

VA Tobacco Farmers-Goode, 450

Tobacco farmers share settlement concerns with congressman

DANVILLE, Va. (AP) After a scorching day in the fields, a group of Southside Virginia tobacco growers met with their congressman to vent their frustrations with the proposed tobacco industry settlement.

``There's a saying that the road to hell is paved with good intentions,'' J.T. Davis of Nathalie said Thursday. ``If we don't get things turned around, this is going to be the road to hell for the tobacco farmers.''

U.S. Rep. Virgil Goode promised to work to get protections for farmers included in the settlement as it makes its way through Congress, particularly measures that would keep the price and supplies of tobacco from plummeting.

``Two factors have got to be market stability and price stablity,'' said Goode, a Democrat from Rocky Mount whose district includes most of Virginia's tobacco farms.

``If you destroy the American tobacco grower, you're still going to have cigarettes; people are still going to smoke,'' Goode said. ``It would just transfer production to countries like China and Brazil.''

The farmers said they are worried that the $360 billion settlement will force cigarette companies to cut their losses by buying cheaper foreign-grown tobacco. They also fear that Congress will reduce or eliminate programs that prop up the price and supply of U.S. tobacco.

``We're not getting rich,'' said Dick Conner of Halifax County. ``It's hard work and it's hot.''

The farmers said they're also steamed that they were left out of the proposed settlement, which would allocate millions of dollars to help people quit smoking and compensate sporting events and teams for the loss of tobacco sponsors.

``I don't know of anybody more addicted to tobacco than tobacco growers,'' Davis said.

But C.D. Bryant of Pittsylvania County said, ``We're not looking for some big handout.''

This year, tobacco is growing on about 8,400 Virginia farms with projected cash receipts of nearly $200 million, making it Virginia's most important crop economically.

Gov. George Allen announced Wednesday that he had appointed a three-member task force to work with Congress to minimize the damage the tobacco deal could do to Virginia's $5 billion-a-year tobacco industry.

President Clinton and Congress must approve the settlement tobacco companies reached with the 40 states that sued them to recover smoking-related health costs.

Under the agreement, all states would be reimbursed for their Medicaid expenses for treating victims of tobacco-related illness.

The attorneys general who negotiated the deal said they wanted to protect tobacco growers and tried to write safeguards for them into the deal, but ultimately left that to Congress.

``If anybody in Washington has a heart or a conscience they are going to put something in this for the growers,'' Davis said.

(PROFILE
(CAT:Agriculture;)
(CAT:Political;)
(SRC:AP; ST:NC;)
)
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:SUBJECT: VA AGRI NC POL

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KY Tobacco Farmers, Bjt,0718 (102)

Farm leaders work for relief proposals

LOUISVILLE, Ky. (AP) There are signs that farmers will come out of the legislative process in better shape than they did under last month's $368.5 billion tobacco settlement.

Kentucky and North Carolina farm leaders are working on a package of relief proposals. Also, a key tobacco industry negotiator appears supportive of the farmers, and health advocates say they want to protect the growers from sudden economic upheaval.

``I feel very strongly that farmers should not be left out of the deal,'' David Kessler, former commissioner of the U.S. Food and Drug Administration, said recently. ``I think that's a very high priority.''

These groups don't necessarily agree, however, on the form aid for farmers should take. The options include compensation for lost income, limits on the amount of foreign-grown tobacco in American cigarettes and a buyout program to encourage farmers to stop growing tobacco.

Economic projections show the cutback in smoking that results from the agreement could translate into more than a 50 million-pound reduction in the use of burley leaf, most of which is grown in Kentucky.

With a selling price close to $2 a pound, that's a lot of lost money.

But the only thing the deal does for farmers is guarantee that the FDA's enhanced regulatory authority won't extend to tobacco cultivation.

The settlement, however, is far from settled. The agreement must be drafted into legislation, passed by Congress and signed by President Clinton.

A lead industry negotiator, North Carolina lawyer J. Phil Carlton, says he wants to help the farmers.

Carlton, the son of a tobacco farmer and until recently the owner of a tobacco farm, told The Courier-Journal last week that the farmer issue will definitely be on the table as negotiators draft the legislation to submit to Congress.

``We're willing to talk about that,'' Carlton said of one possibility the growers are interested in: a guarantee that cigarette makers will commit to use a certain amount of domestic tobacco.

The industry, according to Carlton, also is willing to consider paying for tobacco crop insurance and the tobacco price-support program's administrative costs should Congress cut off the funding, as some have proposed.

And public health officials want to see the farmers get help, although their main objective is not compensation.

Instead, the health groups want to use money to entice the farmers out of the tobacco business and out of their longstanding political alliance with the cigarette companies.

Their idea is either to pay farmers to retire their growing quotas or give them money to try alternative crops.

Last month, health group negotiators proposed that the settlement set aside about $150 million a year mainly for that purpose. But Carlton said he rejected that idea, and it was not included in the settlement. He said the proposal was not comprehensive enough.

One of four interagency panels President Clinton set up to review the agreement will focus on the tobacco industry, including the economic impact on the growers.

Unlike the cigarette makers, the farmers come to the legislative process seemingly unblemished by the controversy and distrust that for decades gripped the smoking issue.

``They've not been willing conspirators. They've been pawns,'' Indiana Attorney General Jeff Modisett said.

Sen. Wendell Ford of Kentucky has said repeatedly that without protection for the farmers, he won't support implementation of the bill.

Ronny Pryor, chief lobbyist for the Kentucky Farm Bureau, wants farmers compensated for lost sales and quota reductions, and he insists there would be little interest among burley growers in a quota buyout. Tobacco is too lucrative to give up, he said.

But Pryor indicated there is nevertheless room to please both farmers and the anti-smoking side. He suggested the possibility of a compromise that would compensate farmers while also helping them move into alternative crops. ``We don't see it as an either-or thing,'' he said.

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News & Record (Greensboro, NC)

October 11, 1994, Tuesday, ALL EDITIONS

SECTION: BUSINESS, Pg. B5

LENGTH: 336 words

HEADLINE: KENTUCKIAN OPPOSES QUOTA BUY-OUT PLAN

BYLINE: SCOTT SOLOMO, Staff Writer

BODY:

The question of whether to end the federal government's tobacco price support was given a resounding ''no'' Monday by U.S. Rep. Scotty Baesler of Kentucky, who said the program is too important to his state's rural economy.

Baesler said he opposes a proposal by U.S. Rep. Charlie Rose, a Fayetteville Democrat, to pay growers $ 7.50 a pound to give up their federally-assigned tobacco quotas.

Rose's buy-out proposal may be well-suited for flue-cured tobacco growers in North Carolina, Baesler said, but it fails to take into account the many burley farmers in Kentucky who rent quotas from someone else.

In addition, he said, it would devastate feed stores, fertilizer stores and other businesses that support tobacco farmers.

''If you do away with the program then you're basically doing away with tobacco production as we know it here,'' said Baesler, a Democrat who attended a meeting on the issue in Charlotte last week.

''I think that would be a tremendous hit on our rural economy.''

Support by Kentucky lawmakers is considered critical to the proposal's success.

Burley tobacco is an $ 800-million-a-year business in Kentucky, said Baesler, who himself will grow 150,000 pounds this year.

Under Rose's plan, those farmers would be ''out in the cold,'' Baesler said.

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Rose has suggested paying for the buyout, which would amount to about $ 16,000 an acre, with an increase in the federal cigarette tax. In North Carolina the estimated cost of such a plan is $ 4.1 billion, while nationwide it could cost $ 10 billion.

Rose said he proposed phasing out the price-support system as a way to invigorate sales of **domestic tobacco** and give **farmers** a financial incentive to convert to other **crops**.

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Under the price-support system, the government establishes quotas, and co-ops, with loans from the federal government, buy tobacco that does not receive a bid at auction.

''I don't think on its face it will accomplish what (Rose) wants it to accomplish,'' Baesler said of the plan.

LOAD-DATE: October 13, 1994

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Bill Tracking Report

104th Congress
1st Session

U. S. Senate

S 598

1995 Bill Tracking S. 598; 104 Bill Tracking S. 598

TOBACCO CONSUMPTION REDUCTION AND HEALTH IMPROVEMENT ACT OF 1995

<=1> Retrieve full text version

DATE-INTRO: March 22, 1995

LAST-ACTION-DATE: March 22, 1995

STATUS: Referred to committee

SPONSOR: Senator Bill Bradley D-NJ

TOTAL-COSPONSORS: 1 Cosponsors: 1 Democrats / 0 Republicans

SYNOPSIS: A bill to amend the Internal Revenue Code of 1986 to increase the excise taxes on tobacco products, and to use a portion of the resulting revenues to fund a trust fund for tobacco diversification, and for other purposes.

ACTIONS: Committee Referrals:
03/22/95 Senate Finance Committee

Legislative Chronology:

1st Session Activity:

03/22/95 141 Cong Rec S 4365 Referred to the Senate Finance Committee
03/22/95 141 Cong Rec S 4381 Remarks by Sen. Bradley NJ

BILL-DIGEST: (from the CONGRESSIONAL RESEARCH SERVICE)

Short title as introduced :

Tobacco Consumption Reduction and Health Improvement Act of 1995

Digest :

Tobacco Consumption Reduction and Health Improvement Act of 1995 - Amends the Internal Revenue Code to increase the excise tax on: (1) cigars; (2) cigarettes; (3) cigarette papers and tubes; (4) snuff; and (5) chewing and pipe tobacco. Imposes a tax on the floor stocks of such tobacco products which are removed before January 1, 1996. Makes an exception to the imposition of such tax for floor stocks of such products held on such date at the place intended to be sold at retail. Imposes such tax on such products entered into the United States from foreign trade zones before such date. Imposes a tax on roll-your-own tobacco manufactured in or imported into the United States.

Establishes in the Treasury the Tobacco Conversion Trust Fund, to which the Secretary of the Treasury shall transfer an amount equivalent to three percent of the net increase in revenues attributable to the tax increases imposed by this Act. Makes Fund amounts available for expenditures for providing: (1) assistance to farmers for conversion from tobacco growing (including Government purchase of tobacco allotments)
and improving their access to markets for other crops; and (2) grants and loans to communities and persons involved in tobacco growing and tobacco product manufacture to support economic diversification plans.

CRS Index Terms:

Taxation
Agricultural economics
Agricultural
subsidies
Agriculture
Budgets
Business
Cigarettes
Diversification in industry
Drug abuse
Exports
Farm produce
Federal aid to community development
Foreign trade
Free ports and zones
Government lending
Government trust funds
Grants-in-aid
Health policy
Imports
Marketing of farm produce
Medical care
Smokeless tobacco
Tax credits
Tax rates
Tobacco industry
Tobacco tax
Trade

CO-SPONSORS: Original Cosponsors:

Lautenberg D-NJ

FULL TEXT OF BILLS

104TH CONGRESS; 1ST SESSION
IN THE SENATE OF THE UNITED STATES
AS INTRODUCED IN THE SENATE

S. 598

1995 S. 598; 104 S. 598

SYNOPSIS:
A BILL To amend the Internal Revenue Code of 1986 to increase the excise taxes on tobacco products, and to use a portion of the resulting revenues to fund a trust fund for tobacco diversification, and for other purposes.

DATE OF INTRODUCTION: MARCH 22, 1995

DATE OF VERSION: MARCH 24, 1995 -- VERSION: 1

SPONSOR(S):
Mr. BRADLEY (for himself and Mr. LAUTENBERG) introduced the following bill; which was read twice and referred to the Committee on Finance

TEXT:
* Be it enacted by the Senate and House of Representatives of the United* *States of America in Congress assembled, *
SECTION 1. SHORT TITLE.
This Act may be cited as the "Tobacco Consumption Reduction and Health Improvement Act of 1995".
SEC. 2. INCREASE IN TAXES ON TOBACCO PRODUCTS.
(a) IN GENERAL.-
(1) CIGARS.-Subsection (a) of section 5701 of the Internal Revenue Code of 1986 (relating to rate of tax on cigars) is amended-
(A) by striking "$1.125 cents per thousand (93.75 cents per thousand on cigars removed during 1991 and 1992)" in paragraph (1) and inserting "$5.8125 per thousand"; and
(B) by striking paragraph (2) and inserting the following new paragraph:
"(2) LARGE CIGARS.-ON CIGARS WEIGHING MORE THAN 3 POUNDS PER THOUSAND, A TAX EQUAL TO 65.875 PERCENT OF THE PRICE FOR WHICH SOLD BUT NOT MORE THAN $155 PER THOUSAND."
(2) CIGARETTES.-Subsection (b) of section 5701 of such Code (relating to rate of tax on cigarettes) is amended-
(A) by striking "$12 per thousand ($10 per thousand on cigarettes removed during 1991 and 1992)" in paragraph (1) and inserting "$62 per thousand"; and
(B) by striking "$25.20 per thousand ($21 per thousand on cigarettes removed during 1991 and 1992)" in paragraph (2) and inserting "$130.20 per thousand".
(3) CIGARETTE PAPERS.-SUBSECTION (C) OF SECTION 5701 OF SUCH CODE (RELATING TO RATE OF TAX ON CIGARETTE PAPERS) IS AMENDED BY STRIKING "0.75 CENT (0.625 CENT ON CIGARETTE PAPERS REMOVED DURING 1991 OR 1992)" AND INSERTING "3.875 CENTS".
(4) CIGARETTE TUBES.-SUBSECTION (D) OF SECTION 5701 OF SUCH CODE

(RELATING TO RATE OF TAX ON CIGARETTE TUBES) IS AMENDED BY STRIKING "1.5 CENTS (1.25 CENTS ON CIGARETTE TUBES REMOVED DURING 1991 OR 1992)" AND INSERTING "7.75 CENTS".

