THE WHITE HOUSE

Office of Legislative Affairs, Senate Liaison

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Fax Cover Sheet

To: Tom Freedman

From:
_____Tracey Thornton
_____Caroline Fredrickson
_____Roger Ballentine
_____Joel Wiginton
_____Virginia Rustique
_____Janelle Erickson
_____Marty Hoffmann
_____Matt Bianco

Fax: 6-7431

Phone: 6-2216

Date: 3-8-99

Pages including cover sheet: 4

Message:

United States Senate
Washington, DC 20510

Facsimile

Copies to
Cynthia Rice
Rich Tarplin
HHS
leg aff
Tom Freedman

Name: Caroline Fredrickson
Organization: Office of Legislative Affairs - White House
Fax: 456-6468

From: Senator Edwards
Date: March 5, 1999
Subject: Tobacco fund recoupment
Pages: 3

Comments: The following letter will also be sent via U.S. Mail

Senator John Edwards
825 Hart Senate Office Building
Washington, D.C. 20510
Phone (202) 224-3154 Fax (202) 228-1374

JOHN EDWARDS
NORTH CAROLINA
(202) 224-3154

COMMITTEES:
BANKING, HOUSING, AND URBAN AFFAIRS
GOVERNMENTAL AFFAIRS
SMALL BUSINESS

United States Senate

WASHINGTON, DC 20510-3306

March 5, 1999

President William J. Clinton
The White House
Washington, D.C. 20502

Dear Mr. President,

I am writing to express my concern about the Administration's position that money owed to the states as a result of their agreement with the tobacco companies is subject to federal recoupment and control. This money was intended by all involved in the agreement to go to the states, and the states are in the best position to know how it can most effectively be used.

I am particularly troubled by the Administration's recoupment plans in light of its failure to develop any workable program to deal with the impact of the agreement on tobacco farmers and their communities, not only in my state, but in other tobacco-growing states as well.

In North Carolina, our poorest and most rural communities are threatened with economic devastation. It could take 25 to 50 years for this region to recover from the effects of the tobacco settlement according to some studies. And I hardly need to tell you about the face of a farming crisis – once prosperous families can quickly find themselves faced with the loss of their livelihood and all they have struggled to earn.

North Carolina has a specific plan outlined that will target fifty percent of settlement funds to go in a foundation to fund efforts to help these farmers and communities maintain economic stability. The other fifty percent is earmarked for spending on children's health and education on tobacco issues that I believe are consistent with the Administration's goals at reducing youth smoking and smoking related illnesses.

Given the opportunity, my state intends to make the most of the Master Settlement Agreement. In order to do so, North Carolina needs control of these funds to meet the unique needs of our people and communities, particularly our farmers. And the fact is, North Carolina needs and deserves more from your Administration than a threat to take away its money. We need a sustained and workable commitment from you to address the pain inflicted on our farming communities.

I would like the opportunity to work with the Administration to address these issues. I believe we can find a way to help troubled farmers and their communities and look forward to working with the Administration to do so.

Yours Sincerely,

John Edwards

John Edwards

CHARLES S. ROBB
VIRGINIA

WASHINGTON OFFICE:
Russell Senate Office Building
First and Constitution Avenue, NE, Room 154
Washington, DC 20510
(202) 224-4024
Email: senator@robb.senate.gov
http://robb.senate.gov

United States Senate

WASHINGTON, DC 20510-4603

COMMITTEES:
ARMED SERVICES
FINANCE
INTELLIGENCE
JOINT ECONOMIC COMMITTEE
Democratic Policy Committee

February 4, 1999

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am concerned about the proposal to bring a federal lawsuit against the nation's tobacco manufacturers. When you first announced this approach during the State of the Union, I thought such a suit might provide a way to bring all of the parties to the negotiating table to resolve the uncertainties which still surround tobacco production in the United States. As you know, many Virginians rely on tobacco for their livelihood, from manufacturing workers to growers to dock workers. Beginning with the comprehensive settlement announced on June 20, 1997 and continuing until today, these workers, growers and their families have suffered enormous upheaval and uncertainty.

I'd like to find a way to help alleviate this upheaval and give these families some certainty, and I've concluded it is likely that the lawsuit would create further instability. For this reason, I'd like to urge you not to initiate such a federal legal action.

The states successfully sued the tobacco companies under various theories of recovery, including Medicaid reimbursement, consumer fraud and antitrust violations. The federal government, apart from asserting some claim under the state's Medicaid recovery, does not appear to have a similar obvious basis for a suit. In the past, the position of the Justice Department has been that the federal government does not have the authority to sue manufacturers of a legal product such as tobacco. This position, I understand, was based on a lengthy internal memorandum produced several years ago. I understand further from an article in the *New York Times* on January 21, 1999, that another memorandum was prepared by outside counsel that reaches the opposite conclusion and asserts that the federal government does have a right to sue. Having a copy of these two documents would assist me in understanding exactly what caused the Justice Department to reverse its original position.

In the hope of avoiding this federal litigation, I would like to request copies of these two documents as soon as possible.

Sincerely,

Chuck Robb

Charles S. Robb

State Office:
The Ironfronts, Suite 310
1011 East Main Street
Richmond, VA 23219
(804) 771-2221

Regional Offices:
Dominion Towers, Suite 107
999 Waterside Drive
Norfolk, VA 23510
(757) 441-3124

First Union Bank Building
Main Street
Clintwood, VA 24228
(540) 926-4104

First Citizens Bank Building
530 Main Street
Danville, VA 24541
(804) 791-0330

B. B. & T. Bank Building
310 First Street, SW, Suite 102
Roanoke, VA 24011
(540) 985-0103

Congress of the United States
Washington, DC 20515

February 3, 1999

The Honorable William J. Clinton
The President
The White House
Washington, DC 20500

Dear Mr. President:

We are writing to express our serious concerns regarding your proposal to initiate federal litigation against the tobacco industry and the devastating effect it would have on tobacco farmers and their communities, communities which are already reeling from the events of the past year.

Mr. President, your proposal would deal a crippling blow to farmers and communities throughout the Southeast who are dependent upon the income which tobacco farming provides. Currently, there is no other single crop that can match the profitability of tobacco per acre for these small farmers. Not only are profitable alternatives unavailable, most farmers do not have at their disposal the acreage necessary to cultivate other crops in the quantities needed to achieve a comparable profit margin. Often, these small tobacco allotments provide the difference between being able to keep or having to sell the family farm.

Earlier this week, the United States Department of Agriculture announced that the burley tobacco quota for the upcoming growing season will be down by 28.8%. This large cut indicates the extent to which tobacco farmers are bearing the brunt of the costs of the settlements reached between the tobacco companies and the states. Continued attempts by the federal government to attack the tobacco industry will surely end tobacco farming as a way of life for thousands of small farmers, with serious repercussions for their families and their communities.

In light of this reality, we are vigorously opposed to your proposal to file suit on behalf of the federal government against the tobacco industry. Such action would hurt the most those people whom you have pledged to protect, namely the small tobacco farmer. We hope that you will reconsider your proposed course of action and instead turn your attentions to finding ways to help small farmers survive in the 21st Century.

Sincerely,

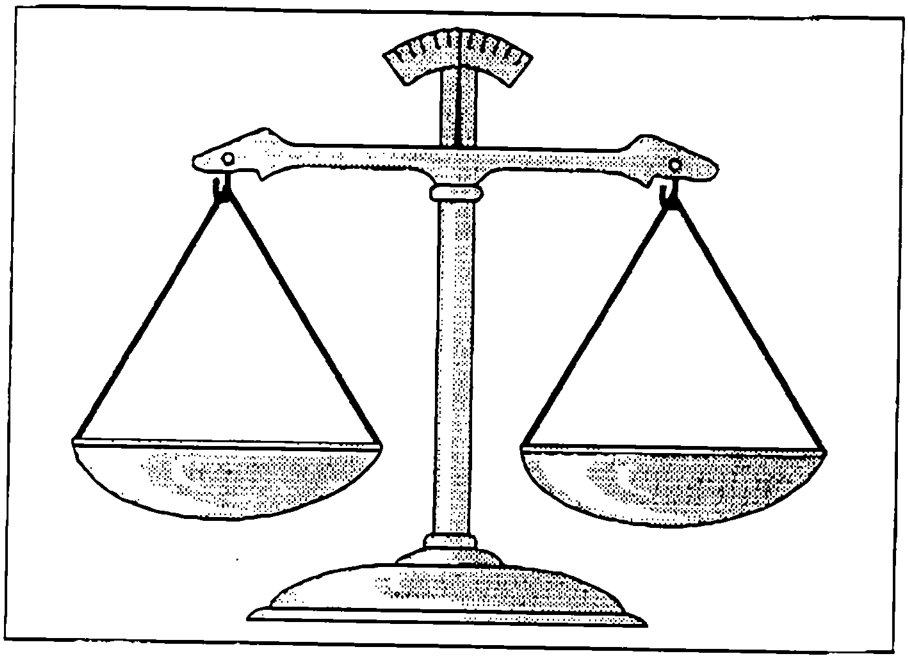
Rick Boucher
Member of Congress
9th District - Virginia

William L. Jenkins
Member of Congress
1st District - Tennessee

Van Hilleary
Member of Congress
4th District - Tennessee

PRINTED ON RECYCLED PAPER

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE GENERAL COUNSEL
14TH AND INDEPENDENCE AVENUE, S.W.
WASHINGTON, D.C. 20250-1400



DATE: 3/5/99

TO: Tom Freedman
456-7431

FROM: Charlie Rawls

FAX #: 202-720-8666
PHONE #: 202-720-3351

PAGES: 6 **INCLUDING COVER SHEET**

COMMENTS:
This is an updated draft of what I sent to you earlier this week.

DRAFT 3/4/99

A BILL

To resolve claims against States related to tobacco settlements and to aid tobacco producers and communities.

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 "United States Tobacco Claims Resolution Act".

SEC. 2. FINDINGS.

Congress finds the following:

(1) Individual States have agreed to resolve claims for health care and related claims regarding the use of tobacco products against tobacco companies.

(2) The damages on which the settlement is based arose from claims for which the States have received reimbursement from the United States.

(3) The United States is entitled to a refund from such States.

(4) It is in the public interest for the Attorney General to resolve these claim by entering into an agreement with the States to commit a portion of their settlement funds to certain public purposes of importance to the nation as a whole.

SEC. 3. CLAIM.

The United States shall collect from a State, which entered into a settlement agreement for health care and related claims regarding the use of tobacco products against tobacco companies, an amount equal to-

(1) the funds provided to such State as reimbursement for health care and related

costs incurred by the State related to individuals suffering from tobacco use related illnesses;

(2) applicable interest and penalties associated with the payment of the claim of the United States described in this section; and

(3) other costs of the United States regarding the collection of the claim of the United States described in this section.

SEC. 4. AGREEMENT AUTHORITY.

(a) IN GENERAL.- The Attorney General, in consultation with the Secretaries of Agriculture and Health and Human Services, may release a claim of the United States against a State described in section 3, if the Attorney General enters into an agreement with such State in accordance with this section.

(b) AGREEMENT.- An agreement under this section shall require the State to devote or contribute funds to improve health in communities and provide relief from changes in the tobacco market by providing-

(1) direct payments to producers for loss of tobacco quota or markets;

(2) community development for communities which are dependent upon revenue from the sale of tobacco by producers;

(3) education or training of tobacco producers and their families to secure other forms of employment;

(4) funding of public health measures for tobacco-related disease or for other health care measures for the general improvement of rural medical facilities in tobacco-dependent communities;

(5) programs to deter teen smoking or drug use;

(6) assistance to tobacco communities or to individuals dependent financially on the production or marketing of tobacco;

(7) assistance for child care expenses; or

(8) additional measures which the Attorney General determines would effectuate the purposes of this Act.

SEC. 5. COMMISSION.

The Attorney General may establish a commission to ensure that funds from a State which reaches an agreement with the Attorney General under this Act are used to aid tobacco producers and communities consistent with the purposes of this Act.

<u>Section by Section Analysis</u>

Section 1. This section provides that the Act may be cited as the "United States Tobacco Claims Resolution Act".

Section 2 would provide congressional findings that States have agreed to resolve claims for health care and related claims against tobacco companies; States have received reimbursement from the United States for such claims; the United States is entitled to a refund from such States; and it is in the public interest for the Attorney General to resolve these claims by entering into an agreement with the States to commit funds to certain public purposes.

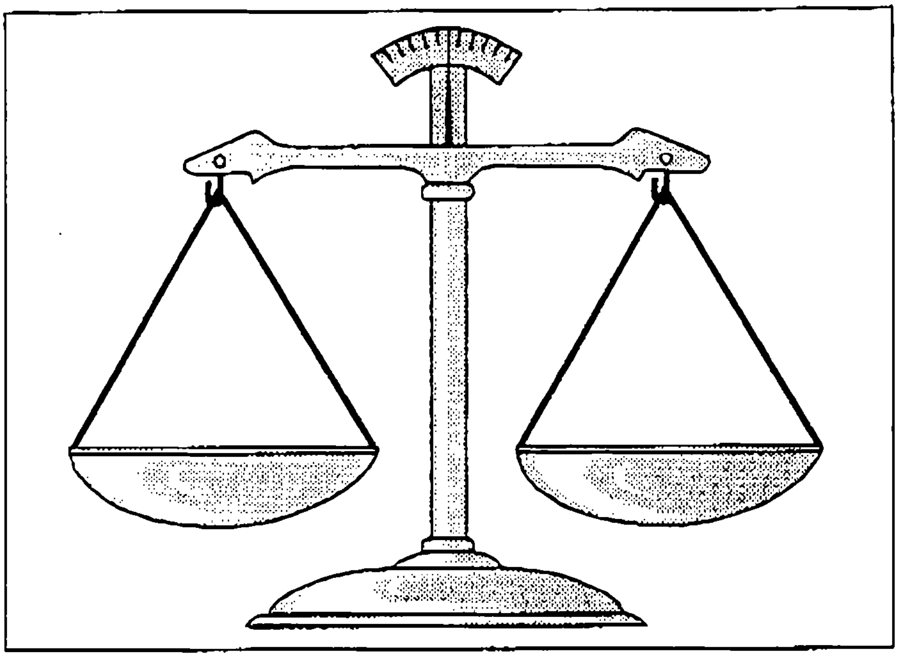
Section 3 would require the United States to collect from a State, which entered into a settlement agreement for health care and related claims with the tobacco companies, funds provided to the State as reimbursement for the health care and related costs regarding individuals suffering from tobacco use related injuries, interests and penalties associated with the claim, and other associated costs.

Section 4 would authorize the Attorney General, in consultation with the Secretaries of Agriculture and Health and Human Services, to release a claim under section 3, if the Attorney General entered into an agreement with the State to devote funds for certain purposes. Such purposes would be: (1) compensation to farmers for loss of tobacco quota or markets; (2) community development for communities which are dependent upon revenue from the sale of producer tobacco; (3) education or training of tobacco producers and their families to secure other forms of employment; (4) funding of public health measures for tobacco-related disease or for other health care measures for the general improvement of rural medical facilities in tobacco-dependent communities; (5) programs to deter teen smoking or drug use; (6) additional assistance to tobacco communities or to individuals dependent financially on the production or marketing of tobacco; (7) assistance for child care expenses; and (8) any additional measures which the Attorney General determines would effectuate the purposes of this Act.

Section 5 would authorize the Attorney General to establish a commission to ensure that funds from a State subject to an agreement under this Act will be used in accordance with such agreement.

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE GENERAL COUNSEL
14TH AND INDEPENDENCE AVENUE, S.W.
WASHINGTON, D.C. 20250-1400

To B.J. Edwards



DATE: 3/3/99

TO: Tom Freedman
456-7431 (FAX)

FROM: Charlie Rawls

FAX #: 202-720-8666
PHONE #: 202-720-3351

PAGES: 4 **INCLUDING COVER SHEET**

COMMENTS:
I have not seen this but wanted to get it to you right away.

Section 1. This act may be referred to as the United States Tobacco Claims Resolution Act.

Section 2. Currently, there are potential claims outstanding between the United States and various individual states in which the individual states have agreed to resolve claims for health costs and related claims against tobacco companies. In whole or in part the claims arose from alleged damages caused by or related to the use of tobacco. Hence, such damages on which the settlement is based, it is contended by the United States, have arisen in whole or in part from medical claims for which the states have received reimbursement from the United States. That reimbursement by the United States presumed no contribution to the State or reimbursement of the State by third parties. It has thus been contended that the United States is entitled to a refund from the involved states for the benefit of the United States acting on behalf of citizens in all states. The resolution of these complicated claims may provide an opportunity to, in lieu of extended, costly litigation, accomplish a large public benefit by replacing a potential money recovery in favor of the United States with an agreement with the state to commit a portion of their settlement funds to certain public purposes of importance to the nation as a whole. That being the case, the Attorney General is hereby authorized to release all or part of the aforementioned claims in return for the state's agreement to devote funds, in such amount as is agreed to, to the purposes specified in Section 3.

Section 3. The Attorney General in consultation with the Secretaries of Agriculture and Health and Human Services may release the claims referred to in Section 2 in return for an agreement by the State to devote or contribute funds to aid in its State and other States in improving health care in rural communities and correcting for, or providing relief from, changes in the market for producers of tobacco. Such measures for which the funds can be committed shall include but not be limited to: (i) direct payments to farmers for loss of tobacco quota or markets; (ii) community development funds for communities which are dependent upon revenue from the sale of producer tobacco.; (iii) education or reeducation of tobacco producers and their families to achieve other forms of gainful employment;(iv) funding of public health measures for tobacco-related disease or for other health care measures for the general improvement of rural medical facilities in tobacco-dependent communities; (v) expenditures to deter teen smoking and/or drug use; (vi) additional assistance to tobacco communities or to individuals dependent financially on the production and/or marketing of tobacco; and (vii) any additional measures which the Attorney General determines, upon consultation with other cabinet officials, are in the public interest including, but not limited to, providing assistance for child care expenses and provide funds to increase the early learning opportunities nationwide.

Section 4. For purposes of any such settlement, the Attorney General may organize or accept if otherwise organized, a commission which would assure to the extent deemed desirable that funds from all states which reach an accord with the Attorney General can be marshaled for the aid of tobacco producers and communities nationwide.

Section by Section Analysis

This bill is intended to provide the administration with maximum flexibility to resolve it claims for reimbursement for health expenditures for which the federal government has provided funds to the States and for which the States, it is contended, have achieved reimbursement, or will receive reimbursement, from third parties – namely, the tobacco companies.

Section 1. Section provides that the act may be referred to as the United States Tobacco Claims Resolution Act.