(5) SNUFF.-Paragraph (1) of section 5701(e) of such Code (relating to rate of tax on smokeless tobacco) is amended by striking "36 cents (30 cents on snuff removed during 1991 or 1992)" and inserting "$1.86".

(6) CHEWING TOBACCO.-Paragraph (2) of section 5701(e) of such Code is amended by striking "12 cents (10 cents on chewing tobacco removed during 1991 or 1992)" and inserting "62 cents".

(7) PIPE TOBACCO.-Subsection (f) of section 5701 of such Code (relating to rate of tax on pipe tobacco) is amended by striking "67.5 cents (56.25 cents on chewing tobacco removed during 1991 or 1992)" and inserting "$3.4875".

(8) *EFFECTIVE DATE*.-The amendments made by this subsection shall apply with respect to cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco removed after December 31, 1995.

(b) IMPOSITION OF EXCISE TAX ON MANUFACTURE OR IMPORTATION OF ROLL-YOUR-OWN TOBACCO.-

(1) IN GENERAL.-SECTION 5701 OF THE INTERNAL REVENUE CODE OF 1986 (RELATING TO RATE OF TAX) IS AMENDED BY REDESIGNATING SUBSECTION (G) AS SUBSECTION (H) AND BY INSERTING AFTER SUBSECTION (F) THE FOLLOWING NEW SUBSECTION:

"(G) ROLL-YOUR-OWN TOBACCO.-ON ROLL-YOUR-OWN TOBACCO, MANUFACTURED IN OR IMPORTED INTO THE UNITED STATES, THERE SHALL BE IMPOSED A TAX OF $1.86 PER POUND (AND A PROPORTIONATE TAX AT THE LIKE RATE ON ALL FRACTIONAL PARTS OF A POUND)."

(2) ROLL-YOUR-OWN TOBACCO.-SECTION 5702 OF SUCH CODE (RELATING TO DEFINITIONS) IS AMENDED BY ADDING AT THE END THE FOLLOWING NEW SUBSECTION:

"(P) ROLL-YOUR-OWN TOBACCO.-THE TERM 'ROLL-YOUR-OWN TOBACCO' MEANS ANY TOBACCO WHICH, BECAUSE OF ITS APPEARANCE, TYPE, PACKAGING, OR LABELING, IS SUITABLE FOR USE AND LIKELY TO BE OFFERED TO, OR PURCHASED BY, CONSUMERS AS TOBACCO FOR MAKING CIGARETTES."

(3) TECHNICAL AMENDMENTS.-

(A) SUBSECTION (C) OF SECTION 5702 OF SUCH CODE IS AMENDED BY STRIKING "AND PIPE TOBACCO" AND INSERTING "PIPE TOBACCO, AND ROLL-YOUR-OWN TOBACCO".

(B) SUBSECTION (D) OF SECTION 5702 OF SUCH CODE IS AMENDED-

(I) IN THE MATERIAL PRECEDING PARAGRAPH (1), BY STRIKING "OR PIPE TOBACCO" AND INSERTING "PIPE TOBACCO, OR ROLL-YOUR-OWN TOBACCO", AND

(II) BY STRIKING PARAGRAPH (1) AND INSERTING THE FOLLOWING NEW PARAGRAPH:

"(1) A PERSON WHO PRODUCES CIGARS, CIGARETTES, SMOKELESS TOBACCO, PIPE TOBACCO, OR ROLL-YOUR-OWN TOBACCO SOLELY FOR THE PERSON'S OWN PERSONAL CONSUMPTION OR USE, AND".

(C) THE CHAPTER HEADING FOR CHAPTER 52 OF SUCH CODE IS AMENDED TO READ AS FOLLOWS:

"CHAPTER 52-TOBACCO PRODUCTS AND CIGARETTE PAPERS AND TUBES".

(D) The table of chapters for subtitle E of such Code is amended by striking the item relating to chapter 52 and inserting the following new item:

"CHAPTER 52. Tobacco products and cigarette papers and tubes."

(4) EFFECTIVE DATE.-

(A) IN GENERAL.-THE AMENDMENTS MADE BY THIS SUBSECTION SHALL APPLY TO ROLL-YOUR-OWN TOBACCO REMOVED (AS DEFINED IN SECTION 5702(P) OF THE INTERNAL REVENUE CODE OF 1986, AS ADDED BY THIS SUBSECTION) AFTER DECEMBER 31, 1995.

(B) TRANSITIONAL RULE.-ANY PERSON WHO-

(I) ON THE DATE OF THE ENACTMENT OF THIS ACT IS ENGAGED IN BUSINESS AS A MANUFACTURER OF ROLL-YOUR-OWN TOBACCO OR AS AN IMPORTER OF TOBACCO PRODUCTS OR CIGARETTE PAPERS AND TUBES, AND

(II) BEFORE JANUARY 1, 1996, SUBMITS AN APPLICATION UNDER SUBCHAPTER B OF CHAPTER 52 OF SUCH CODE TO ENGAGE IN SUCH BUSINESS,

MAY, NOTWITHSTANDING SUCH SUBCHAPTER B, CONTINUE TO ENGAGE IN SUCH BUSINESS PENDING FINAL ACTION ON SUCH APPLICATION. PENDING SUCH FINAL ACTION, ALL PROVISIONS OF SUCH CHAPTER 52 SHALL APPLY TO SUCH APPLICANT IN THE SAME MANNER AND TO THE SAME EXTENT AS IF SUCH APPLICANT WERE A HOLDER OF A PERMIT UNDER SUCH CHAPTER 52 TO ENGAGE IN SUCH BUSINESS.

(C) FLOOR STOCKS.-

(1) IMPOSITION OF TAX.-On cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco manufactured in or imported into the United States which is removed before January 1, 1996, and held on such date for sale by any person, there shall be imposed the following taxes:

(A) SMALL CIGARS.-On cigars, weighing not more than 3 pounds per thousand, $4.6875 per thousand.

(B) LARGE CIGARS.-On cigars, weighing more than 3 pounds per thousand, a tax equal to 53.125 percent of the price for which sold, but not more than $125 per thousand.

(C) SMALL CIGARETTES.-On cigarettes, weighing not more than 3 pounds per thousand, $50 per thousand.

(D) LARGE CIGARETTES.-On cigarettes, weighing more than 3 pounds per thousand, $105 per thousand; except that, if more than 6 1/2 inches in length, they shall be taxable at the rate prescribed for cigarettes weighing not more than 3 pounds per thousand, counting each 2 3/4 inches, or fraction thereof, of the length of each as one cigarette.

(E) CIGARETTE PAPERS.-ON CIGARETTE PAPERS, 3.125 CENTS FOR EACH 50 PAPERS OR FRACTIONAL PART THEREOF; EXCEPT THAT, IF CIGARETTE PAPERS MEASURE MORE THAN 6 1/2 INCHES IN LENGTH, THEY SHALL BE TAXABLE AT THE RATE PRESCRIBED, COUNTING EACH 2 3/4 INCHES, OR FRACTION THEREOF, OF THE LENGTH OF EACH AS ONE CIGARETTE PAPER.

(F) CIGARETTE TUBES.-ON CIGARETTE TUBES, 6.25 CENTS FOR EACH 50 TUBES OR FRACTIONAL PART THEREOF; EXCEPT THAT, IF CIGARETTE TUBES MEASURE MORE THAN 6 1/2 INCHES IN LENGTH, THEY SHALL BE TAXABLE AT THE RATE PRESCRIBED, COUNTING EACH 2 3/4 INCHES, OR FRACTION THEREOF, OF THE LENGTH OF EACH AS ONE CIGARETTE TUBE.

(G) SNUFF.-On snuff, $1.50 per pound and a proportionate tax at the like rate on all fractional parts of a pound.

(H) CHEWING TOBACCO.-On chewing tobacco, 50 cents per pound and a proportionate tax at the like rate on all fractional parts of a pound.

(I) PIPE TOBACCO.-On pipe tobacco, $2.8125 per pound and a proportionate tax at the like rate on all fractional parts of a pound.

(2) LIABILITY FOR TAX AND METHOD OF PAYMENT.-

(A) LIABILITY FOR TAX.-A person holding cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco on January 1, 1996, to which any tax imposed by paragraph (1) applies shall be liable for such tax.

(B) METHOD OF PAYMENT.-The tax imposed by paragraph (1) shall be treated as a tax imposed under section 5701 of the Internal Revenue Code of 1986 and shall be due and payable on February 15, 1996, in the same manner as the tax imposed under such section is payable with respect to cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco removed on January 1, 1996.

(3) CIGARS, CIGARETTES, CIGARETTE PAPER, CIGARETTE TUBES, SNUFF, CHEWING TOBACCO, AND PIPE TOBACCO.-For purposes of this subsection, the terms "cigar", "cigarette", "cigarette paper", "cigarette tubes", "snuff", "chewing tobacco", and "pipe tobacco" shall have the meaning given to such terms by subsections (a), (b), (e), and (g), paragraphs (2) and (3) of subsection (n), and subsection (o) of section 5702 of the Internal Revenue Code of 1986, respectively.

(4) EXCEPTION FOR RETAIL STOCKS.-The taxes imposed by paragraph (1) shall not apply to cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco in retail stocks held on January 1, 1996, at the place where intended to be sold at retail.

(5) FOREIGN TRADE ZONES.-Notwithstanding the Act of June 18, 1934 (19 U.S.C. 81a et seq.) or any other provision of law-

(A) cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco-

(i) on which taxes imposed by Federal law are determined, or customs duties are liquidated, by a customs officer pursuant to a request made under the first proviso of section 3(a) of the Act of June 18, 1934 (19 U.S.C. 81c(a)) before January 1, 1996, and

(ii) which are entered into the customs territory of the United States on or after January 1, 1996, from a foreign trade zone, and

(B) cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco which-

(i) are placed under the supervision of a customs officer pursuant to the provisions of the second proviso of section 3(a) of the Act of June 18, 1934 (19 U.S.C. 81c(a)) before January 1, 1996, and

(ii) are entered into the customs territory of the United States on or after January 1, 1996, from a foreign trade zone,

shall be subject to the tax imposed by paragraph (1) and such cigars, cigarettes, cigarette paper, cigarette tubes, snuff, chewing tobacco, and pipe tobacco shall, for purposes of paragraph (1), be treated as being held on January 1, 1996, for sale.

(d) ESTABLISHMENT OF TRUST FUND.-

(1) IN GENERAL.-SUBCHAPTER A OF CHAPTER 98 OF THE INTERNAL REVENUE CODE OF 1986 (RELATING TO TRUST FUND CODE) IS AMENDED BY ADDING AT THE END THE FOLLOWING NEW SECTION:

"SEC. 9512. TOBACCO CONVERSION TRUST FUND.

"(a) CREATION OF TRUST FUND.-THERE IS ESTABLISHED IN THE TREASURY OF THE UNITED STATES A TRUST FUND TO BE KNOWN AS THE 'TOBACCO CONVERSION TRUST FUND' (HEREAFTER REFERRED TO IN THIS SECTION AS THE 'TRUST FUND'), CONSISTING OF SUCH AMOUNTS AS MAY BE APPROPRIATED OR CREDITED TO THE TRUST FUND AS PROVIDED IN THIS SECTION OR SECTION 9602(B).

"(B) TRANSFERS TO TRUST FUND.-THE SECRETARY SHALL TRANSFER TO THE TRUST FUND AN AMOUNT EQUIVALENT TO 3 PERCENT OF THE NET INCREASE IN REVENUES RECEIVED IN THE TREASURY ATTRIBUTABLE TO THE AMENDMENTS MADE TO SECTION 5701 BY SUBSECTIONS (A) AND (B) OF SECTION 2 AND THE PROVISIONS CONTAINED IN SECTION 2(C) OF THE TOBACCO CONSUMPTION REDUCTION AND HEALTH IMPROVEMENT ACT OF 1995, AS ESTIMATED BY THE SECRETARY.

"(C) DISTRIBUTION OF AMOUNTS IN TRUST FUND.-AMOUNTS IN THE TRUST FUND SHALL BE AVAILABLE TO THE SECRETARY OF AGRICULTURE, AS PROVIDED BY APPROPRIATION ACTS, FOR MAKING EXPENDITURES FOR PURPOSES OF-

"(1) PROVIDING ASSISTANCE TO FARMERS IN CONVERTING FROM TOBACCO TO OTHER CROPS AND IMPROVING THE ACCESS OF SUCH FARMERS TO MARKETS FOR OTHER CROPS, AND

"(2) PROVIDING GRANTS OR LOANS TO COMMUNITIES, AND PERSONS INVOLVED IN THE PRODUCTION OR MANUFACTURE OF TOBACCO OR TOBACCO PRODUCTS, TO SUPPORT ECONOMIC DIVERSIFICATION PLANS THAT PROVIDE ECONOMIC ALTERNATIVES TO TOBACCO TO SUCH COMMUNITIES AND PERSONS.

THE ASSISTANCE REFERRED TO IN PARAGRAPH (1) MAY INCLUDE GOVERNMENT PURCHASE OF TOBACCO ALLOTMENTS FOR PURPOSES OF RETIRING SUCH ALLOTMENTS FROM ALLOTMENT HOLDERS AND FARMERS WHO CHOOSE TO TERMINATE THEIR INVOLVEMENT IN TOBACCO PRODUCTION."