Section 2 refers to the disputed claims and provides the general authority to resolve the disputed claims to accomplish a large public benefit by replacing a potential money recovery in favor of the United States with an agreement with the state to commit their settlement funds to certain public purposes of importance to the nation as a whole.

In Section 3, the Act would list specific uses to which the funds could be put including, but not limited to: (i) compensation to farmers for loss of tobacco quota or markets; (ii) community development for communities which are dependent upon revenue from the sale of producer tobacco.; (iii) education or reeducation of tobacco producers and their families to achieve other forms of gainful employment;(iv) funding of public health measures for tobacco-related disease or for other health care measures for the general improvement of rural medical facilities in tobacco-dependent communities; (v) expenditures to deter teen smoking and/or drug use; (vi) additional assistance to tobacco communities or to individuals dependent financially on the production and/or marketing of tobacco; and (vii) any additional measures which the Attorney General determines, upon consultation with other cabinet officials, are in the public interest including, but not limited to, providing assistance for child care expenses and provide funds to increase the early learning opportunities nationwide.

Section 4 contemplates that agreement might be reached in which funds received by non-tobacco states might in some measure be used to assist persons, such as tobacco producers, located in other states and for that purpose this section provides that the Attorney General may organize or accept if otherwise organized, a commission which would assure to the extent deemed desirable that funds from all states which reach an accord with the Attorney General can be marshaled for the aid of tobacco producers and communities nationwide. If agreement cannot be reached on that basis than it could be that all sums would be expended for approved purposes only within the same state. In any case, sums spent under the agreement would be in addition to any other obligations the state would have under other authorities.

Suggested Settlement Proposal

1. Fifty-seven (57) percent of the funds which the state receives under the tobacco settlement each year would be devoted to the purposes set forth in paragraph 2. This amount will be referred as to the federal share of the settlement and shall be in addition to any other payments for any purpose under any other authority that are made by the states for any of the public measures identified in paragraph 2.

2. The federal share each year from the state shall be divided as follows:

(i) 10% shall be devoted to a national fund for compensation to producers and quota owners for loss of tobacco quota or markets;

(ii) 5% shall be devoted to the same national fund for community development for communities which are dependent upon revenue from the sale of producer tobacco.;

(iii) 5% shall be devoted to the same national fund for the education or reeducation of tobacco producers and their families to achieve other forms of gainful employment;

(iv) 30% shall be devoted to funding within the State of new public health measures for tobacco-related disease or for other health care measures for the general improvement of rural medical facilities in tobacco-dependent communities;

(v) 30% shall be devoted for expenditures within the State to deter teen smoking and/or drug use;

(vi) 10% shall be devoted to a national fund for additional assistance to tobacco communities or to individuals dependent financially on the production and/or marketing of tobacco; and

(vii) 10% shall be devoted to, in such proportion as the State deems appropriate, providing assistance within the state for child care expenses of working Americans and providing funds within the state to increase the early learning opportunities for American children.

3. The national fund provided for in Section 2 shall be administered in through grants to the States which shall be administered through the Secretary of Agriculture and which shall apportion benefits to reflect, to the extent practicable, the number of affected producers or individuals and the quality of the proposed projects offered by those states seeking the grants. Determination made by the Secretary with regard to the administration of those funds would be final and non-reviewable.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250
(202) 720-3631

Tob. farmers

FAX COVER

To: Tom Friedman / Mary Smith

From: Keith Pitts

Date: 19 Feb 99

For further information, please call: ~~301-734-5215~~ (202) 690 2525

15 pages total

AN EQUAL OPPORTUNITY EMPLOYER

ATTENTION TOBACCO GROWERS

A Tractor Cade is planned for March 1, 1999 in Raleigh, N. C.
This Event is 100% legal with permission from the City of Raleigh Council.
Permission has been obtained from N. C. State Fairgrounds to park tractors there beginning on February 22, 1999. Security for tractors will be provided.
Tractors will be parked on the North End parking lot. Virginia has provided a secure future for its tobacco farmers and quota holders with $1.2 billion of Phase I Money from the Master Settlement. North Carolina's tobacco farmers and quota holders are being "PHASED OUT" of Phase I. We have until the first part of March to secure our future in tobacco. To secure your future in tobacco, do your part now. PARTICIPATE! For more information, contact any of the following people:

Jimmy Lee (919)269-7812 Office (919)731-7654 Pager
Frank Lee (919)934-2100 Office
Edward Stephenson (919)934-4111 Whse. (919)934-4574 Home (919)965-7631 Mobile
Raymond Foster Roger Edwards
(919)496-4334 Office (919)496-5825 Home (919)496-9004 Mobile
Dale Lucas (910)892-6460 Office (910)892-3904 Home (919)820-4466 Mobile
Sammy Tant (252)442-8282 Home (252)972-5718 Pager (252)450-9141 Mobile
Kay Fisher (252)422-6235 Office (252)971-0236 Home (252)903-1969 Mobile
(252)903-3102 Mobile
Ronald Stainback (252)431-1308 Office (252)438-7828 Home
Benny Collier (252)257-1812

SUMMARY OF ' OBACCO SET' LEMENTS AND FUNDS

"Phase I"

Settlement between states and manufacturers

$4.6 billion to NC over 25 years

- ½ of funds
  - **Foundation for North Carolina's Future**

    Board of Directors:
    - 5 appointed by Governor
    - 5 appointed by Pro Tem
    - 5 appointed by Speaker
  - Funds to be allocated to provide economic assistance to economically affected and tobacco dependent regions of the state
- ½ of funds
  - Use of funds to be determined by the General Assembly

"Phase II"

Settlement between manufacturers and growers/quota holders

$1.97 billion to NC over 12 years

- all of funds
  - State Plan developed by State Board:
    - Governor - Chair
    - Commissioner of Agriculture – Vice-Chair
    - Attorney General
    - 2 members of Congressional Delegation
    - 1 appointment by President Pro Tempore
    - 1 appointment by Speaker of House
    - 3-6 farmers or quota holders appointed by Governor
    - 1 public-spirited person appointed by Governor
  - Proceeds Paid ONLY to:
    - Growers
    - Quota Holders

Tobacco Settlements Summary Chart Office of Marc Basnight, NC Senate President Pro Tempore

Tobacco Growers Association of North Carolina, Inc.

February 10, 1999

Dear TGANC Member:

I would like to personally thank the large number of you who attended our annual meeting February 5th in Raleigh. As you could discern from the nature of the participants our intent was to offer to you as speakers, the very people who have been involved in the creation of the National Trust Fund (Phase II) as well as those who will be instrumental in determining how the Master Settlement Agreement (MSA or Phase I) monies will be allocated in North Carolina. I hope that a number of the questions that have persisted about what has occurred to date have been answered.

The question that remains in most growers minds is what, if anything, should be done in pursuit of the MSA funds that will come to North Carolina. TGANC has reached the conclusion that it is reasonable and fair to request that a portion of this money be designated for indemnification of tobacco growers and quota holders based on real and potential economic losses. To that end, Executive Vice President Graham Boyd and I have spent considerable time at the legislature in recent days speaking with prominent members of the House and Senate, attempting to determine what we could expect. At this point in time, it appears that the chances of growers receiving any assistance from the MSA are mixed at best. Certainly, we intend to devote all our efforts toward obtaining assistance for growers. However, this must be done as skillfully and carefully as possible.

The period of opportunity for influencing any potential legislation relating to this matter is quite short, perhaps as little as three to four weeks. We are in the process of convening our board members to give them a chance to speak directly with key legislators in an effort to refine our strategy. We would encourage you to speak to any of our board members about your thoughts or concerns. More importantly, you need to be in contact with your House or Senate member to express your concerns about the plight of the tobacco farmers in the communities they represent. You need to let them know that you are grateful for the Phase I money but, that it may not be adequate to fully address the current situation. Remind them that if they truly desire to help the economy in tobacco dependent communities that it is necessary to keep the source of

212 Caswell Building • 3700 National Drive • Raleigh, N.C. 27612-4842 • 919/781-2307 • FAX 919/781-0066

the current well being intact by keeping the farmers generating wealth in those communities.

The North Carolina Senate has already passed out of committee Senate Bill 6 which deals with the establishment of a nonprofit corporation acting as a foundation for the distribution of MSA money. As this bill is explained to us by those involved, there is very little opportunity in its intent that would allow for payments to individual farmers. There will be hearings held by the Senate Select Committee on Tobacco Settlement and Health Care concerning this bill next Thursday, February 18th and the following week on February 25th.

Comparable bills will very quickly be introduced on the House side and most likely, subsequent hearings will be held on those bills. To our knowledge there is not presently a bill in the works that would distribute any portion of money to the farmers out of the MSA. The opinion of our state's leadership is that our portion of the $5.15 billion, Phase II agreement (National Trust Fund) will be adequate to cover the losses incurred by you the farmer. Therefore, the task will indeed be great to find the vehicle that will carry our desired intentions and present the real economic justification to list farmers and quota holders as the first priority of need in these tobacco dependent communities.

Please accept my heartfelt appreciation for your support. it is especially appreciated at this time because of my newness in the position of the presidency of TGANC at a very difficult time, but, additionally so because of the large shoes I have to fill following the illustrious Larry Sampson.

With your continued support and input we can all continue to "Stand Strong" for tobacco. I look forward to hearing from you and working towards your best interest.

Sincerely,

Billy Carter

Billy Carter
President

Tobacco Settlement

Points of Emphasis

2/18/99

BASIC FACTS:

* States are going to recover billions of dollars.

  1) Recover historic costs of treating sick smokers
  2) help prevent youth access

* Law firms will pad their coffers.