(2) CLERICAL AMENDMENT.-The table of sections for such subchapter A is amended by adding at the end the following new item:

"Sec. 9512. Tobacco Conversion Trust Fund."

LOAD-DATE: March 27, 1995

ACTION ON SMOKING AND HEALTH
A National Legal Action Antismoking Organization
Entirely Supported By Tax-Deductible Contributions

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HEART ASSN ASKS HELP IN FIGHTING TOBACCO CROP INSURANCE [07.03.4]
Read Their Message in its Entirety

Background:

On Wednesday, July 9th, during full committee markup of the Agriculture and Related Agencies Appropriations bill, Representative Nita Lowey (D-NY) will offer an amendment to prohibit federal funding for crop insurance, noninsured crop disaster assistance, and the corresponding federal administrative costs related to tobacco. A nearly identical proposal narrowly failed on the House floor last year by a vote of 212-210.

Rep. Lowey will offer this amendment to continue a series of recent incremental victories which include prohibitions on federal funding of export assistance for tobacco (since FY 1993) and most tobacco-related research (since FY 1995).

Action requested:

This year's amendment would expand those prohibitions to tobacco-related crop insurance and associated administrative costs. These cuts are expected to save the American taxpayer an estimated $34 million in FY 1998.

Attached is a list of 1996 committee and floor votes on last year's amendment. Please generate as many calls as possible to those members from your state in support of "Representative Lowey's amendment to the Agriculture and Related Agencies Appropriations bill, which would save the American taxpayer $34 million annually, by cutting funding for programs which assist tobacco production." You may also wish to fax the attached one-pager to those offices.

Thanks in advance for your assistance on this important amendment. If you have any questions, please call Rich Hamburg @ the American Heart Association (202- 822-9380).

SUPPORT THE LOWEY AMENDMENT ON TOBACCO CROP INSURANCE

During the July 9th full committee markup of the Agriculture, Rural Development, FDA and Related Agencies appropriations bill, Representative Nita Lowey (D-NY) will offer an amendment to prohibit the federal government from offering crop insurance or providing crop insurance subsidies for tobacco. We urge your support for the Lowey amendment.

The continued expenditure of federal funds to support the growth of tobacco highlights the inconsistencies of U.S. policy. On the one hand, tobacco use is the single most preventable cause of death in the United States, responsible for over 400,000 deaths each year, with the federal government spending over $177 million on programs specifically aimed at researching and preventing tobacco use. On the other hand, the U.S. administers a tobacco support program at significant cost to the U.S. taxpayer.

Federal taxpayers paid approximately $80 million in net tobacco crop insurance costs in FY 1996, including premium subsidies and overhead

administrative costs. These costs have exceeded $29 million in every year since FY 1993, are estimated to be $48 million in FY 1997 and $34 million in FY 1998.

For a farmer who has a typical crop insurance policy covering up to 65 percent of the crop's anticipated revenue, the federal government will pay 41.7 percent of the total premium this year.

Only around 65% of our nation's nearly 1600 crops are covered by the federal crop insurance program. Among the many commodities that are not eligible are honey, broccoli, watermelon, cantaloupe, squash, cherries, cucumbers, snow peas and livestock.

The legislation does not affect the tobacco price support program or federal extension services. Farmers will still be eligible to participate in the "no-net- cost" price support program and other federal programs in the same manner as they are today.

1996 Votes

Approps. Member	Committee	Floor	Phone (202)	Fax (202)
Aderholt (R-AL)	---	---	225-4875	225-5587
Callahan (R-AL)	NV	NO	225-4931	225-0562
Dickey (R-AR)	NV	NO	225-3772	225-1314
Kolbe (R-AZ)	YES	YES	225-2542	225-0378
Pastor (D-AZ)	NV	NO	225-4065	225-1655
Cunningham (R-CA)	NV	NO	225-5452	225-2558
Dixon (D-CA)	NO	NO	225-7084	225-4091
Fazio (D-CA)	NO	NO	225-5716	225-5141
Lewis (R-CA)	NV	NO	225-5861	225-6498
Packard (R-CA)	YES	NO	225-3906	225-0134
Pelosi (D-CA)	YES	YES	225-4565	225-8529
Torres (D-CA)	NV	NO	225-5256	225-9711
Skaggs (D-CO)	NO	NO	255-2161	226-3806
DeLauro (D-CT)	NV	YES	225-3661	225-4890
Meek (D-FL)	NV	NO	225-4506	226-0777
Miller (R-FL)	YES	YES	225-5015	225-2279
Young (R-FL)	YES	YES	225-5961	225-9764
Kingston (R-GA)	NO	NO	225-5831	226-2269
Latham (R-IA)	NV	NO	225-5476	225-3301
Porter (R-IL)	YES	YES	225-4835	NA
Yates (D-IL)	YES	YES	225-2111	225-3493
Visclosky (D-IN)	YES	YES	225-2461	225-2493
Livingston (R-LA)	NV	NO	225-3015	225-0739
Tiahrt (R-KS)	NV	YES	225-6216	225-3489
Northup (R-KY)	---	---	225-5401	225-5776
Rogers (R-KY)	NO	NO	225-4601	225-0940
Olver (D-MA)	NV	YES	225-5335	226-1224
Knollenberg (R-MI)	NO	NO	225-5802	226-2356
Sabo (D-MN)	NO	YES	225-4755	225-4886
Parker (R-MS)	NO	NO	225-5865	225-5886
Wicker (R-MS)	NO	NO	225-4306	225-3549
Price (D-NC)	---	---	225-1784	225-2014
Taylor (R-NC)	NO	NO	225-6401	NA
Frelinghuysen (R-NJ)	YES	YES	225-5034	225-3186
Skeen (R-NM)	NO	NO	225-2365	225-9599
Forbes (R-NY)	NO	NO	225-3826	225-3143
Lowey (D-NY)	YES	YES	225-6206	225-0546
Serrano (D-NY)	YES	NO	225-4361	225-6001

Tobacco Farmers Lobby for Slice of Settlement To Protect Them Against a Decline in Demand

By JEFFREY TAYLOR
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON–Tobacco farmers, initially hostile to the proposed $368.5 billion settlement crafted by cigarette makers, state attorneys general and public-health advocates, have now begun to explore what's in it for them.

Representatives of tobacco-state farm bureaus are expected to meet today with Clinton administration officials, including White House adviser Bruce Reed and Health and Human Services Secretary Donna Shalala. Their message: Any tobacco deal approved by the White House and Congress must include protections for farmers hurt by dwindling demand for tobacco.

"Everybody's being considered except for the grower," says Wayne Ashworth, president of the Virginia Farm Bureau. "I'm sure that the tobacco companies had very good reasons for negotiating the settlement, but they and everyone else needs to realize that we can't be left out in the cold."

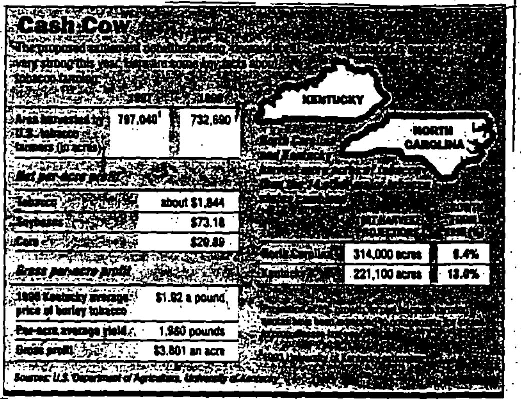
In addition to the White House, lobbyists for tobacco farmers plan to target a big group of sympathetic tobacco-state lawmakers, including House Commerce Committee Chairman Thomas Bliley of Virginia. At a minimum, they say, any legislation approved by Congress will have to include substantial funding to offset farmers' losses. "To focus on a dollar figure at this stage would be a mistake; we plan to talk programs now and see where that leads us," says John Keeling, a lobbyist for the American Farm Bureau Federation.

Switch to Alternative Crops

One proposal floated on Capitol Hill: To earmark $6 billion of the money tobacco companies pay under the settlement to help tobacco farmers switch to alternative crops. That notion has proved unpopular among some farmers because tobacco, in the hot and humid regions ideal for its growth, is far more profitable than other cash crops. Another idea, requiring tobacco companies to use a higher percentage of U.S.-grown tobacco leaf in cigarettes, appears to have more support. Mr. Bliley, for one, has sought such assurances from cigarette makers: "I told the CEO of Philip Morris, Geoffrey Bible, that he needs to get his people out to reassure the tobacco farmers that they are going to be using their leaf as opposed to imports," the Virginia Republican said.

News of the settlement angered many tobacco farmers, and cigarette makers have been working hard since it was announced to prevent a rift in the historically warm relations between growers and manufacturers. J. Phil Carlton, a key negotiator who represents RJR Nabisco Holdings Corp., made rare public comments to a North Carolina newspaper after the settlement was announced, to assure tobacco farmers that he is "sensitive to their issues" and predict that "farmers are going to come out fine."

Lawmakers such as Mr. Bliley and Republican Richard Burr of North Carolina, whose congressional districts contain both farmers and employees of big cigarette makers, will have to reconcile the views of these two core constituencies.



Studying the Economic Impact

Mr. Burr, whose Winston-Salem district includes both an RJR Nabisco manufacturing plant and tobacco farms, has asked the General Accounting Office to study the economic impact of the proposed settlement on farmers and other small businesses. "The parties negotiating this agreement failed to consider the impact of their decisions on other industries involved in the growth, sale and production of tobacco products who have been left out of the talks," Mr. Burr wrote to the GAO.

Even tobacco's most strident opponents don't want to penalize farmers for the perceived sins of cigarette makers. "There was never any intention to hurt the farmers," Matthew Myers of the Campaign for Tobacco-Free Kids said at a recent Senate hearing on the settlement. "This agreement isn't designed to make sudden changes that would irk them," but rather lead to gradual smoking reductions for which farmers would have ample time to prepare.

In Congress, industry critics say they would support some form of compensation for farmers in any deal that is enacted. Phil Schiliro, a spokesman for tobacco foe Rep. Henry Waxman (D., Calif.), envisions programs similar to those included in the 1990 Clean Air Act, which provided job retraining and education for coal miners put out of work by the act's strict limits on sulfur-dioxide pollution from the burning of coal.

In addition to the White House meeting, farm-bureau representatives presented their case to dozens of lawmakers last night at a reception hosted as part of their annual July meeting in Washington. "Our group is talking about the lasting effects of this settlement on jobs and on farmers' livelihood," says Bill Sprague, president of the Kentucky Farm Bureau. "The Kentucky congressional delegation, to a person, has said they are determined to be sure the interests of tobacco farmers are considered."

These outpourings of sympathy notwithstanding, tobacco farmers still face a few pitfalls in Congress. Today or tomorrow, the House will consider an amendment to an appropriations bill sponsored by Democratic Rep. Nita Lowey of New York that would eliminate federal crop insurance for tobacco farmers, which gives them a hedge against bad harvests and weather-related disasters. The Congressional Budget Office estimates that the amendment would save $34 million. A similar measure offered by then-Rep. Richard Durbin (D., Ill.) failed by two votes last year.

THE WALL STREET JOURNAL
WEDNESDAY, JULY 16, 1997

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What is Farm Bureau?

The American Farm Bureau Federation is the world's largest voluntary organization of farmers and ranchers. More than 4.7 million family members belong to county or parish Farm Bureaus which, in turn, comprise state Farm Bureau organizations in all 50 states and Puerto Rico.

AFBF represents all commodity interests and is involved in all issues which are of concern to the nation's farmers and ranchers, including taxation, property rights and services to the farm community. It is farm people joining together to solve common problems.

The organization has never been a government agency and is not politically partisan, rather it seeks support on a bipartisan basis. As the nation's largest farm organization, AFBF has established programs that are directed by policies developed and voted upon by farm representatives at the county, state and national level.

The president, vice president and members of the board of directors must be farmers and are elected by voting delegates from state Farm Bureaus. The president is a full-time executive who directs the day-to-day operations of the organization and speaks as the official voice of the American Farm Bureau Federation.

In 1919, a small group of farmers from a dozen states gathered in Chicago and founded the American Farm Bureau Federation. Their goal was to speak for themselves through their own national organization. It soon became local, statewide, national and international in its scope and influence.

Through the years thousands of elected leaders served on county and state Farm Bureau boards, with many serving as voting delegates in state and American Farm Bureau Federation business meetings. Membership is on a family basis in all states. Payment of dues is voluntary and includes county, state and AFBF membership.

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EDITORIALS

The farmers' cut

AS SEEN outside Kentucky and a few other tobacco-producing states, the tobacco settlement is all about limiting lawsuits, regulating nicotine, curbing teenage smoking, and programs to help smokers quit.

You don't hear much about the farmers who grow tobacco — and whose livelihoods and rural communities depend on a crop that folks in Minnesota and Vermont see as a blight on the nation.

True, tobacco has done enormous harm. Smoking kills. Most smokers know it. Those of a certain age can remember when cigarettes were called "coffin nails."

But tobacco has also enabled hundreds of thousands of Kentuckians over the years to raise families, send kids to college and keep food on the table when jobs in town disappeared. And by stabilizing and supporting prices, the Tobacco Program, at minimal cost to taxpayers, has protected burley growers from the volatility that makes most farming such a risky enterprise.