* Tobacco companies have dramatically improved their position and could possibly prosper.

* Tobacco farm families futures are compromised.

  People who smoke and people who farm are the two groups who stand to lose the most from this historic agreement. Many will profit who have had little or nothing to do with the hard work and success this enterprise has brought to the U.S. for over 350 years.

GENERAL NUMBERS SHOWING IMPACT TO THE FARM:

North Carolina's share of national quota (flue-cured)-66%

1999 Basic Quota	666 million pounds	
1998 "	808 " "	-142 million lbs.
1997 "	996 " "	-330 million lbs.

'97 -- '99 loss in dollars = 330 million lbs. x $1.72 = $530 million x 0.66 = $375 million less income at the farm gate in NC.

'98 -- '99 loss in dollars = 142 million lbs. x $1.72 = $248.5 million x 0.66 = $164 million less income at the farm gate in NC.

* NC's share of "phase II" funds does not equal actual loss of income reflected in two years of consecutive quota reductions, which does not take into account loss of asset value for specialized equipment and value of quota.

OBSERVATIONS:

* Governor worked diligently on "phase II" money and is firmly convinced, along with some other key political leaders that

this is an adequate amount to take care of farmers.

* Attorney General Mike Easley at our 11/22/98 board meeting said "consent decree - does not equal legislation." And could limit ability to address specific tobacco production problems. Also, indicated that $5.15 billion - approximately = to market value of quota.

* Senate Bill 6 which draws its basis primarily from the AG's consent decree has moved with unusual speed through the Tobacco Select Committee. Several senators involved cannot see a cause for direct payments to farmers.

* Some activity on the House side to slow the process down, primarily by Republicans. Representative Rex Baker has filed House bill 74 which talks about the foundation that would administer half the MSA money (as discussed in Senate bill 6) but, does not specifically include anything that allows direct payment to farmers.

* Virginia's AG apparently did not enter into a consent decree that clearly delineates the use of their state's funds, but rather, allowed the legislature to craft it's own bill with input from farm organizations. NC's consent decree is either a shadow to hide behind or is in fact, quite restrictive.

* VA's situation is in fact dramatically better, but it is not a direct, upfront buyout of $12.00 per pound.

* In our state we have some sympathetic members in the Senate, but none have offered alternative legislation.

SUGGESTIONS:

The following areas of concentration of efforts have been suggested.

* Members of the Tobacco Select Committee (House & Senate)

* Republican members > because they perceive this to be a power and money grab by democrats. We need to be careful not to specifically mention this angle ourselves.

* Democratic members representing areas with large amounts of quota (including burley districts in mountains) as well as cigarette manufacturing in their districts.

* Legislators do not readily grasp the concept of asking for money to use for quota transfer. They are being specifically asked for this by other groups and many do not see any connection.

* We have to fight extremely hard for as much as possible, because it is reasonable and fair, also because so much is

expected of us at this point.

* We are not currently at this point, but we may soon have to focus on getting some MSA for programs or other less obvious forms of compensation. Some maybe's...

> Getting all of the $5.15 billion guaranteed with MSA money against offset provisions that exist that could lower amount of "phase II" money.

> Getting "phase II" money frontloaded with MSA money where "phase II" is currently light loaded on front. Need is greater now and worth more now.

> Subsidization of tobacco farmer and worker health costs.

> Guarantees of money in the event that the program collapse

> Work on placing "the right" persons on the Foundation board who have an understanding of tobacco.

> We need every board member to go home and attempt to persuade farmers in their communities to contact their Legislators and discuss with them reasonably our concerns and economic needs.

FAMILY FARM RELIEF FUND

"DRAFT OF A PROPOSAL"

A BILL TO REQUIRE THE CREATION OF A FAMILY FARM RELIEF FUND FROM A PORTION OF NORTH CAROLINA'S SETTLEMENT PROCEEDS DERIVED FROM THE MASTER SETTLEMENT AGREEMENT.

Whereas, tobacco is the largest dollar farm-produced crop in North Carolina with production of 536,393,000 pounds of Flue Cured Tobacco which generates 922 Million dollars as well as 19,216,000 pounds of Burley tobacco which also generates 37 Million dollars for the 1998 growing season; and

Whereas, tobacco farms in the North Carolina production area and in the tobacco producing belt of the southeast region of the United States cannot survive with anymore drastic changes in the tobacco program; and

Whereas farms in the tobacco belts are historically small, they are able to survive because of the income intensity per acre of tobacco ; and

Whereas, tobacco quota holders and producers are drastically effected by the reduction in quota; and

Whereas, these family farms do not own the land to survive on the income from grains, soybeans or other farm commodities without tobacco; and

Whereas, with the loss of tobacco production and income, this will create a loss of income for farm equipment dealers, farm suppliers, fuel, fertilizer and chemical dealers, automobile dealers, and tobacco warehouses; and

Whereas, with the loss of income of our family farms producing tobacco, the liability to pay local taxes in every tobacco producing county will become more of a burden; and

Whereas, the proposed cure of the health-related problems, without any financial consideration of the farmers could effectively and eventually bankrupt many and will have devastating effects on all other family farms.

Now,

Therefore, not withstanding any other provision of law, the first 50% of any proceeds received by the state of North Carolina pursuant to provisions of the Master Settlement Agreement, must be utilized to create a special fund to be known as "THE FAMILY FARM RELIEF FUND."

Therefore, no less than 50% of the proceeds shall be credited to the fund from each subsequent settlement allotment received by the State of North CAROLINA.

FAMILY FARM RELIEF FUND

Henceforth, all proceeds credited to the fund must be utilized exclusively for the purpose of assisting Tobacco Quota Holders and Producers to supplement loss of Assets and loss of Income as based on 1998 Quota.

This fund should be administered by a State Board of Directors.
This board would consist of 19 members with emphasis placed on bi-partisan representation. Three(3) members appointed by the Governor, Three(3) members appointed by the President Pro Tempore, and Three(3) members appointed by the Speaker of the House. The Ten(10) remaining vacancies should be filled with tobacco quota holders and or producers. It is suggested that there be Two(2) representatives from the Old, Middle, Eastern, Border tobacco belts respectively-along with Two(2) representatives from the Burley.

This Committee would be empowered with the authority and responsibility of the decision making process of equitable distribution of Phase 1 Monies.

Tom-
as promised. We've included several statements by the President.
Sid

Tob farms

DRAFT

DRAFT

FRIEND OR FOE?
BIG TOBACCO'S BETRAYAL OF THE AMERICAN FARMER
or
SOLD DOWN THE RIVER:
THE BETRAYAL OF THE AMERICAN TOBACCO FARMER
or
FALSE FRIENDS:
HOW BIG TOBACCO SELLS FARMERS DOWN THE RIVER

DRAFT

Revised Draft
23 March 1999

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DRAFT

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ADMINISTRATIVE MARKING
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CONFIDENTIAL

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* -- Waiting for some updated figures from T. Capehart.

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KEY FINDINGS

Leaf dealers too!

- U.S. cigarette companies are aggressively expanding overseas. Philip Morris, R.J. Reynolds and Brown & Williamson's parent company now each own or lease plants in at least 50 different countries.

- To supply cheap raw material for these offshore manufacturing facilities, the companies and U.S.-based leaf dealers are providing subsidized seeds, fertilizer and technical assistance to many foreign tobacco growers.

- In Brazil, some 520,000 children under the age of 18 work on tobacco farms, 32 percent of whom are younger than 14.

- In 1996, tobacco companies paid an average of \$1.84 per pound for U.S. flue-cured tobacco, while paying only \$0.77 per pound in Zimbabwe and \$0.93 per pound in Brazil.

- U.S. tobacco production fell by 26 percent between 1980 and 1995, while worldwide production increased 37 percent. During this period, the United States' share of global flue-cured production fell from 20 percent to 9 percent, while its share of global burley production fell from 44 percent to 33 percent.

- By the year 2000, developing countries will account for almost 80 percent of the world's tobacco production, compared to just 50 percent in the 1960s.

- In 1998, U.S. tobacco imports reached record highs, totaling 44.7 percent of the tobacco used in the United States, compared to just 15 percent in 1970.

- Although U.S. cigarette exports have increased in recent years, this has been of little benefit to U.S. tobacco farmers because of a loophole in the law that gives the companies a tariff rebate of up to 99 percent if leaf they import is re-exported in the form of cigarettes or other tobacco products. This means that U.S. manufacturers can, in fact, continue to import all the foreign leaf they want as long as it is used to make cigarettes for export.

- Since passage of the North American Free Trade Agreement (NAFTA) in 1994, U.S. tobacco companies have invested over \$2 billion in Mexico. By 2003, all tariffs on Mexican tobacco exports to the United States will be eliminated.

- In 1998, Philip Morris CEO Geoffrey Bible made \$24 million. By contrast, over 70 percent of American tobacco farmers have gross sales of less than \$20,000 per year, and most must work at jobs off the farm to supplement their income.

- Between 1981 and 1991 farmers' share of each dollar spent on tobacco fell from 7 percent to only 3 percent. In the last 20 years, meanwhile, the inflation-adjusted cost of producing tobacco has increased nearly 200 percent.

- Between 1990 and 1998, the average price per pound of flue-cured tobacco leaf rose just 4.8 percent and that of burley rose 7.4 percent. Yet the wholesale price of cigarettes, excluding federal excise taxes, increased 97.5 percent during the same period.