The challenge for Kentucky is to find ways to protect farmers in a new age when domestic production of tobacco seems certain to fall sharply — and perhaps one day to disappear entirely.

The settlement announced Friday doesn't do that. The tobacco companies agreed to cough up $360 billion over the next 25 years, but as the agreement now stands, none of the money would go directly to help tobacco farmers. So much for the loyalty of the companies to the farmers.

But the deal must be approved by Congress, and members of Kentucky's delegation will have a chance to argue for changes. One proposal, pushed by Kentucky Attorney General Ben Chandler and his North Carolina counterpart, would require the companies to pay $6 billion a year, indefinitely, to compensate tobacco farmers — regardless whether or not their crop is needed.

> "The challenge for Kentucky is to find ways to protect farmers in a new age when domestic production of tobacco seems certain to fall sharply."

Putting farmers on the dole doesn't strike us as a very constructive idea, even if it pumped some artificial economic life into communities that otherwise might dry up.

But help of some sort for farmers is politically indispensable. It's also a matter of simple fairness. Farmers may be in deep denial about the harm smoking does, but they aren't the ones who concocted Joe Camel, hid research documents and lied about nicotine's addictiveness.

So, yes, by all means make Big Tobacco pay to help the farmers. But the most sensible course, in the long run, is to buy out their tobacco allotments and help them during the hard transition to other sources of steady income.

Hemp, anyone?

farmers break tobacco habi

By Amy Barkley and Lynn Carol Birgmann

Recently, there has been much discussion about the role and participation of tobacco farmers in any "global settlement" between tobacco companies and the states suing the tobacco industry to recover Medicaid costs. While tobacco farmers can be expected to defend their right to grow tobacco under the current price support program, our leaders in Kentucky should be advocating for that and much more.

Our elected officials and others in influential positions should take this opportunity to truly advocate for Kentucky's family farms. They should negotiate for the majority of the funds that Kentucky would receive from a settlement to be dedicated to a comprehensive, coordinated statewide program to help farmers reduce their dependence on tobacco. Such a program would have to include major changes in the state's agriculture infrastructure and a strategic plan for rural economic development.

Our organizations work hard to prevent and reduce the death and disease caused by tobacco use. We also support Kentucky tobacco farmers and are sensitive to their difficult situation. Our farmers have strong family values and ethics, yet find themselves in a partnership with an industry that sells a deadly product. More than 10 million Americans have died from tobacco related diseases since the first surgeon general's report was released thirty-three years ago on the dangers of tobacco use. Often tobacco farmers cannot respond to this ethical dilemma without losing their livelihood and the way of life that has often sustained generations of their families. We realize that it is tobacco that keeps thousands of Kentucky families on the farm.

As public health advocates, we have a strong interest in preserving the economic stability of our rural communities. A healthy economy often helps ensure the health of individuals. It has been established that there currently is no other crop that can replace tobacco. We do not argue with that fact. However, we refuse to believe that there are no solutions.

David Perry/Herald-Leader

The Minix family planted tobacco in Magoffin County last month.

The Commodity Growers Cooperative and a number of other agricultural organizations are working to develop solutions. While the ideas and expertise exist, there is little funding and virtually no significant support from elected officials to rid Kentucky of its economic addiction to tobacco. Instead, there is a proliferation of rhetoric that makes it clear that there is no intention of truly preparing farmers for a future where they are less dependent upon tobacco. Common sense tells us that an economy based on any one crop is an economy in jeopardy.

Why must our state leaders defend tobacco at all costs? Now is the time to move forward, to set aside the debates and rhetoric and search for ways to ensure a healthier Kentucky as well as a long-term healthier economy for the state. We realize that people will always smoke, that tobacco will always be grown. However, if our efforts are successful in preventing tobacco use among young people, there will be far fewer tobacco users in the future. In addition, tobacco companies clearly intend to increasingly rely on foreign tobacco. That will mean that tobacco is far less profitable for our farmers.

To make a gradual shift away from the promotion and growth of tobacco in Kentucky and other tobacco-growing states will require money, time, energy, patience, persistence and leadership. It will require the participation of our elected officials at the local, state and national level, and it will require public support.

If there is a settlement between tobacco companies and states, we must seize the opportunity to do more than engage in a meaningless and futile defense of the status quo. We must take this chance to make positive and effective changes for the future of Kentucky's farmers.

■ **Amy Barkley** of Versailles is executive director of the Coalition for Health and Agricultural Development. **Lynn Carol Birgmann** of Louisville is director of the Kentucky SmokeLess States Project and a member of Kentucky ACTION, the Alliance to Control Tobacco in Our Neighborhoods.

Lexington Herald Leader. Tues June 17, 1997

WASH. POST 7/29/97

See ML...

Beyer Talks Up Life After Tobacco

Jobs to Depend on What You Know, Not Grow, He Tells Va. Farmers

By Ellen Nakashima
Washington Post Staff Writer

Vilified by Southside Virginia farmers for supporting the national tobacco settlement and federal regulations against teen smoking, Donald S. Beyer Jr. is using his Democratic campaign for governor to push an economic plan for the region that points to a life beyond the Golden Leaf.

The lieutenant governor recently made his first presentation to farmers in Danville, not in a tobacco field, as his Republican opponent did, but in a community college library.

The place he chose spoke volumes. Although Beyer, a Northern Virginia businessman, is advocating lots of aid for tobacco farmers—continued crop insurance and price supports and a "substantial" share of any settlement—he emphasized a larger vision of office parks, high-tech centers, new roads and better schools. It would be his foundation for a "Southside Century."

Implicit in his pitch was this message: Tobacco is under assault in the United States, and it is gradually losing its importance in the region, so we need to look at new opportunities.

That's bitter medicine for people whose livelihood, for generations, has depended on the crop, which pumps about $186 million into the state's economy. But Beyer says diversification is key to the community's survival.

"The world's changed," he said, dressed in a business suit and standing next to a bank of computer terminals. "We need to make sure that people have the education and skills they need. The big-picture writing on the wall is that information and knowledge jobs are dominating this economy and will be for the next 100 years."

Political analysts say Beyer's message about a new Southside reality may be harsh for some, but those are votes he would have had difficulty snagging anyway. The implied theme of tobacco's decline aligns with the Democrat's philosophy on the future of the work force, they say.

"It's in concert with Don Beyer's overall message from Northern Virginia: that high technology is the wave of future economic development," said William Wood, executive director of the Sorensen Institute for Political Leadership in Charlottesville.

"For folks whose livelihood is dependent upon tobacco, Don's not

See BEYER, B5, Col. 3

Soon Information, Not Tobacco, Will Be Job Base, Beyer Says

BEYER, From B1

going to get many of those votes. But he never was anyway. And he has a larger message which is consistent with his overall message: economic development."

Beyer's expressions of support for farmers were immediately dismissed by his GOP rival, former state attorney general James S. Gilmore III, as yet another example of Beyer flip-flopping on an issue, this time by trying to cast himself as farmer-friendly.

"He's a liberal politician with no credibility," said Mark Miner, Gilmore's spokesman. "He's been fighting tobacco farmers for two years now. Now he goes to Southside to make up lost ground."

Other GOP critics say Beyer is trying to play it both ways—appeal to health-conscious voters in Northern Virginia and appease farmers in Southside. "He's a walking Mason-Dixon Line," said Mike Salster, spokesman for the Republican candidate for lieutenant governor, John Hager, a former tobacco company executive. "He says one thing up north and another thing down south."

In an interview, Beyer said tobacco will always have a role in Southside Virginia. "But the jobs that we create in Virginia and America in the next 25 years are going to be based on what we know, primarily, much more than what we grow or what we get out of the ground," he said.

Back in Danville, two tobacco growers stood quietly to the side of the college library, taking stock of the politician. They cautiously praised Beyer's ideas for economic development but said they would reserve judgment until they had a chance to share his plan with other growers.

"This is really the first thing we've heard from Don Beyer," said J.T. Davis Jr., a crop insurance specialist, adding that he considered Gilmore "tobacco-friendly" for his opposition to Food and Drug Administration regulation of tobacco. "When it comes to voting, the tobacco growers are going to look at who best is going to meet their economic needs."

Out in the rolling hills of tobacco, a more raw sentiment emerges.

"No More Taxes or Bans on Our Tobacco," shouts a sign off Route 360 west, next to the Charlotte County tobacco farm of C.W. Vaughan and his 20-year-old son, Charlie.

It was the younger Vaughan who got so fired up about the federal assault on tobacco a year ago that he hand-lettered the sign and stuck it high on the road shoulder for all to see. He hopes Beyer takes notice.

"Don Beyer's coming down here to Danville, to tobacco country, to say all this about supporting us," he said. "Why isn't he saying it in Richmond?"

C.W. Vaughan, 56, grudgingly allowed that Beyer has a point about the changing economy. But it still hits him in the gut. "The future of tobacco doesn't look good now," he said. "It's been here 400 years. And all of a sudden it's gone."

A grower of flue-cured tobacco like his father before him, C.W. Vaughan farms 40 acres. He gave up cigarettes and said he doesn't want children to smoke. "But don't you think that's where the parents ought to come in?" he asked. "It ain't up to Uncle Sam to tell us how to raise our kids."

Charlie Vaughan said he fears for his father. "He's been in it for 30 years," he said. "He doesn't really know anything else. I can kind of go into something different."

In fact, the young farmer, who has a Virginia Tech degree in animal agriculture, has taken out a $220,000, nine-year loan to build hog houses. Just in case.

Beyer has proposed $40 million in economic development incentive grants for distressed regions such as Southside, Southwest and the Eastern Shore. He has proposed tax credits for businesses that retain workers and a sports center to attract tourists to Southside.

Donald S. Beyer Jr., right, talks with John Looney, of South Boston, Va., and his son Sean at the Cantaloupe Festival. The Turbeville event was held last week.

Beyer would not say what percentage of the federal settlement he thinks tobacco farmers should get, but said that some of Virginia's share should be reserved for public health programs.

At a cantaloupe festival set amid the tobacco farms of Halifax County, just up the road from Danville, Beyer made a stop last week to greet prospective voters. A man who had noticed signs leading to the festival saying, "Don Beyer, Stay Off Our Farms," asked Beyer for his opinion of tobacco "in 20 words or less."

Beyer smiled wanly and launched into a well-rehearsed response. "Number one, we have to be aggressive in protecting children," he said. "I supported the FDA regs that are in the settlement now . . . But I also think we need to make sure we support our tobacco-growing communities."

The candidate said he does not expect to be greeted with open by tobacco farmers. He knows his stands have made him unwelcome in tobacco country.

"The only way I can address it is to come to Danville and to Halifax and to show up and say, 'I'm not the enemy,'" he said. "I think we're all striving for the same things."

C8 SUNDAY, JULY 27, 1997

The Washington Post

AN INDEPENDENT NEWSPAPER

Bill Bishop and Ferrel Guillory

Tobacco: What About The Farmers?

Cigarette makers have long depicted tobacco farmers as their partners. Family farmers provided the big manufacturers not only with a high-quality leaf but also, significantly, with cultural and political cover.

A trade-off has been at the heart of the relationship. The companies paid a little more for domestic tobacco, the cost of which was kept artificially high under the federal price-support program. For their part, farmers turned out in their Big Yank overalls and battered caps whenever Congress threatened to raise the cigarette tax.

And yet the $368.5 billion negotiated settlement doesn't contain one word about what will become of the thousands of families across the Southeast who have built communities and a way of life around the checks that arrive with the sale of each year's tobacco crop. The settlement would provide $75 million over 10 years to promoters of sports events to compensate for the withdrawal of brand-name sponsorships, but it sets aside nothing for farmers and farm communities.

What everyone is missing is the opportunity to do something hardly ever accomplished in this country: to bring about an orderly transformation of a rural economy.

The nation has seen what happens when the caprices of markets and technology upset rural communities. The great internal migration of millions of black farm workers and their families to the North followed the introduction of the mechanical cotton picker. Appalachia experienced its own diaspora during the 1950s and '60s, when machines displaced miners by the thousands.

The transformation of the tobacco South could have a much different ending—if, that is, the nation's policymakers seize the opportunities presented by the negotiated settlement and by the prospect of a substantial increase in the federal tax on cigarettes. If just a small portion of the $368 billion settlement or of the proposed federal tax increase of $15 billion over five years were set aside in a development fund, thousands of farm families and local leaders could have a chance to build a new economy within existing communities.

In 1993 tobacco farmers, academics and health advocates met in Berea, Ky., to discuss how to use proceeds from a major cigarette tax increase if Congress should enact it. Their plan had two parts:

(1) A portion of any new tax should be used to buy out quota-holders. Under the tobacco program, no one may grow tobacco unless given an allotment—or license—from the federal government. An allotment has value, and many quota holders get income from leasing or selling their allotments to actual growers. Older farmers look to their quota-leasing income as a component of their retirement financial planning.

(2) Tobacco farmers and communities should be able to draw from a "tobacco regions reinvestment fund." The fund would be administered locally and could be tapped for grants and loans to pay for on- and off-farm development projects.

In recent days, David A. Kessler, the former Food and Drug commissioner, has said that he feels "very strongly that farmers should not be left out of the deal." During the first-term debate over his national health care proposal that included a tobacco-tax increase, President Clinton declared publicly that he supported transition assistance for farmers. But his administration did not follow up with a plan.

The time for such a plan has arrived, and the Berea proposals could serve as a starting point. A week ago, officials of tobacco-state farm bureaus and farmer cooperatives met in Raleigh and issued a proposal that seeks $7 billion in "economic benefits" to growers.