- Between 1960 and 1995, even though U.S. cigarette production increased by 41 percent, tobacco production declined by 35 percent.

- Between 1992 and 1997, the number of tobacco farms in the United States dropped by 32 percent, even as production levels stayed the same. The number of farms under five acres fell by 34 percent, while the number of farms of 50 acres or more grew by 45 percent.

- Between January 1987 and March 1998, the tobacco industry gave $11.9 million in PAC contributions to Congressional candidates, with two-thirds of those contributions going to races in non-tobacco growing states. In the first half of 1998, the companies spent a whopping $43.3 million on lobbying, or about $81,000 for each member of Congress.

- U.S. tobacco companies have consistently opposed governmental regulations that would benefit American growers, such as efforts to limit the amount of pesticide residues allowed in imported leaf and to require country of origin labeling on cigarettes.

- Despite their undercutting of U.S. tobacco farmers, the companies still expect growers to do their political bidding. During the fight over FDA regulation of manufactured tobacco products in 1996, the companies misrepresented the issues to farmers. Secret company documents reveal company campaigns to orchestrate grower support for the industry's position.

FOREWORD

Tobacco has played an important role in this nation's history. Many of today's American tobacco farm families have their roots in tobacco dating back more than 200 years and tobacco continues to play an important part of their lives. As these farmers are quick to remind the public, growing tobacco has been more than just a means of paying the bills, it has been a way of life.

But just as there can be no question about the historical role that tobacco has played, there can also be no question about the serious public health consequences associated with its use. It was in the 1950s that the first significant scientific evidence was released implicating the smoking of tobacco as a potential cause of lung cancer. In a 1954 statement to the American public appearing in newspapers across the country, the tobacco companies themselves assured an uneasy nation that:

We accept an interest in people's health as a basic responsibility, paramount to every other consideration in our business.[1]

In 1964, the landmark Surgeon General's report on cancer was released, confirming what earlier scientific studies had already indicated. And, in 1964, the tobacco companies once again told Congress and the public that they took these 'allegations' seriously and could be expected to do the right and ethical thing. Yet the industry's own internal documents now show that they had no intention of taking a responsible course of action.

Caught in the middle of the tobacco companies' 35 years of deception are tobacco farmers and others who have depended on tobacco to make a living. They are now looking for some signs of assurance and security that will allow them to make important choices down the road to safeguard their livelihoods and ensure economic stability in their communities. On the one hand, they have had to rely on the companies who buy their tobacco but which expect unqualified support of the industry's political agenda in return. On the other hand, farmers have become increasingly aware that the products the tobacco companies are selling and marketing are a significant cause of disease and death. Their quandary now is how to get out of what is often referred to as the "tobacco trap". Today, not only are public health organizations fighting to reduce the 400,000 American deaths caused each year from tobacco and prevent a million children from taking up smoking, but tobacco farmers and their communities are desperately fighting to survive. If the tobacco companies can't be trusted to protect the nation's health or the nation's children, how can they be trusted to protect tobacco farmers and their families?

Clearing up Some Misconceptions

For decades, a series of misconceptions have clouded the debate about tobacco in the United States, making it difficult to formulate comprehensive solutions that meet the nation's public health needs while also addressing the needs of tobacco farming communities. One of the biggest misconceptions has been the tendency among some in the public health community to treat U.S. tobacco companies and U.S. tobacco farmers as one and the same. They have often been lumped together as "the tobacco industry" without considering the very real differences in their goals, interests and values. As cigarette prices rise, there has also been the misperception that tobacco farmers are making huge profits. While true for the companies, this is not the case for most American tobacco farmers.

In fact, each year there are fewer tobacco farmers and those who have survived are finding it harder to make ends meet. This is where the second set of misconceptions arises. Many farmers still place full blame for their difficulties on public health "extremists" and overzealous regulators who they believe are trying to tax them out of existence. They believe the public health community is committed to destroying their livelihood and that of their communities. Many have been swayed by the tobacco companies' rhetoric about the "tobacco family" to defend the interests of cigarette manufacturers and fight the public health community at all costs.

But much of the current plight of U.S. tobacco farmers is the direct result of the actions of U.S. tobacco companies. The companies have undermined the growers at every turn: moving their operations overseas where tobacco and labor costs are cheaper; killing legislation that would benefit farmers; and ensuring double digit growth in profits for their executives, while complaining to U.S. farmers that their tobacco is too expensive. As they have done in the health area for more than forty years, the tobacco companies are once again conducting a disinformation campaign – this time aimed at farmers. The companies have cleverly promoted and encouraged the misconceptions surrounding the tobacco debate because it has served their interests to do so. By helping to drive a wedge even further between the farmers and the public health community, they have ensured that the farmers remain dependent upon them for their future, and this, they hope, will ensure their loyalty.

Over the last several years, however, there has been a willingness by tobacco growers and the public health community to talk openly and frankly about the future of tobacco in this country. Many in the health community realize and accept the fact that the tobacco farmers are in many respects caught in a situation that they did not create and that they have little control over. They realize that they must work with those farmers and their communities to help provide options and opportunities that will allow these communities to adjust to a changing environment. These discussions led, in March 1998, to the release of a statement supported by more than 40 agricultural and health organizations, calling for effective tobacco legislation and policies based on a set of "Core Principles"[1] designed to both reduce disease caused by tobacco products and ensure the future prosperity and stability of American tobacco farmers and their communities.

Growers and others working in tobacco producing states need to make their own decisions about where they want their communities to be in the 21st century. Should they rely on the tobacco companies and the tobacco leaf dealers to protect their interests? Or, should they begin a serious dialogue with policymakers about what kind of future they want to see for their families and their children—a future that will give them **options** of choosing to escape the "tobacco trap". Now is the time to ask some difficult questions about short and long-term opportunities to escape this trap. Those questions include:

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[1] The "Core Principles" can be found at the end of the report, along with industry quotes, a complete list of the tobacco companies' overseas subsidiaries and sources for more information..

- Are there alternative uses for tobacco (i.e. medical and biotech) and is there sufficient justification to support increased research and development into these areas?

- Can less hazardous tobaccos and tobacco products be developed for which medical and scientific standards established by the USDA and FDA give tobacco users truthful, accurate and scientifically determined information about the product they may choose to use?

- What kind of investments and incentives will it take to revamp the manner in which we as a society view the tobacco industry and hold it accountable in the future for the products it will produce?

- Are there viable alternative crops that, given sufficient economic, operational and administrative support can help reduce tobacco-growing communities' dependence on tobacco?

These are just some of the questions for which we must now begin to find answers for together. The health of our society, and of tobacco-dependent communities, depends upon it.

- Scott Ballin, National Center for Tobacco Free Kids, (date)

I. INTRODUCTION

Farmers and workers are suffering hard times because tobacco companies are importing more than one-third of the tobacco used in U.S. made cigarettes, producing more cigarettes overseas and automating production to eliminate manufacturing jobs. While encouraging American farmers to fight tobacco taxes, major tobacco companies are teaching growers in other countries how to produce tobacco for the U.S. market.[2]

-- Former President Jimmy Carter

U.S. cigarette companies regularly claim that taxation and increased health measures are forcing them overseas and pushing American tobacco farmers out of business. They have sought to publicly link themselves with tobacco farmers – who in most cases operate on small family farms – as a means of putting a "human face" on the industry. But a closer look at the tobacco industry, through its own words and actions, tells a different story. It shows how, in their quest to maximize profits, U.S. cigarette companies have rarely had the best interests of the American tobacco farmer in mind.

Long before far-reaching tobacco control legislation was even being considered in this country, the companies were moving their operations overseas. In both their overseas plants and their remaining facilities in the United States, the companies are replacing American-grown tobacco with cheaper, foreign-grown leaf. As they tell U.S. tobacco producers they must cut costs in order to stay "competitive," the companies have been spending hundreds of millions of dollars subsidizing the production of foreign tobacco, which they can purchase at about half the price of higher quality U.S. leaf. As a result, there has been a surge in the worldwide production of tobacco, except for in the United States, where less tobacco is being grown. The companies justify their increasing use of foreign leaf as an effort to cut costs in order to survive in a more competitive global market, but in recent years they have been experiencing record profits. Between 1990 and 1997, as Philip Morris saw its international profits triple, the number of U.S. tobacco farms declined by a third.

Not content with double-digit profits, the tobacco companies have begun to undermine the tobacco price support system which since the 1930s has served to stabilize tobacco prices, helping to keep tobacco growing in America largely a family affair. By reducing their purchases of U.S. leaf year after year, the companies appear to be squeezing the farmers in the hope that they will vote to abandon the program and opt for a system of contract farming. The inevitable result of the collapse of the program, all sides agree, would be a dramatic decline in the price of U.S.-grown tobacco and a consolidation of tobacco growing into fewer and fewer hands. This, of course, is not in the interest of today's tobacco farmer, but it would certainly seem to be in the interest of the companies.

As one of the largest financial contributors to members of Congress, the tobacco industry has bought itself enormous influence in Washington. Yet despite their professed concern for American tobacco farmers, they have not used any of that influence to lobby on American tobacco farmers' behalf. When the companies put forward their proposed tobacco settlement with the states' attorneys general in June 1997 for example, there were no provisions to take care of the interests of tobacco growers and their communities. Nor did the companies lift a finger to ensure that there was adequate protection of the growers as part of the McCain tobacco legislation. Instead, they have used veiled threats of reduced tobacco purchases to ensure that the farmers fight tobacco control initiatives, some of which – like the McCain bill – actually contained provisions that would benefit farmers.