Unfortunately, many farmers and their tobacco-state political leaders have been slow to understand the new world in which they are living, a world in which long-term trends point toward a gradual erosion of tobacco-related incomes.

While cigarette manufacturers did nothing to include farmers and farm communities in the settlement, mainline agricultural organizations and tobacco-state politicians have focused almost exclusively on how to maintain the allotment and price support system. It is, to be sure, a federal program that has worked as intended. But the 60-year-old system is under assault less from anti-smoking forces than from the forces of cultural and global economic change.

Younger farmers are gearing up for life after the tobacco program. In a 1995 poll, two-thirds of farmers under 45 years old said they were interested in other ventures to supplement tobacco.

It is crucial that the issue not be defined too narrowly. It is not simply a matter of weaning farmers from tobacco and shifting them into strawberries or tomatoes. Farmers find such talk unrealistic and demeaning. The issue in all its fullness has to do with how to maintain a viable rural economy in a broad swath of the Southeast.

As the tobacco settlement now stands, the only sure losers are the communities fueled by tobacco checks and the people who do the blister-raising work of growing the once-golden leaf.

Bill Bishop is a columnist for the Herald-Leader of Lexington, Ky. Ferrel Guillory is director of the program on southern politics, media and public life at the University of North Carolina at Chapel Hill.

CAMPAIGN for TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

Facsimile Transmission

Number of pages (including this cover page): 4

TO: Elizabeth Drye

FAX #: 456-7431

FROM: Scott Ballin

DATE: July 22, 1997

SUBJECT: As promised

MESSAGE:

fax 296-5427 Ann Ford

296-5469

See if she wants a copy did markup

Stanley

ask Eliz if 9:00 reg mtg is still on tomorrow.

1707 L Street, NW Suite 800 Washington, DC 20036
Phone (202) 296-5469 Fax (202) 296-5427
www.tobacccofreekids.org

Tobacco Farmer Recommendations Relating
To The Proposed Tobacco Settlement
Raleigh, NC
7/17/97

I. Purchase Intentions

(a) commitment of minimum purchase intentions for the length of the negotiated settlement, with or without a program, consisting of 90% of 667M pounds flue-cured, 450M pounds burley, and the establishment of purchase intentions (using a base year for reference) for those types of program tobaccos without a quota formula

(b) manufacturers will pay compensation at the rate of two and one half (2.5) times the previous year market average for the type of tobacco for each pound below 90% of purchase intentions for the duration of the settlement

(c) tobacco cooperatives will be asked to administer funds for the benefit of the tobacco farmers, including the prevention and loss of price support related loans

(d) purchase intentions will begin in 1997 and last for the duration of the settlement agreement

II. Funds

(a) establish a fund amounting to two percent (2.0%) of the negotiated settlement to be placed in escrow and prorated between the various types of tobacco

(b) these funds will be used for the economic benefit of tobacco farmers, including quota retirement if needed

(c) manufacturers will contribute to the fund annually an amount equal to the previous year market average times each pound less than the 1997 basic quota for each type of tobacco

(c) $150M annual contribution by manufacturers for program costs

(d) $150M annual contribution by manufacturers for community development

III. Re-constituted Tobacco

(a) ask for the elimination of re-constituted tobacco from domestic cigarette manufacturing

IV. 1994 Buyout Agreement

(a) manufacturers will complete the 1994 buyout contract

V. Purchase of Loan Stocks

(a) manufacturers agree to purchase all current association loan stocks

VI. Technical Adjustments to the Tobacco Program

VII. Immunity

(a) immunity for tobacco farmers and farmer organizations

VIII. Eminent Domain Provision

(a) <u>flue-cured</u>

if flue-cured tobacco quotas fall below 60% of 1997 levels, it will be deemed that the government has seized their property for the public good as in condemnation fashion and compensate quota owners and farmers at the rate of $14 (to be indexed at the CPI rate starting from 1997) per pound for the balance of base quota and compensation equal to the decline in the fair market value of the affected portion of any property used in the production of tobacco

(b) <u>burley</u>

on the implementation of the agreement any private property owner who is actively engaged in the production of tobacco shall be entitled to receive compensation equal to the decline in the fair market value of the affected portion of any property used in the production of tobacco including tobacco quota allotments

Richmond Times-Dispatch

RICHMOND, VIRGINIA 23293 Copyright © 1997 147th Year, No. 200 VIRGINIA'S NEWS LEADER A MEDIA GENERAL NEWSPAPER TWO-STAR EDITION SATURDAY, JULY 19, 1997

Tobacco growers seek aid from U

List includes loss of income fund, mandatory buys, eliminating scrap

BY CHIP JONES
TIMES-DISPATCH STAFF WRITER

Fighting for their livelihoods, America's tobacco growers want $7.37 billion in economic relief and other safeguards to protect them in a proposed truce in the nation's cigarette wars.

Grower groups, including representatives of Virginia's 8,000 tobacco farmers, appealed to Congress yesterday after being kept out of secret negotiations between the cigarette industry and states suing for billions of dollars in health-related compensation.

SMOKE UNDER FIRE

"The growers have been treated like stepchildren for years," said Andrew Shepherd, a Lunenburg County farmer who represents Virginia on the national board for flue-cured tobacco growers.

"We've been manipulated by a lot of different folks," including Philip Morris Cos. Inc., Shepherd

PLEASE SEE GROWERS, PAGE A8 ▶

FARMERS FIGHT BACK

Tobacco growers from Virginia and six other tobacco states are taking an eight-point program to Congress to offset any economic pain from the proposed $368.5 billion tobacco settlement. Among the major provisions, the farmers want:

- **A minimum purchase** Philip Morris and other cigarette makers would have to keep buying American-grown tobacco or face stiff penalties.
- **A $7.37 billion fund** This fund would represent 2 percent of the settlement money to compensate anyone in rural areas who would be hurt financially.
- **Development money** A rural economic development fund should be set up to pay for industrial parks, job training and other measures.
- **A ban on cheap leaf** Reconstituted tobacco should be outlawed. It's the low-cost material made by cigarette makers to recycle stems, scraps and other parts of the tobacco plant.
- **Other protection** Cigarette makers should be prevented from continuing to buy any surplus tobacco, and farmers should be granted immunity from lawsuits or prosecution.

Richmond Times-Dispatch

Tobacco growers seek financial help

▼ **GROWERS** *FROM PAGE A1*

said.

As Philip Morris and other major tobacco companies seek swift passage of the proposed $368.5 billion settlement announced June 20, representatives of the nation's 124,000 tobacco farmers hustled to develop their own plan.

Farm officials from seven tobacco-growing states approved the protection plan Thursday in Raleigh, N.C. A draft reached some members of Congress yesterday.

Atop the growers' wish list: Two percent of the $368.5 billion settlement — or $7.37 billion — to compensate for any loss of income because of reduced cigarette consumption brought by any new anti-smoking efforts financed by the government.

This compensation could include price supports or buyouts for farmers who opt out of the tobacco business.

Growers also want to require cigarette makers to buy a set amount of the lucrative cash crop, which brought [illegible] million in receipts in Virginia last year.

Failure to comply would bring significant penalties for the cigarette companies, Shepherd said. "If the companies are correct, and there's a drop in consumption ... we want money" to help people who make a living on tobacco, he said.

Although some members of Congress have pushed tobacco growers to switch to other crops, many Virginia farmers say the state's terrain won't allow them to make a business out of growing such crops as wheat or corn.

Wayne Ashworth, president of the Virginia Farm Bureau, said any agreement passed by Congress and signed by President Clinton could hold the key to the survival of rural Virginia.

"What happens in this period could be devastating to tobacco growers," Ashworth said. He met with the Clinton officials, including Health and Human Services Secretary Donna Shalala and Agriculture Secretary Dan Glickman.

"A couple of times they made the comment that their intentions were not to harm the tobacco grower," Ashworth said.

The tobacco industry generates 44,000 jobs in Virginia, and thousands more rely on business from growers and manufacturers alike, according to the farm bureau.

The farmers' proposal makes public a rift between the growers and the cigarette makers that buy their crop. Stung by being left out, the farmers turned to their representatives in Congress to build support for tobacco-growing regions of the South.

Officials from Philip Morris and RJ Reynolds Tobacco Co. declined to comment yesterday.

One of the farmers' provisions calls for the elimination of "reconstituted," or scrap, tobacco in cigarettes. Manufacturers use stems and other [illegible] to save on tobacco costs, [illegible].

"There are health concerns about reconstituted tobacco that growers have been discussing," Shepherd said.

That position puts the growers in the same camp as health advocates who for years have questioned the practice of using scraps and artificial flavoring in cigarettes.

But the main reason for this provision, Shepherd said, is a growing concern about manufacturers' use of cheap, imported tobacco — including imported scraps.

"The importation of foreign leaf is 50 percent higher in the first three months of this year" than last, Shepherd said.

According to the Agriculture Department, the United States imports about 220 million pounds of tobacco more than it exports. Growers fear this trend will accelerate as cigarette makers cut costs to pay for the legal settlement.

"I'm sure they'll be finding ways to make up this $368 billion," said Ashworth, who has grown tobacco in Pittsylvania County.

The relief fund would include $150 million a year for an economic development fund to aid displaced farmers and others with a stake in the tobacco business.

"The companies want this to proceed as fast as possible," Shepherd said. "But as a grower, I want to be sure we have adequate time to present our side."

Virginia Attorney General Richard Cullen said yesterday that the farmers' plan came as good news because "Congress wasn't going to come up with a proposal on its own" to protect growers.

Cullen said he talked this week to Bruce Reed, White House domestic policy aide. "It was obvious from my discussions with Reed that the White House recognizes the absolute necessity of aiding the growers," Cullen said.

In the U.S. Senate, a Democratic task force that includes Sen. Charles S. Robb of Virginia is scheduled to meet separately with growers and with tobacco company representatives next week.

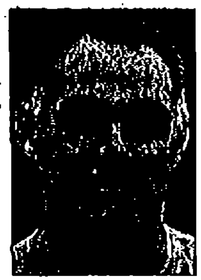
Johnny Angell, a tobacco grower in Franklin County, said he expects to be repaid for losses caused by the tobacco settlement. "My whole concern is [that] I'd be left up the creek without a paddle," he said.

Times-Dispatch Washington correspondent Peter Hardin and staff writer Greg Edwards contributed to this report.

Enough disclosure in the pact?

▼ **PAPERS** *FROM PAGE A1*

showed the industry knew well before the government did that cigarettes were deadly and addictive fueled the FDA's crackdown on nicotine and helped four 40 state lawsuits that the $368 million deal aims to settle.



DeNoble

But former Philip Morris scientist Victor DeNoble, who contends his ex-employer shut down research into safer cigarettes in the 1980s, told Vice President Al Gore yesterday the deal must require full disclosure.

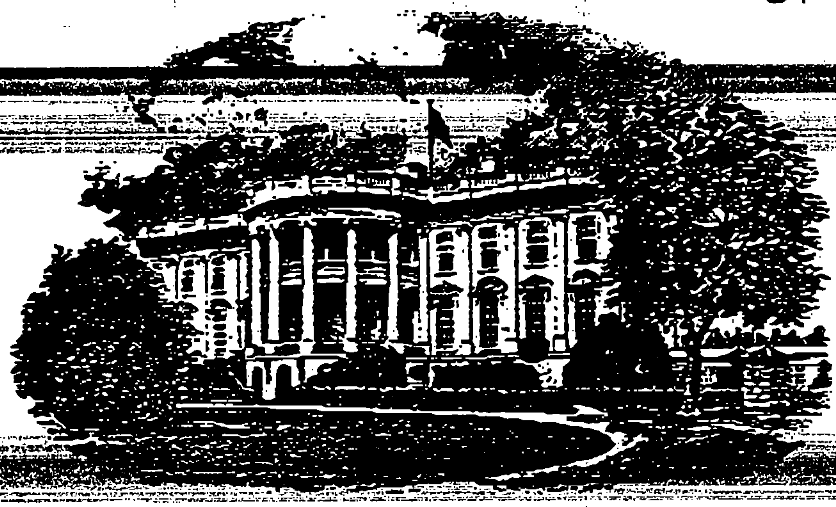
"There are so many years of research hidden by the industry. The documents are important, because there is a safer product that can be made," DeNoble said.

To settle state lawsuits, tobacco companies last month agreed to pay $368.5 billion over 25 years, curb advertising and oppose smoking by teen-agers in return for the FDA restrictions, a ban on class-action lawsuits and other provisions.

Congress and the White House must approve the settlement.

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Management and Budget



Natural Resources, Agriculture Branch

Fax Transmittal Cover Sheet

Number of pages (including cover) 2

Date: 7/16

To: Elizabeth Drye

Phone: Fax:

From: Mark Weatherly

Comments: Revised tobacco letter - as the final should look (Our e-mail system has basically crashed)

Phone: (202) 395-3446 Fax: (202) 395-4941

Dear Joe,

I am writing concerning an amendment to the fiscal year (FY) 1998 Agriculture Appropriations Act offered by Congresswoman Nita Lowey, which would prohibit the use of funds to pay the salaries of personnel who provide crop insurance or noninsured crop disaster assistance for tobacco for the 1998 and later crop years.

The Department of Agriculture (USDA) opposes this amendment. Crop insurance and noninsured crop disaster assistance programs comprise the principal remaining safety net for farmers suffering crop losses from natural disasters, since the elimination of ad hoc disaster aid. The adoption of this amendment would effectively end our ability to provide crop insurance and noninsured assistance payments for tobacco growers.