This report highlights some of the very real differences between the interests of U.S. tobacco companies and those of American tobacco farmers. It relies primarily on internal company documents, filings with the Securities and Exchange Commission and industry trade publications to illustrate – with the companies' own words, numbers and actions – what is really going on in the U.S. tobacco industry. It shows how, as the companies pretend to champion the cause of American tobacco farmers, they are really selling them down the river. By looking at the facts, rather than the industry's slick public relations initiatives, the report seeks to contribute to the debate around the future of tobacco in this country – a future in which the health of the American people and that of tobacco producing communities need not be in conflict.

II. GOING GLOBAL, LEAVING AMERICAN GROWERS BEHIND

I hate to say it, but the companies' actions indicate that it's in their long-range plans to put us out of business. [3]

-- Jerry Jenkins, Virginia tobacco farmer and Board Member, Virginia Farm Bureau

Over the past ten years, U.S. cigarette companies have been shifting their operations overseas. In their search for cheaper labor and raw materials, they have set up entire processing, manufacturing and leaf development operations in every corner of the globe, from Argentina to Zimbabwe.

Internationally, the U.S. cigarette companies have followed a two-pronged strategy:

- In country after country, they have purchased newly privatized tobacco companies, built manufacturing facilities and established joint ventures to both process tobacco and produce cigarettes locally.

- They have worked with U.S. leaf companies to finance the cultivation of lower-priced tobacco overseas to supply these new factories.

A direct result of the U.S. companies' overseas expansion has been a surge in the worldwide production of tobacco, which increased 37 percent between 1980 and 1995. While U.S. tobacco production fell by 26 percent during this period, countries like Argentina, China and Malawi all registered double-digit growth. [4] With the help of the U.S. cigarette companies, these countries are now supplying more and more tobacco for use in both U.S. and foreign factories, displacing higher-quality, U.S.-grown leaf. By the year 2000, it is estimated that developing countries will account for almost 80 percent of the world's tobacco production, compared to just 50 percent in the 1960s.[5]

≡Box: Foreign Leaf Imports on the Rise

≡Chart: U.S. share of world burley and flue-cured tobacco production 1980 - 1997*

Funding Foreign Tobacco Production

As U.S. cigarette companies locate an increasing proportion of their manufacturing operations abroad, they have worked to ensure that these new facilities have a reliable source of low-cost tobacco. At the same time that U.S. tobacco growers are under increasing pressure to cut costs in order to stay competitive, the cigarette companies and leaf dealers are directly subsidizing tobacco production overseas in the form of training, technology and financial support to farmers producing "American blend" tobaccos.[1] In return, the companies get tobacco which is often half the price of American grown leaf and which is largely exempt from stringent environmental regulations. In 1996, for example, U.S. farmers received $1.84 per pound for flue-cured tobacco, while their counterparts in Zimbabwe and Brazil received $0.77 and $0.93, respectively.[6]

≡Chart: Tobacco Prices in selected countries

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[1] American-blend cigarettes contain approximately 50 percent flue-cured, 35 percent burley and only 15 percent of the darker oriental tobaccos.

In some cases, the cigarette companies directly support farmers overseas while in others they rely on the leaf dealers to do so. Three U.S.-based companies dominate the leaf trade both in the United States and abroad – Universal, Dimon and Standard Commercial. The leaf companies – which select, purchase, process and sell tobacco– work with the cigarette companies to determine where, how much and what kind of tobacco will be produced overseas. As the *Washington Post* reports, in many countries the leaf companies get down payments from American cigarette companies to deliver a set amount of leaf. "They then use that down payment to provide cash advances to growers in countries such as Brazil, helping to finance farmers there without putting their own funds at risk."[7]

Box: Crazy Tobacco

While determining the exact level of support these companies provide to growers in foreign countries is difficult, the following examples give a taste of how far they will go in order to encourage the production of American-blend tobacco overseas:

Examples of direct support for foreign growers by U.S. cigarette companies include:

- In southern Poland, Philip Morris established a growers' fund in 1996 to improve the quality of Polish tobacco. Eighteen-thousand growers benefit from modern leaf-drying facilities, fertilizers and new seed strains, and the company has signed contracts with these farmers to deliver set quantities of light tobaccos for a minimum of three years.[8] Meanwhile, British American Tobacco (BAT), Brown & Williamson's parent company, has launched a project for increasing the production of virginia and burley tobaccos. The company has set aside $3 million for no-interest loans to Polish farmers, and also provides them with technical assistance and farm machinery.[9]

- In 1995, R.J. Reynolds signed a joint venture agreement with the Vietnamese government to export commercial-quality tobacco to countries such as Canada and Germany. The company teaches farmers how to grow and cure tobacco, and gives them technical and financial support, including funding for fertilizers, pesticides and other infrastructure. According to the trade journal *Tobacco Reporter*, the project included 8,000 farmers in 1998, more than double the number in 1997.[10]

- In Russia, Philip Morris and Universal jointly operate one of the country's largest leaf growing operations. Activities include the financing, growing and sale of leaf, as well as the introduction of new plant varieties, including virginia and burley.[11]

- The Hungarian Tobacco Industry Association, which includes Philip Morris and R.J. Reynolds, established a fund in 1996 to support Hungarian tobacco farmers in the hope that the country's tobacco imports can be reduced. The companies initiated the fund with a grant of $1.6 million.[12]

- R.J. Reynolds is "actively involved in tobacco cultivation activities with fully owned agronomy operations in Vietnam and Turkey and a joint venture in China," according to the company's filing with the Securities and Exchange Commission (SEC).[13] In Azerbaijan, it has named Universal "as a strategic partner to develop and boost local leaf production, as well as to investigate the feasibility of growing American leaf varieties."[14]

- In 1995, Philip Morris signed an agreement with the Chinese government designed to increase the production of flue-cured, burley and oriental tobaccos for use in the company's Marlboro cigarettes. Under this long-term agreement, Philip Morris sent 12 American experts to provide guidance to local growers.[15]
-

=Box: No Future in Exports
=Chart: U.S. Exports of tobacco vs. Exports of Cigarettes 1980 – 1997

Examples of direct support for foreign growers by U.S. leaf dealers include:

Dimon Inc. "pre-finances tobacco crops in... countries including Argentina, Brazil, Dominican Republic, Indonesia and Tanzania by making cash advances to farmers prior to and during the growing season," says the company's SEC filing. Dimon also advances "substantial sums or guaranteed local loans or lines of credit in substantial amounts for the purchase of tobacco from growers."[16]

- In Brazil, Dimon spends about $100 million a year financing tobacco growers.[17] The company provides tobacco farmers with fertilizer and other inputs, agrees to purchase their entire crop, and in some cases finances the construction of curing barns. Dimon's agronomists also "maintain frequent contact with farmers prior to and during the growing and curing seasons to provide technical assistance to improve the quality and yield of the crop."[18]

- In Tanzania, Dimon contracts with more than 30,000 Tanzanian growers, providing them with seed, fertilizer and chemicals and has a training program "to teach farmers more efficient ways to grow tobacco," says Dimon's Tanzania representative. Dimon will ultimately invest upwards of $35 million in Tanzania.[19] The company enthusiastically notes that "due to the vast areas of undeveloped land suitable for production, Dimon's growth in Tanzania has unlimited potential."[20]

- In the former Soviet Union, Dimon is concentrating its efforts in those republics which have the capacity to export tobacco. Tobacco farmers in those republics, Dimon CEO Claude Owen, Jr. tells *Tobacco Reporter*, "need inputs, they need cash....That's what we're doing....It sounds simple, but it's a fundamental fact that the farmer has to be paid if he's going to continue to grow tobacco."[21]

=Box: Company Profiles

According to **Universal**'s SEC filings, "In a number of countries, including Argentina, Brazil, Hungary, Italy, Mexico and Tanzania, Universal contracts directly with tobacco farmers or groups of farmers, in some cases before harvest, and thereby takes the risk that the delivered quality and quantity will not meet market requirements." In some countries, the company also provides "agronomy services and crop advances for seed, fertilizer and other supplies...[and has] advanced substantial sums, has guaranteed local loans or has guaranteed lines of credit in substantial amounts for the purchase of tobacco."[22]

- Universal contracts with some 35,000 farmers in Brazil, providing them no-interest loans of seed and fertilizer, offering technical assistance, guaranteeing and paying the interest on their bank loans, and guaranteeing the purchase of their crop.[23] They also provide farmers with up-to-date information on new growing techniques and timber harvesting, as well as weather forecasts. Universal estimates that it spends about $100 million a year financing Brazilian growers. As one Universal agronomist working in Brazil notes, "The industry supplies the material, the farmer does the work."[24]

Standard Commercial provides cash advances or finances the purchase of fertilizer and other supplies for tobacco farmers in countries including Argentina, Brazil, China, Turkey and Thailand. In fiscal year 1998, advances alone cost the company $53.2 million. In a number of countries, Standard Commercial "has advanced funds or guaranteed local loans or lines of credit or the purchase of tobacco from growers, and expects to continue such practices in the future." As CEO Robert Harrison stated in a 1998 letter to shareholders, "The combination of India, Tanzania and China positions us advantageously in some of the largest low-production-cost markets in the world; a position that should become increasingly important as our customers continue to look for ways to reduce their product costs." [25]

- In 1998, Standard Commercial expanded its presence in China and expects to increase tobacco production "through strategic alliances with the Chinese government." The company has provided agronomy services and funded projects in China since 1981.[26]