Crop insurance is an essential part of the producer "safety net" envisioned by the Administration's agricultural policy. There were some 89,000 tobacco growers with crop insurance policies in 1996, of which 69,500 actually planted the crop for the year. Over 550,000 acres were insured with liability exceeding $1.15 billion. Tobacco producers paid more than $20 million in premiums to insure their crops in recognition of the need to provide for their own risk management at a time when the government is providing fewer and fewer farm subsidies.

Tobacco growers in three States (North Carolina, South Carolina, and Virginia)received $77.8 million in indemnities for back-to-back hurricanes that hit the East Coast last year. These funds helped communities recover from disaster and were paid for in part by the producers themselves. The significance of a program that encourages producers to assess their individual risk management needs and allows them to pay part of the cost for coverage must not be lost at a time when fewer dollars are available for other types of assistance. Elimination of tobacco crop insurance would place a greater burden on other sources of relief when disaster strikes.

This amendment would have a particularly detrimental effect on thousands of small farmers in tobacco producing States, not to mention the toll it would take on the economic stability of many rural communities. An overwhelming majority of crop insurance policies in this area are sold to small farmers.

I urge you and your colleagues to vote against this amendment when it is considered by the House. Please contact me if you should need further information.

Sincerely,

Dan Glickman
Secretary

NORTH CAROLINA DEPARTMENT OF AGRICULTURE - JAMES A. GRAHAM, COMMISSIONER

DIVISION OF MARKETING

TOBACCO SECTION

P.O. BOX 27647
RALEIGH, NC 27611
PHONE: (919) 733-6152
FAX: (919) 733-0999 or (919) 715-0155

FAX NO.:	SEE BELOW	DATE:	July 10, 1997
TO:	SEE BELOW	PAGES:	1 OF 2
FROM:	COMMISSIONER JAMES A. GRAHAM		

SUBJECT: POSITION ON CURRENT TOBACCO NEGOTIATIONS AS IT RELATES TO PRODUCTION

SEN. JESSE HELMS
SEN. LAUCH FAIRCLOTH
REP. BOB ETHERIDGE
REP. BILL HEFNER
REP. MIKE McINTYRE
CHARLIE RAWLS
ERSKINE BOWLES
BOB JENKINS
LIONIEL EDWARDS
SAM COLEY
PAUL DEW
CHARLIE HARVEY
ROBERT CALDWELL
MAC DUNKLEY
TOMMY BUNN
CHARLIE KING
LISA EDDINGTON
NCSU
USDA-AMS TOBACCO DIVISION - RALEIGH

NORTH CAROLINA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

POSITION ON CURRENT TOBACCO NEGOTIATIONS AS IT RELATES TO PRODUCTION

A meeting was held today at the request of Commissioner James A. Graham to discuss farmer needs in connection with the current tobacco settlement. The following people were in attendance: Commissioner Graham, NCDA (chairman); Deputy Commissioner Weldon Denny, NCDA; W.B. Jenkins, NC Farm Bureau; Larry Wooten, NC Farm Bureau; Lionel Edwards, Flue-Cured Stabilization; Arnold Hamm, Flue-Cured Stabilization; Charles Harvey, Tobacco Growers Assn. of NC; Robert Caldwell, NC State Grange; John Cyrus, NC State Grange; Mac Dunkley, Bright Belt Warehouse Assn.; Paul Dew, NC Agribusiness Council; Sam Coley, USDA-FSA; Carol Holley, USDA-FSA; William Upchurch, NCDA; Carl Sofley, NCDA; David McLeod, NCDA; Harry Daniel, NCDA; Peter Daniel, NCDA.

The group recommends as follows:

1. PROTECT THE CURRENT TOBACCO PROGRAM.

2. MAINTAIN THE TOBACCO QUOTA AND CURRENT PRICE SUPPORT SYSTEM.

3. A COMMITMENT FROM THE TOBACCO COMPANIES TO PURCHASE 600 MILLION POUNDS OF FLUE-CURED TOBACCO ANNUALLY.

It was a consensus of this group that any legislation enacted by Congress to implement the settlement should address the following growers concerns.

4. AUTHORIZE THE SECRETARY OF AGRICULTURE TO IMPLEMENT PROGRAM CHANGES THROUGH A REFERENDUM BY THE GROWERS.

5. SET ASIDE ONE PERCENT (1%) OF SETTLEMENT PACKAGE TO ALLOW FOR QUOTA BUY-DOWN OR OTHER PROGRAM ENHANCEMENTS.

6. TOBACCO GROWERS, GROWERS' ORGANIZATIONS, WAREHOUSES, AND DEALERS SHOULD RECEIVE THE SAME IMMUNITY OR LIMITATION OF LEGAL LIABILITY AFFORDED TO THE TOBACCO COMPANIES.

Prepared July 10, 1997 by the North Carolina
Department of Agriculture and Consumer Services
James A. Graham, Commissioner

Elizabeth Drye
07/16/97 02:37:36 PM

Record Type: Record

To: Elena Kagan/OPD/EOP

cc: Laura Emmett/WHO/EOP
Subject: Q&A for press office on Lowey amendment, for your review

Congresswoman Lowey may offer an amendment today prohibiting the use of federal funds for tobacco crop insurance. Secretary Glickman sent a letter to Appropriations Cmt. Chairman Skeen earlier today opposing the amendment. Public health groups will support Lowey's amendment.

Q. Why is the Administration supporting subsidies for tobacco growers? Isn't that inconsistent with the President's anti-tobacco agenda?

A. Crop insurance (including tobacco crop insurance) is an essential part of the producer safety net envisioned by the Administration's agricultural policy. The Lowey amendment would have a detrimental effect on thousands of small farmers and their communities in the event of a disaster.

While it's a fair question to ask whether the government should subsidize tobacco growing, we should consider any changes to policies toward tobacco farmers in a broader context, not bit by bit. We will consider farmers' concerns in our review of the proposed tobacco settlement. Today, Secretary Shalala and Bruce Reed are meeting with Farm Bureau heads from tobacco states and with Governor Hunt to begin that consultative process.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 16, 1997

Honorable Joe Skeen
Chairman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362 Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Joe:

I am writing concerning an amendment to the fiscal year (FY) 1998 Agriculture Appropriations Act offered by Congresswoman Nita Lowey, which would prohibit the use of funds to pay the salaries of personnel who provide crop insurance or noninsured crop disaster assistance for tobacco for the 1998 and later crop years.

The Department of Agriculture (USDA) opposes this amendment. Crop insurance and noninsured crop disaster assistance programs comprise the principal remaining "safety net" for farmers suffering crop losses from natural disasters, since the elimination of ad hoc disaster aid. The adoption of this amendment will effectively end our ability to provide crop insurance and noninsured assistance payments for tobacco growers.

Crop insurance is an essential part of the producer "safety net" envisioned by the Administration's agricultural policy. There were some 89,000 tobacco growers with crop insurance policies in 1996, of which 69,500 actually planted the crop for the year. Over 550,000 acres were insured with liability exceeding $1.15 billion. Tobacco producers paid more than $20 million in premiums to insure their crops in recognition of the need to provide for their own risk management at a time when the Government is providing fewer and fewer farm subsidies.

Tobacco growers in three States (North Carolina, South Carolina, and Virginia) received $77.8 million in indemnities for losses due to back-to-back hurricanes that hit the East Coast last year. These funds helped communities recover from disaster and were paid for in part by the producers themselves. The significance of a program that encourages producers to assess their individual risk management needs and allows them to pay part of the cost for coverage must not be lost at a time when fewer dollars are available for other types of assistance. Elimination of tobacco crop insurance would place a greater burden on other sources of relief when disaster strikes.

This amendment would have a particularly detrimental effect on thousands of small farmers in tobacco producing States, not to mention the toll it would take on the economic stability of many rural communities. An overwhelming majority of crop insurance policies in this area are sold to small farmers.

I urge you and your colleagues to vote against this amendment when it is considered by the House. Please contact me if you should need further information.

Sincerely,

Dan Glickman

DAN GLICKMAN
Secretary

cc: Honorable Marcy Kaptur
Ranking Democratic Member
Subcommittee on Agriculture, Rural Development.
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362 Rayburn House Office Building
Washington, D.C. 20515-6016

MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

CC: CHRIS JENNINGS, ELIZABETH DRYE, JERRY MANDE, SARAH BIANCHI

FROM: TOM FREEDMAN, MARY L. SMITH

RE: TOBACCO BILLS

DATE: JULY 12, 1997

SUMMARY

This is a follow up to the previous memorandum dated July 9, 1997, that compiled tobacco bills from the 104th Congress and 105th Congress. Below is a more detailed description of various bills.

I. BILLS REGARDING FARMERS

1. **S. 598 by Sen. Bradley (D-NJ) on 3-22-95 (one cosponsor, Sen. Lautenberg (D-NJ)). TOBACCO CONSUMPTION REDUCTION AND HEALTH IMPROVEMENT ACT OF 1995.** This bill amends Section 5701 of the Internal Revenue Code to increase taxes on cigarettes from $12 per thousand to $62 per thousand. It also increases taxes on cigars, cigarette papers, smokeless tobacco, and other tobacco products. This act would also impose taxes on tobacco products entering into the United States from a foreign trade zone. This bill also creates a "Tobacco Conversion Trust Fund" by amending Subchapter A of Chapter 98 of the Internal Revenue Code of 1986. The bill would transfer 3 percent of the net increase in revenues received by the increase in tobacco taxes to the trust fund. The funds would then be available to the Secretary of Agriculture for the following purposes:

   (1) providing assistance to farmers in converting from tobacco to other crops and improving the access of such farmers to markets for other crops; and
   (2) providing grants or loans to communities, and persons involved in the production or manufacture of tobacco or tobacco products, to support economic diversification plans that provide economic alternatives to tobacco to such communities and persons.

   The bill provides that the "assistance" provided to farmers could include government purchase of tobacco allotments for purposes of retiring such allotments.

2. **S. 804 by Sen. Bradley (D-NJ) on 5-15-95 (no cosponsors). TOBACCO CONSUMPTION REDUCTION AND HEALTH IMPROVEMENT ACT OF 1995.** This bill is virtually identical S. 598 also introduced by Sen. Bradley.

II. BILLS REGARDING THE TAX DEDUCTIBILITY OF ADVERTISING

1. **H.R. 1323 by Rep. McHale (D-PA) on 4-15-97 (34 co-sponsors). TOBACCO ADVERTISING REFORM ACT.** This legislation amends Part IX of subchapter B of Chapter 1 of the Internal Revenue Code of 1986 which adds a section stating: "No deduction shall be allowed under this chapter for expenses for advertising cigars, cigarettes, smokeless tobacco, pipe tobacco, or any similar product."

2. **H.R. 2962 by Rep. McHale (D-PA) on 2-06-96 (22 co-sponsors).** This bill is identical to H.R. 1323 also introduced by Rep. McHale in the 105th Congress.

3. **S. 596 by Sen. Harkin (D-IA) on 3-22-95.** This bill is essentially identical to the two bills listed above.

III. BILL ON ADVERTISING AIMED AT YOUTHS

1. **H.R. 762 by Rep. Hansen (R-UT) on 2-13-97 (5 cosponsors). YOUTH PROTECTION FROM TOBACCO ADDICTION ACT OF 1997.** This legislation bans **all** advertising of tobacco products. It also prohibits the distribution of any free tobacco product, the sponsorship of any event in a brand name, the marketing of nontobacco products bearing a brand name, and the payment for any tobacco product or brand name to appear in movies, television, and other media or on any toy. This bill prescribes that advertising on tobacco product packages shall be in black and white and shall contain no human figures. Civil actions for injunctions for violations of this Act may be brought in district court.

IV. BILL ON WARNING LABELS

1. **S.527 by Sen. Lautenberg on 4-08-97 (5 cosponsors). TOBACCO DISCLOSURE AND WARNING ACT OF 1997.** This bill makes it unlawful to manufacture for sale any cigarette unless the package contains one of the following warnings:

WARNING: Cigarettes Kill
WARNING: Cigarettes Cause Lung Cancer and Emphysema
WARNING: Cigarettes Cause Infant Death
WARNING: Cigarettes Cause Heart Attacks and Stroke
WARNING: Cigarettes Are Addictive
WARNING: Nicotine Is An Addictive Drug
WARNING: Cigarette Smoking Harms Athletic Performance
WARNING: Smoking During Pregnancy Can Harm Your Baby
WARNING: Cigarette Smoke Is Harmful to Children
WARNING: Smoke from [brand name] Cigarettes Can Cause Cancer in Nonsmokers

- This legislation also requires labels or other tobacco products which are similar to the labels above. The labels must be placed in the two most prominent sides of the product package and be in a size not less than 33% of the side on which the label is placed. The bill requires the labels to be in black and white.
- This bill also requires a package insert detailing the substances posing a risk to HEALTH contained in the cigarettes.
- Manufacturers also must submit to the Government an annual report listing the nicotine, tar, and carbon monoxide intake for the average consumer.
- The Secretary will also establish a toll-free telephone number and a site on the Internet which shall make available additional information on the ingredients of cigarettes.
- The bill provides that any interested organization may seek to enjoin violations of the act in federal district court.