Back in the United States, many tobacco farmers have had to take out enormous loans, investing large sums of their own money in curing barns, tractors and other equipment. As Kentucky tobacco farmer Emily Mattingly notes, "The thing that aggravates us more than anything is that they go [overseas] and they foot the bills for their barns, they buy their equipment, and they pay for their fertilizer. Well, if they did that for me, I'd sell [my tobacco for less] too."[27] Virginia tobacco farmer Bobby Wilkerson also resents the help that American tobacco companies are giving foreign growers. "Dimon is right here in my front door," he says, "and they've taught the Brazilians to grow tobacco because of the cheaper price. That has bothered me for a long time. They're spending millions of U.S. dollars basically to drive us out of business."[28]

Industry spokesman Scott Williams defends the companies, insisting that they "have been consistent in their support for [domestic] growers….I think to attack the industry as the enemy is misguided." [29] But as Rick Apple, a tobacco farmer and former president of the North Carolina Tobacco Growers' Cooperative sees it, "If the tobacco companies care about American tobacco farmers, why aren't they offering these deals to us?"[30]

=Box: Putting the Squeeze on Foreign Growers

Establishing Export Hubs Abroad

Efforts by U.S. tobacco companies to increase and improve foreign tobacco production have been designed to feed the growing needs of their offshore manufacturing facilities. Over the past ten years, the cigarette companies have been engaged in a massive buying spree overseas, spending billions of dollars building new factories, entering into joint-venture agreements with private and government tobacco companies, and snapping up formerly state-owned factories, usually at fire-sale prices. Today, Philip Morris, R.J. Reynolds and Brown & Williamson's parent company (BAT) each own or lease manufacturing facilities in over 50 countries (for a complete list, see annex 2).[31] Often, the stated intention of these investments is to build regional export hubs in Africa, Asia, Eastern Europe and Latin America. Examples include:

- R.J. Reynolds has built a cigarette factory in China as part of a joint venture with the state-owned China National Tobacco Corporation (CNTC) to produce its Camel and Winston brands.[32] Philip Morris has also signed a number of joint venture agreements with CNTC to grow tobacco for the production of Marlboros for export.[33]

- In 1995, Philip Morris opened a leaf-processing facility in Malaysia to supply its factories in the region. The facility can process almost 400,000 pounds of tobacco a year. According to a story in the trade journal *Tobacco International*, many of the plant's employees have been trained at Philip Morris factories in Australia and the United States.[34]

- On the same day in March 1998, Philip Morris and R.J. Reynolds announced a new round of investments in Russia totaling $420 million to build new plants and rehabilitate old ones.[35] This was in addition to the companies' already sizable investments in the country – since 1992, they had each invested over $400 million in Russia.[36]

- In the last five years, Philip Morris has spent over $150 million upgrading its factory in Switzerland. The plant, which was Philip Morris's first foreign acquisition back in 1963, ships cigarettes to about 60 different countries.[37]

- In 1995, R.J. Reynolds paid $55 million for a controlling interest in the Tanzanian Cigarette Company. The sale was the largest single foreign investment in Tanzania since the country achieved independence in 1961.[38] Reynolds is rehabilitating the company's main cigarette plant to make it one of the biggest in Africa.[39]

Chart: Philip Morris International Sales vs Total U.S. Cigarette Exports, 1992-1997

As U.S. cigarette companies increase their overseas manufacturing capacity, the leaf dealers have followed, setting up leaf procurement and processing facilities near these new factories. Today, they operate in dozens of countries on five different continents (for a complete list, see Annex 2).[40]

- In 1997, Standard Commercial announced a joint venture with the Chinese government to construct a tobacco-processing factory for both the Chinese and export markets. The company will supply the machinery and provide "expertise in the growing, grading and selection of export quality leaf tobacco." The company sees "great potential to increase exports from China," says CEO Robert Harrison.[41] The following year, Standard announced that it would provide processing machinery to a new Chinese factory, enabling it to process over 13 tons of tobacco *per hour*. According to Harrison, this factory increases the company's ability to export from China and be a "major component of the growth platform we are building for long-term shareholder value."[42] Universal, meanwhile, manages a new leaf processing plant in the country under an agreement that requires a minimum of 70 percent of the tobacco to be exported. "I can't tell you how much money has been put into this," says Universal's project manager, "but it is a lot."[43]

- In Vietnam, Dimon is helping the government develop new crop varieties for what it hopes will be a growing export market. "Because of cheap labor, Vietnam can sell the majority of its tobacco for less than [$1.36 per pound]," says Dimon's representative. "When the [U.S.] trade barriers are removed, we will be extremely competitive."[44]

- In Tanzania, rival leaf dealers Standard Commercial and Universal have joined forces to invest in expanding a leaf-processing factory. Their goal is to promote greater leaf exports from Tanzania to "better fulfill the product requirements of their international customers." Standard CEO Robert E. Harrison says that Tanzania "is an important source of filler-style tobacco for many of our customers, particularly those in Europe. We foresee our involvement as contributing to a more stable and reliable source of supply."[45]

- Dimon recently opened its own "state-of-the-art" tobacco processing plant in Tanzania. Dimon Chairman Claude Owen Jr. is quoted in *Tobacco Reporter* as saying that Tanzania "has the cost structure and the economic potential for the long-term to be a very good tobacco producer."[46]

American Blend: American Image, Foreign Leaf

Overseas, U.S. cigarette companies have successfully promoted so-called "American-blend" cigarettes, which are lighter in taste than those traditionally consumed in many markets. Consumption of American-blend cigarettes outside of the United States is now estimated to be growing at over 7 percent annually.[47] By the year 2000, an estimated 56 percent of smokers worldwide will smoke American-blend cigarettes.[48] To meet this increasing demand, U.S. companies have been actively encouraging the production of these tobaccos overseas. Today, more and more of the tobacco in American-blend cigarettes is grown in countries such as China, Mexico and Poland. In China, for example, Standard Commercial agronomists have a number of projects to develop a "Chinese-blend" that has all the components of the American-blend cigarettes.[49] As the *Washington Post* points out, these efforts are "putting pressure on U.S. growers but increasing profitability for processors by lowering the price of tobacco."[50]

Despite the increasing foreign content of these cigarettes, U.S. companies spend millions of dollars advertising these American-blend cigarettes in overseas markets, selling not only the cigarette but the American way of life. In Senegal, for example, Philip Morris advertises its L & M cigarettes as "The *real* American taste!"[51] while in Russia, the slogan "Rendezvous with America" is used to sell American-blend cigarettes such as Marlboros, Camels and Winstons.[52] Yet as American blend cigarettes become more popular globally, their link to America becomes weaker and weaker. Perhaps not quite understanding the irony of producing American-blend tobacco in such far-flung countries as Malawi or Sri Lanka, the leaf companies are quite straightforward about their global plans to increase overseas production of the flue-cured and burley tobaccos which make up the majority if the American-blends cigarette. Dimon's "primary business objective," for example, "is to capitalize on the growth in worldwide consumption of American blend cigarettes by becoming the preferred low-cost supplier of leaf tobacco to the large multinational manufacturers of American blend cigarettes." To achieve this objective, Dimon will "increase the Company's operations in low-cost tobacco growing regions."[53]

While the U.S. farmer still has the advantage in terms of crop quality, that advantage is diminishing. With the assistance of U.S. companies, the quality of foreign-grown tobacco is

beginning to rival U.S. tobacco – at a fraction of the price. As one North Carolina tobacco farmer puts it, the companies "are going for the cheaper tobacco, which is almost as good as ours. [American] growers have been led to believe that we still have superior quality... [but] their quality is so close to ours now that the companies are able to interchange our tobacco with theirs in cigarettes and it goes unnoticed."[54] James Starkey, Universal's Vice President, agrees that U.S. tobacco is becoming "substitutable" by foreign leaf. "The more important the price of the final product," Starkey tells *Tobacco International*, "the more a customer will substitute its U.S. leaf purchases....Price continues to be a major issue, or the major issue."[55]
=Chart: Tobacco Exports, Selected Countries, 1980-1997

Opening the Door to Foreign Imports

The benefits of rising international trade and the coming into force of global and regional trade agreements have to a large extent bypassed the American tobacco farmer. For the tobacco companies however, it has been a different story. In a drive to boost profit margins, the tobacco companies have been importing more and more foreign leaf for their U.S. manufacturing plants. In 1993, when these imports constituted over 40 percent of the leaf used in U.S.-made cigarettes, Congress enacted the Domestic Marketing Assessment which limited the foreign leaf content of U.S. cigarettes to 25 percent. Even the industry admits that the so-called "75/25" rule succeeded in bringing imports down. According to Standard Commercial, the rule "had the effect...of drastically decreasing demand for imports of foreign tobacco for use in the domestic production of cigarettes."[56]

Unfortunately for U.S. growers, the measure was considered a violation of the rules of the General Agreement on Tariffs and Trade (GATT), the international trade agreement. In 1995, the "75/25" rule was replaced by the tariff-rate quota (TRQ). Under the TRQ, traditional suppliers of tobacco to the United States, such as Brazil and Malawi, are given a quota for tobacco exports to the United States which are assessed at the basic tariff rate. If they exceed their quota, they are assessed a 350 percent tariff. In practical terms however, the TRQ has done little to control imports, since most countries do not even come close to fulfilling their annual quota. In addition, a so-called "duty draw-back" provision in the law allows a refund of up to 99 percent of the tariff if the imported leaf is re-exported in the form of cigarettes or other tobacco products. This means that U.S. manufacturers can, in fact, continue to import all the foreign leaf they want as long as it is used to make cigarettes for export. In the year following the replacement of the "75/25" rule with the TRQ, imports rose 21 percent.[57] By 1998, leaf imports once again accounted for over 40 percent of domestic cigarette content.[58]
=Chart: Estimated percentage of leaf used for U.S. cigarettes (Domestic types vs. imported) 1980 – 1997