V. BILL ON PERFORMANCE STANDARDS

1. **S. 828 by Senator Durbin (D-IL) on 6-03-97 (2 cosponsors). NO TOBACCO FOR KIDS ACT.**

- Within one year after enactment, the Secretary of HHS will conduct a survey to determine the number of children who used each manufacturer's tobacco products within the previous 30 days.
- Manufacturers will face penalties if they do not reduce the number of children who use tobacco products by either a de minimis level (one-half percent of the current number of youth smokers) or by the following percentages:

S.828	**Compare to settlement**
Year 1: no standard; baseline survey is taken	
Year 2: 20% reduction from baseline	
Year 3: 40% reduction from baseline	
Year 4: 60% reduction from baseline	
Year 5: 80% reduction from baseline	Years 5-6: 30% reduction
Year 6: 90% reduction from baseline	
Subsequent years: 90% reduction from baseline	Years 7-9: 50% reduction
	Year 10 (and after): 60% reduction

- Under the Senate bill, if a manufacturer violates the performance standard, the manufacturer must pay a noncompliance fee of $1 per pack on all its tobacco sales in the subsequent year (not simply sales to youths). If a manufacturer violates the performance standard for two or more consecutive years, the noncompliance fee is increased by $1 for each consecutive year of violation. If the manufacturer is within 10% of the required reduction for a particular year, the noncompliance fee will be reduced on a pro rata basis. **Under the settlement:** There is a surcharge of $80 million for each percentage point difference between the required percentage reduction applicable to a given year and the percentage by which the incidence of underage use of cigarette products for that year is less than the base incidence percentage. (This amount reflects an approximation of the present value of the profit the cigarette industry would earn over the life of underage smokers in excess of the required reduction). The surcharge may not exceed $2 billion in any year (as adjusted for inflation).

- Under the Senate bill, the first $1 billion of noncompliance fees will fund enforcement and public education to discourage children from using tobacco products. Any additional fees will go the Treasury for deficit reduction. **Under the settlement:** 90% of the surcharge goes to state and local government to youth tobacco use.

VI. TOBACCO STATE MEMBER BILLS

1. **S.201 by Senator Ford (D-KY) on 1-23-97 (no cosponsors). TOBACCO PRODUCTS CONTROL ACT OF 1997.** This bill imposes limits on advertisements on billboards within 500 feet of any school; bans advertisements in magazines and newspapers if persons under the age of 18 constitute more than 15% of the total subscribership; prohibits ads in taxis, buses, trains, or in stations unless it is where cigarettes are sold; and bans the use of cigarettes in movies for a fee.

This legislation also amends Section 1926 of the Public HEALTH Service Act (42 U.S.C. sec. 300x-26) to provide that the Secretary may make a grant to a state only if the state makes it unlawful, among other things, (1) to sell tobacco products to anyone under the age of 18 and to sell without verifying the age in face-to-face transactions; and (2) to operate a vending machine unless it is in plain view.

2. **H.R. 516 by Rep. Baesler (D-KY) on 2-04-97 (no cosponsors). YOUTH SMOKING PREVENTION ACT OF 1997.** This bill establishes the federal authority to regulate the sale, distribution, and advertising and promotion of tobacco and other products containing nicotine as a condition to the receipt by states of the Federal Preventive Health and Health Services Block Grant. Under the bill, the Secretary may only make a grant under section 1921 of the Public Health Service Act if the State has a law, that among other things, prohibits the sale of nicotine to minors; prohibits the purchase by minors; requires the posting of signs stating the minimum purchase age; requires retail employers to notify its employees about the laws regarding sales to minors; requires retail employees to sign forms that they have received notice; and requires the licensing of retail sellers of nicotine products .

3. **H.R. 2414 by Rep. Baesler (D-KY) on 9-28-95 (3 cosponsors): YOUTH SMOKING PREVENTION ACT OF 1995.** This bill is identical to H.R. 516 introduced by Rep. Baesler in the 105th Congress.

4. **H.R. 2653 by Rep. Charlie Rose (D-NC) on 2-06-96. TOBACCO AMENDMENTS ACT OF 1995.** The main sections of the Act are the following:

Sec. 2. Elimination of Federal Budgetary outlays for tobacco programs.
Sec. 3. Establishment of farm yield for flue-cured tobacco based on individual farm production history.
Sec. 4. Removal of farm reconstitution exception for burley tobacco.
Sec. 6. Expansion of types of tobacco subject to no net cost assessment.
Sec. 7. Repeal of reporting requirements relating to the export of tobacco.
Sec. 8. Repeal of limitation on reducing national marketing quota for flue-cured and burley tobacco.

5. **S. 1262 by Sen. Ford (D-KY) on 9-20-95. TOBACCO PRODUCT CONTROL ACT OF 1995.** This bill is basically an earlier version of S.201 introduced by Sen. Ford on 1-23-97, which is described above.

VII. BILL REGARDING MEDICAID BY REP. OBERSTAR

1. **H.R. 3779 by Rep. Oberstar (D-MN) on 7-10-96 (16 cosponsors): TOBACCO MEDICAID RECOVERY ACT OF 1996.** The purpose of this bill is to reward states that successfully recover the federal and state health care costs incurred under the Medicaid program for the treatment of individuals with diseases attributable to the use of tobacco products by providing increased funding for their Medicaid programs and to provide increased resources to the National Institute of Health. Section 1903(D) of the Social Security Act is amended to provide that if a state recovers amounts expended as medical assistance for the treatment of diseases attributable to tobacco, the Secretary shall determine the amount of federal expenditures attributable to the amounts recovered, based on the federal medical assistance percentage. The Secretary then will treat this amount as an overpayment and permit the state to retain one-third of such amount for the purpose of using the funds to meet the non-federal share of expenditures under the state plan and pay one-third of such amount to NIH.

VIII. BILL REGARDING NICOTINE ADDICTION BY REP. MEEHAN

1. **H.R. 1853 by Rep. Meehan (D-MA) on 6-15-95 (9 cosponsors): FREEDOM FROM NICOTINE ADDICTION ACT OF 1995.** This bill amends the FDCA to make it illegal to introduce into interstate commerce any tobacco product that contains nicotine in the following amounts per cigarette:

As of January 1. 1997	10.00 MG. Nicotine.
As of January 1, 1998	8.00 MG. Nicotine.
As of January 1, 1999	6.00 MG. Nicotine.
As of January 1, 2000	4.00 MG. Nicotine.
As of January 1, 2001	2.00 MG. Nicotine.
As of January 1, 2002	.05 MG. Nicotine.

Attendees for 3 pm meeting Roosevelt Room on 7/16/97 as of 9:30 pm on 7-16

White House

Bruce Reed
Elena Kagan
Tom Freedman
Elizabeth Drye
Jerry Mande
Mary Smith

From Governor Hunt's office:

Governor James B. Hunt, Jr.
Debra M. Bryant
Fred Hartman
Trooper C.J. Stevens

USDA

Secretary Glickman
Charles Rawls, Executive Assistant to the Deputy Secretary
Dallas Smith, Acting Under Secretary for International Affairs and Commodity Programs

Farm Bureaus

Larry Wooten, Assistant to the President, North Carolina Farm Bureau

- He is the assistant to the President of the North Carolina Farm Bureau. He has grown tobacco for 20 years on an 140-acre farm. (The average acreage in NC is 35-40 acres.)

Larry McKenzie, South Carolina Farm Bureau

- He is the commodities director for the South Carolina Farm Bureau. Tobacco commodities is one of the primary areas in which he represents the South Carolina Farm Bureau. He is very familiar with tobacco marketing and production.

Wayne Ashworth, President, Virginia Farm Bureau

- He produces tobacco and is a life-long farmer.

Carl Loop, President, Florida Farm Bureau and Vice President of American Farm Bureau

- He is from the Jacksonville area. He is in the nursery business and represents the North Florida tobacco growers.

Wayne Dollar, President,Georgia Farm Bureau

- He is a tobacco farmer. He is very familiar with the tobacco program. (The tobacco grown in Georgia is primarily grown in south Georgia.)

Julius Johnson, Tennessee Farm Bureau

- He is the administrator of the Tennessee Farm Bureau. He is very familiar with the tobacco program, and he works with the burley growers in Tennessee.

Tim Cansler, Kentucky Farm Bureau

- He is the national affairs director for the Kentucky Farm Bureau. Burley tobacco is important to the economy in Kentucky. He deals in tobacco policy as it relates to burley tobacco.

Bill Sprague, President, Kentucky

- He was co-chair of the 1994 task force that worked with the USDA on some buyouts for tobacco farmers.

Peter Daniel, North Carolina Farm Bureau

- He is the assistant deputy commissioner of the North Carolina Department of Agriculture; he is very familiar with tobacco policy and tobacco's impact on the North Carolina economy. (North Carolina produces about 2/3 of the flue-cured tobacco.)

HHS

Secretary Shalala
William Corr
James O'Hara
Victor Zonana

MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

CC: JERRALD MANDE, ELIZABETH DRYE

FROM: TOM FREEDMAN
MARY SMITH
JULIE MIKUTA

RE: TOBACCO GROWERS AND THE SETTLEMENT

DATE: JULY 15, 1997

SUMMARY

This memo gives a general overview of tobacco production, various government programs, and how the settlement is likely to affect growers. The last section lists recommendations for the tobacco negotiations from congressional and farm sources. Attached are some relevant articles and possible discussion topics.

I. JULY 16, 1997 MEETING ATTENDEES

Secretary Glickman, Secretary Shalala, Bruce Reed, Gov. Hunt, and representatives from State Farm Bureaus: Larry Wooten (Asst to the President, NC Farm Bureau), Harry Bell (President, SC), Wayne Ashworth (President, VA), Carl Loop (President, FL), Wayne Dollar (President, GA), Bill Sprague (President, KY), and Flavius Barker (President, TN).

II. TOBACCO PRODUCTION STATISTICS

- Cigarettes account for 90% of the tobacco used in the United States. In 1995, domestic burley accounted for about 27% of the tobacco used in cigarettes; domestic flue-cured, 37%; Maryland, 1%; and imported, 35%.

- Tobacco is produced in 21 states. North Carolina accounts for 37% of the acreage; KY for 28%. Together, Virginia, South Carolina, Tennessee, and Georgia account for another 26%.

- Tobacco farming accounts for 6.5% of NC's GSP; and for 2.5% of KY's GSP. [State Tobacco Control Highlights, 1996]

- An estimated 124,000 farms grew tobacco in 1992. About 3/4 of them are classified as tobacco farms, meaning that tobacco comprises at least 50% of sales. The average impact of reductions in demand due to a 62 cent rise in cigarette prices would be about $885 a farm on a tobacco crop worth $18,000 a farm. [Ken Warner study]

- In North Carolina, there are 16,830 jobs (0.47% of state's total) in tobacco manufacturing. Virginia has 9,550 (0.31%); Kentucky has 4,210 (0.25%); Florida has 1,480 (0.02%); and Tennessee has 1,180 (0.05%).

- Over the past decade, tobacco prices have risen at a 6.3% annual rate, compared to 3.7% for "core" consumer prices (excluding food and energy). Faster growth was mainly the result of a sharp uptrend prior to 1993.

- This year, tobacco prices have sped up again, increasing at nearly an 8% annual rate through May in part reflecting higher state taxes.

- Tobacco is the 6th largest cash crop.

- Leaf exports accounted for 33% of U.S. production in 1996. In the same year, 32% of the cigarettes manufactured in the U.S. were shipped overseas.

III. HOW THE GOVERNMENT PROGRAM WORKS

- Most U.S. tobacco production has been under a price support and supply control program since the 1930s. Producers are guaranteed higher than market equilibrium prices in exchange for limiting marketings through marketing quotas. Support prices are based on the previous year's level, and adjusted by changes in the 5-year average of prices and the cost of production index. Quotas are based on: intended purchases by cigarette manufacturers; average annual exports for the 3 previous years; and the amount of tobacco required to attain a specific reserve level.

- A 1991 survey of farms showed that only 7% of flue-cured operators owned the entire tobacco quota they produced; about 21% rented all their quota, and 72% owned and rented quota. The percentage of burley farmers owning all of their quota is higher, reflecting the more restrictive rules governing burley transfer and leasing.

- Quota levels have generally declined since the mid-1970s, following a decline in marketings. Quota levels are up for both flue-cured and burley tobacco in 1997, reflecting increased marketings and reduced stock levels in 1996.

- In response to surging tobacco imports (which increased nearly 250% from 1990- 93), Congress enacted a provision in the Omnibus Budget Reconciliation Act (OBRA) of 1993 which required US-manufactured cigarettes to contain 75% US-grown tobacco. As part of the Uruguay Round implementing legislation, domestic content provisions were replaced by the establishment of a tariff rate quota for certain imported tobacco, primarily flue-cured and burley.

- The OBRA of 1990 imposed an assessment of 0.5% of the national loan rate on all growers; it expired in 1995, but the OBRA of 1993 extended it through 1998.

- The "No-Net-Cost Tobacco Program Act of 1982" required that, to be eligible for price support, tobacco producers had to contribute to a fund or pay assessments to an account established by the cooperative association that makes Federal support loans available to producers. The funds are collected to cover potential losses in operating the price support program.

IV. EXPECTED EFFECTS OF THE SETTLEMENT ON GROWERS

- The USDA currently does not forecast adverse affects on tobacco farmers; while domestic demand may decrease from the deal, export demand is growing

- Based on a short run elasticity of -0.4, a 25 cent per pack increase in retail price would likely result in a 5.2% decline in cigarettes consumption, and a 29.2 million poiund decline in domestic tobacco use, about 2% of 1996 U.S. production.. A 50 cent per pack price increase would lead to a 10.5% decline in cigarette consumption. (Draft USDA estimates)

- If the Settlement reduces underage consumption by 30% by the 5th year, the result will be a decline of 5.7 to 9.2 million pounds of U.S. tobacco. U.S. tobacco production in 1996 was 1, 517 million pounds.

- Cigarette exports are not restricted by the settlement and will likely continue their upward trend.

- A 25-cent increase in cigarette prices is estimated to result in a decline in the use of flue-cured and burley tobacco for domestic cigarette consumption of 10% and 8.4 %, respectively, by 2006. (Draft USDA estimate)

- This decline will be partially offset by the use of domestic tobacco for increased cigarette production for export. Total flue-cured and burley marketings will likely fall by 6.4% and 7.5%, respectively, by 2006.

- A 50-cent increase is estimated to result in a decline in total flue-cured and burley marketings of 8.1% and 9.8%, respectively.

V. SOME PROPOSALS

In a March 1994 ABC News Special featuring President Clinton answering questions from young people at the White House, he stated, "There are a lot of good people in America who still raise tobacco. And we should have funds set aside for them (in the cigarette tax) to help them convert away from raising tobacco to doing other kinds of farming so they can actually make a living."

These are 2 sets of proposals on the tobacco negotiations. They both recommend continuing support for the current tobacco program, and maintaining quotas.

The North Carolina Dept of Agriculture and Consumer Services made these recommendations at a meeting held on 7/10/97. The meeting was attended by the chair of the NCDA, Commissioner James Graham, Deputy Commissioner Weldon Denny, WB Jenkins and Larry Wooten of the NC

Farm Bureau, representatives from tobacco growers associations and other agricultural interest groups.

1. Protect the current tobacco program.

2. Maintain the tobacco quota and current price support system.

3. Secure a commitment form the tobacco companies to purchase 600 million pounds of flue-cured tobacco annually.

It was a consensus of this group that any legislation enacted by Congress to implement the settlement should address the following growers concerns:

4. Authorize the Sec of Agriculture to implement program changes through a referendum by the growers.

5. Set aside 1% of settlement package to allow for quota buy-down or other program enhancements.

6. Tobacco growers, growers' organizations, warehouses and dealers should receive the same immunity or limitation or legal liability afforded to the tobacco companies.

These are the recommendations offered by Rep. Baesler:

1. Provisions for the future of the tobacco program. Establish by contract with tobacco companies and in legislation that the tobacco program will be perpetual and for the life of the comprehensive settlement with the tobacco industry.

2. Tobacco quotas. Agree by contract with the manufacturers and the farmers that the buying intentions will remain at a level equal to or exceeding the level set for 1997 (700 million pounds for burley tobacco), and at the 1997 support price. This contract between the companies and the farmers will be incorporated into the language of the legislation.

3. The federal program. The companies will agree by contract and legislation that they will pay the cost of the tobacco program incurred by the federal government.

4. Crop insurance. Manufacturers will agree to assume all of the federal government's losses related to the federal crop insurance program.

5. Domestic content. Requiring cigarette companies to use up to 75% American-grown leaf in their product. (Current law sets the U.S. percentage at 75%).

VI. THE SETTLEMENT'S MENTIONS OF TOBACCO GROWERS

Direct mention of the USDA or tobacco farming occur in two instances within the agreement. The first simply states that tobacco farmers will not be subject to additional regulations over and above those existing for other producers of raw products "Tobacco farmers will face no greater regulatory burden than the producers of other raw products regulated by the federal government." [Title I, Subtitle E}. The second mention addresses the issues of limitations on FDA regulatory jurisdiction and states: "-- Grower Limitation: FDA jurisdiction does not extend to the growing cultivation or curing of raw tobacco (USDA has exclusive authority)." [Title V, Subtitle A]

Attached are some relevant clips and possible discussion topics.

AMERICAN FARM BUREAU FEDERATION®
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What is Farm Bureau?

The American Farm Bureau Federation is the world's largest voluntary organization of farmers and ranchers. More than 4.7 million family members belong to county or parish Farm Bureaus which, in turn, comprise state Farm Bureau organizations in all 50 states and Puerto Rico.

AFBF represents all commodity interests and is involved in all issues which are of concern to the nation's farmers and ranchers, including taxation, property rights and services to the farm community. It is farm people joining together to solve common problems.

The organization has never been a government agency and is not politically partisan, rather it seeks support on a bipartisan basis. As the nation's largest farm organization, AFBF has established programs that are directed by policies developed and voted upon by farm representatives at the county, state and national level.

The president, vice president and members of the board of directors must be farmers and are elected by voting delegates from state Farm Bureaus. The president is a full-time executive who directs the day-to-day operations of the organization and speaks as the official voice of the American Farm Bureau Federation.

In 1919, a small group of farmers from a dozen states gathered in Chicago and founded the American Farm Bureau Federation. Their goal was to speak for themselves through their own national organization. It soon became local, statewide, national and international in its scope and influence.

Through the years thousands of elected leaders served on county and state Farm Bureau boards, with many serving as voting delegates in state and American Farm Bureau Federation business meetings. Membership is on a family basis in all states. Payment of dues is voluntary and includes county, state and AFBF membership.

#

DISCUSSION TOPICS

1. What do they expect the consequences of the settlement to be on small farmers?

    * if there is a decline in domestic sales, how much will exports make up for it?

2. What options should the Administration consider to make sure small farmers are not causalities of the settlement?

3. One choice seems to be protecting and maintaining the current program and quotas. It is the NC Department of Agriculture position paper.

4. Other ideas have been:

    * quota buy downs;

    *a referendum (also in the NC position plan);

    *a crop conversion fund

    Are any of these useful ideas?

5. Does this affect your different states differently?

6. Are there other concerns we should be thinking about (crop insurance? Secondary workers, local stores, etc.)

LOUISVILLE, Ky. (AP) There are signs that farmers will come out of the legislative process in better shape than they did under last month's $368.5 billion tobacco settlement.

Kentucky and North Carolina farm leaders are working on a package of relief proposals. Also, a key tobacco industry negotiator appears supportive of the farmers, and health advocates say they want to protect the growers from sudden economic upheaval.

``I feel very strongly that farmers should not be left out of the deal,'' David Kessler, former commissioner of the U.S. Food and Drug Administration, said recently. ``I think that's a very high priority.''

These groups don't necessarily agree, however, on the form aid for farmers should take. The options include compensation for lost income, limits on the amount of foreign-grown tobacco in American cigarettes and a buyout program to encourage farmers to stop growing tobacco.

Economic projections show the cutback in smoking that results from the agreement could translate into more than a 50 million-pound reduction in the use of burley leaf, most of which is grown in Kentucky.

With a selling price close to $2 a pound, that's a lot of lost money.

But the only thing the deal does for farmers is guarantee that the FDA's enhanced regulatory authority won't extend to tobacco cultivation.

The settlement, however, is far from settled. The agreement must be drafted into legislation, passed by Congress and signed by President Clinton.

A lead industry negotiator, North Carolina lawyer J. Phil Carlton, says he wants to help the farmers.

Carlton, the son of a tobacco farmer and until recently the owner of a tobacco farm, told The Courier-Journal last week that the farmer issue will definitely be on the table as negotiators draft the legislation to submit to Congress.

``We're willing to talk about that,'' Carlton said of one possibility the growers are interested in: a guarantee that cigarette makers will commit to use a certain amount of domestic tobacco.

The industry, according to Carlton, also is willing to consider paying for tobacco crop insurance and the tobacco price-support program's administrative costs should Congress cut off the funding, as some have proposed.

And public health officials want to see the farmers get help, although their main objective is not compensation.

Instead, the health groups want to use money to entice the farmers out of the tobacco business and out of their longstanding political alliance with the cigarette companies.

Their idea is either to pay farmers to retire their growing quotas or give them money to try alternative crops.

Last month, health group negotiators proposed that the settlement set aside about $150 million a year mainly for that purpose. But Carlton said he rejected that idea, and it was not included in the settlement. He said the proposal was not comprehensive enough.

One of four interagency panels President Clinton set up to review the agreement will focus on the tobacco industry, including the economic impact on the growers.

Unlike the cigarette makers, the farmers come to the legislative process seemingly unblemished by the controversy and distrust that for decades gripped the smoking issue.

``They've not been willing conspirators. They've been pawns,'' Indiana Attorney General Jeff Modisett said.

Sen. Wendell Ford of Kentucky has said repeatedly that without protection for the farmers, he won't support implementation of the bill.

Ronny Pryor, chief lobbyist for the Kentucky Farm Bureau, wants farmers compensated for lost sales and quota reductions, and he insists there would be little interest among burley growers in a quota buyout. Tobacco is too lucrative to give up, he said.

But Pryor indicated there is nevertheless room to please both farmers and the anti-smoking side. He suggested the possibility of a compromise that would compensate farmers while also helping them move into alternative crops. ``We don't see it as an either-or thing,'' he said.

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News & Record (Greensboro, NC)

October 11, 1994, Tuesday, ALL EDITIONS

SECTION: BUSINESS, Pg. B5

LENGTH: 336 words

HEADLINE: KENTUCKIAN OPPOSES QUOTA BUY-OUT PLAN

BYLINE: SCOTT SOLOMO, Staff Writer

BODY:

The question of whether to end the federal government's tobacco price support was given a resounding ''no'' Monday by U.S. Rep. Scotty Baesler of Kentucky, who said the program is too important to his state's rural economy.

Baesler said he opposes a proposal by U.S. Rep. Charlie Rose, a Fayetteville Democrat, to pay growers $ 7.50 a pound to give up their federally-assigned tobacco quotas.

Rose's buy-out proposal may be well-suited for flue-cured tobacco growers in North Carolina, Baesler said, but it fails to take into account the many burley farmers in Kentucky who rent quotas from someone else.

In addition, he said, it would devastate feed stores, fertilizer stores and other businesses that support tobacco farmers.

''If you do away with the program then you're basically doing away with tobacco production as we know it here,'' said Baesler, a Democrat who attended a meeting on the issue in Charlotte last week.

''I think that would be a tremendous hit on our rural economy.''

Support by Kentucky lawmakers is considered critical to the proposal's success.

Burley tobacco is an $ 800-million-a-year business in Kentucky, said Baesler, who himself will grow 150,000 pounds this year.

Under Rose's plan, those farmers would be ''out in the cold,'' Baesler said.

$10B

Rose has suggested paying for the buyout, which would amount to about $ 16,000 an acre, with an increase in the federal cigarette tax. In North Carolina the estimated cost of such a plan is $ 4.1 billion, while nationwide it could cost $ 10 billion.

Rose said he proposed phasing out the price-support system as a way to invigorate sales of domestic tobacco and give farmers a financial incentive to convert to other crops.

Under the price-support system, the government establishes quotas, and co-ops, with loans from the federal government, buy tobacco that does not receive a bid at auction.

''I don't think on its face it will accomplish what (Rose) wants it to accomplish,'' Baesler said of the plan.

LOAD-DATE: October 13, 1994

VA Tobacco Far rs-Goode, 450

Tobacco farmers share settle it concerns with congressman

DANVILLE, Va. (AP) After a scorching day in the fields, a group of Southside Virginia tobacco growers met with their congressman to vent their frustrations with the proposed tobacco industry settlement.

``There's a saying that the road to hell is paved with good intentions,'' J.T. Davis of Nathalie said Thursday. ``If we don't get things turned around, this is going to be the road to hell for the tobacco farmers.''

U.S. Rep. Virgil Goode promised to work to get protections for farmers included in the settlement as it makes its way through Congress, particularly measures that would keep the price and supplies of tobacco from plummeting.

``Two factors have got to be market stability and price stablity,'' said Goode, a Democrat from Rocky Mount whose district includes most of Virginia's tobacco farms.

``If you destroy the American tobacco grower, you're still going to have cigarettes; people are still going to smoke,'' Goode said. ``It would just transfer production to countries like China and Brazil.''

The farmers said they are worried that the $360 billion settlement will force cigarette companies to cut their losses by buying cheaper foreign-grown tobacco. They also fear that Congress will reduce or eliminate programs that prop up the price and supply of U.S. tobacco.

``We're not getting rich,'' said Dick Conner of Halifax County. ``It's hard work and it's hot.''

The farmers said they're also steamed that they were left out of the proposed settlement, which would allocate millions of dollars to help people quit smoking and compensate sporting events and teams for the loss of tobacco sponsors.

``I don't know of anybody more addicted to tobacco than tobacco growers,'' Davis said.

But C.D. Bryant of Pittsylvania County said, ``We're not looking for some big handout.''

This year, tobacco is growing on about 8,400 Virginia farms with projected cash receipts of nearly $200 million, making it Virginia's most important crop economically.

Gov. George Allen announced Wednesday that he had appointed a three-member task force to work with Congress to minimize the damage the tobacco deal could do to Virginia's $5 billion-a-year tobacco industry.

President Clinton and Congress must approve the settlement tobacco companies reached with the 40 states that sued them to recover smoking-related health costs.

Under the agreement, all states would be reimbursed for their Medicaid expenses for treating victims of tobacco-related illness.

The attorneys general who negotiated the deal said they wanted to protect tobacco growers and tried to write safeguards for them into the deal, but ultimately left that to Congress.

``If anybody in Washington has a heart or a conscience they are going to put something in this for the growers,'' Davis said.

(PROFILE
(CAT:Agriculture;)
(CAT:Political;)
(SRC:AP; ST:NC;)
)
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:SUBJECT: VA AGRI NC POL

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