"I think what the Tariff Rate Quota does is put a downward pressure on domestic prices and domestic production quotas," says N.C. State University economist Blake Brown. "To remain competitive with less expensive tobacco grown in Brazil and Zimbabwe, growers...will have to come up with ways of reducing costs while continuing to produce the world's highest quality tobacco." Of course, the tobacco companies would prefer that there be no protections for U.S. producers, since these measures inevitably cut into company profits. A cigarette company executive speaking to *Tobacco International* on the condition of anonymity, said that the quota system was "better than the Domestic Content Law, but still a trade barrier." Commenting on the TRQ, the magazine seemed to sum up the industry view when it wondered "why there is no mechanism for a world body to say simply, 'This whole concept is protectionist and violates the principles of free trade and therefore must be terminated.' Until such a day arrives," the article concluded, "it seems we shall have to content ourselves with fabrications such as the Tariff Rate Quota."[59]

The Promise Of NAFTA

In case there were any American tobacco farmers who believed that global trade agreements didn't concern them, the 1994 decision that the Domestic Marketing Assessment violated GATT trade rules served as a wake-up call. That same year, the U.S. Congress passed the North American Free Trade Agreement (NAFTA), a trade and investment treaty linking Canada, Mexico and the United States. That decision laid the groundwork for a massive expansion of U.S. tobacco company activity in Mexico, which continues to this day.

During the early 1990s, U.S. tobacco companies lobbied hard for Congressional passage of NAFTA. In Mexico, they saw a country with great potential as a production platform from which to export both cigarettes and raw tobacco to the United States. Its proximity to the U.S. market, cheap labor force and abundant land for growing tobacco all combine to make Mexico an attractive target for the companies. But the main reason for their desire to see NAFTA passed was the special trade privileges it would grant Mexico. With the passage of NAFTA, says *Tobacco Reporter*, "the duty rate on Mexican leaf entering the U.S. will be totally eliminated" by the year 2003. "And, because of NAFTA, Mexico is not subject to the U.S. quota requirement."[60]

In anticipation of NAFTA, U.S. cigarette companies were already making plans to enter Mexico. Brown & Williamson had "developed a business plan to enter the Mexican market as soon as Congress passes NAFTA," according to a recently disclosed 1993 company document.[61] In August of 1997, that plan was put into place. That month, Brown & Williamson's parent company announced that it was purchasing Mexico's largest cigarette company for $1.7 billion. This was the company's biggest purchase ever,[62] and one of the largest foreign investments ever made in Mexico.[63] According to a Reuters report at the time, the company saw "considerable opportunities" to export tobacco leaf from Mexico to the United States "particularly because the country is outside the U.S. import quota."[64] The Brown & Williamson purchase came only two weeks after Philip Morris had announced that it would pay $400 million for a controlling interest in Mexico's second largest cigarette company. In addition, to increased leaf exports, the two companies plan to boost cigarette exports from their Mexican plants to the United States, Latin America and Asia.[65] In addition, former U.S. Surgeon General C. Everett Koop also believes that the purchases may be part of company preparations to flood the U.S. with black market cigarettes should cigarette taxes rise dramatically.[66]

As U.S. tobacco companies have built up their operations in Mexico, they have sought to boost Mexican tobacco production as well. These companies provide up-front financing for Mexican farmers. According to *Tobacco Reporter*, "In a sense, Mexican tobacco farmers have it made. International leaf dealers working in the country...finance the growers 100 percent....Leaf companies pay for seeds, transplants, chemicals, fertilizers and irrigation pumps....The farmers, in return, pay the leaf companies in the form of tobacco. And the dealers must take all the tobacco the farmer grows, good or bad."[67] Of course, since Mexican tobacco farmers received an average of only $0.63 per pound for their tobacco in 1997,[68] it's questionable whether they really "have it made".

Dimon is one of the U.S. companies that provides such financing for Mexican growers. According to the company's general manager, "Thirty years ago, farmers used to pray that leaf companies would ask them to produce tobacco. Now the companies pray that farmers will produce tobacco." [69] Dimon and other companies have been encouraging a consolidation in the number of tobacco farms to allow for the introduction of mechanized methods for planting and harvesting. Says the Dimon representative, "We're trying to get them to increase their farm size."[70]

As U.S. tariffs on Mexican tobacco decrease over the next few years, imports into the United States are set to rise. "NAFTA is very important," explains Hector Garcia, manager of tobacco processing and exports for Brown & Williamson's Mexican subsidiary. "Two crops ago, no American cigarette companies came here. Last year [1996] they all came."[71] As Mexican tobacco gains increased access to the U.S. market, more and more land is being devoted to its cultivation. In 1997, 61,530 acres of tobacco were planted, a 20 percent increase over 1995.[72] Mexican burley production increased from 41.8 million pounds in 1997 to 70.4 million pounds in 1998, while flue-cured production went from 16.6 million pounds in 1997 to 22.5 million pounds in 1998.[73] The increase in production, explains *Tobacco International*, "is due to increased financing provided by foreign buyers to produce burley for export."[74] More and more of these exports are headed for the United States. In 1996, Mexico exported $23.9 million worth of tobacco to the United States, up from $3.5 million in 1995.[75]

Since NAFTA came into effect, the Mexican peso has been devalued by over 200 percent, making the country's tobacco exports even more competitive. As *Tobacco International* observes, "The devaluation of the Mexican peso helped improve the demand for Mexico's burley in international markets." [76] Says a U.S. leaf dealer based in Mexico, "The problem is we can't get enough tobacco to satisfy existing customers." "Essentially we're selling the promise of Mexico," he says, "and since production is in the commercial companies' hands, it has promise."[77]

Box: China: The Limits of Space

III: COMPANY FORTUNES VS. GROWERS' LOSSES

When we float $5 billion and [the farmers] come back and say they want $12 billion, it makes me wonder if we should offer anything at all....The companies are under no legal obligation to do anything for the growers and allotment holders.[78]

-- Tobacco Industry Negotiator Phil Carlton

The Bottom Line: Who Really Profits?

The global expansion of the tobacco companies has meant rising profits for shareholders but increasing economic hardship for American tobacco farmers. Although U.S. tobacco companies explain their increasing use of foreign leaf as an effort to cut costs in order to survive in a more competitive global market, these companies have been experiencing record profits.[79] Between 1990 and 1997, for example, Philip Morris's international tobacco profits more than tripled, from $1.3 billion to $4.6 billion.[80] The leaf dealers have also been prospering. Universal, for example, saw its profits jump 23 percent in 1998, to $258 million.[81] As they publicly talk of the need to cut costs, they are careful not to trumpet these figures in Washington. Explains one industry analyst, "They definitely don't want to let on that things are going well. If they do, most likely they'll be slapped with a tougher settlement."[82] As the management and boards of these companies become dominated by Wall Street financial types, concern for stock prices has displaced concern for tobacco farmers' well being. As Universal's Brazil representative puts it, "Ten to 20 years ago, the business was built much more on personal relationships." Today, he says, there's a "pure business view of it which looks at the bottom line."[83]

In a poll conducted by the *Washington Post*, at least 70 percent of Americans said they mistrust the cigarette companies, "viewing them as greedy executives profiting from kids."[84] The salaries of their top executives certainly help foster this image. In 1998, Philip Morris CEO Geoffrey Bible made $24 million in salary, bonuses and stock options.[85] Bible owns some 3.9 million shares of Philip Morris stock, which in early March 1999 was worth about $156 million. "Next to my wife and family," says Bible of the stock's performance, "it is the most important thing in my life."[86] Compared to Bible, R.J. Reynold's Steven Goldstone seems somewhat underpaid. Excluding stock options, Goldstone earned some $12 million in salary, bonuses and other compensation in 1998.[87]

Meanwhile, U.S. tobacco companies pay farmers less per pound for their tobacco than they paid them ten years ago.[88] In Kentucky, tobacco farmers earn an average of just $12,000 per year from their tobacco crop,[89] while nationally, an estimated 71 percent of all tobacco farmers have gross sales of less than $20,000 per year from tobacco and most must work at jobs off the farm to supplement their income.[90] Over the past 20 years, the inflation-adjusted cost of producing tobacco has increased nearly 200 percent, at the same time that the farmers' share of each dollar spent on tobacco products has fallen from 7 percent to only 3 percent.[91]

=CHART/Picture: "Where the Tobacco Dollar Goes"

Share of the Tobacco Dollar[92]

	1980	1991
Manufacturers	37%	50%

Excise Taxes	34%	25%
Wholesalers & Retailers	23%	23%
Tobacco Farmers	7%	3%

Although the companies encourage farmers to fight any tax increase tooth and nail because they say it will reduce demand for their tobacco, they seem to have no problem increasing the price of cigarettes if it will boost company profits. During the debate on the McCain bill, Geoffrey Bible said that the proposed price increase of $1.10 per pack would have a "draconian impact on the [U.S.] market," and estimated that cigarette sales would drop 40 percent.[93] Yet over the past 16 months, the companies have raised cigarette prices by $0.71 a pack, [94] with little effect on U.S. cigarette consumption. A comparison of the price of domestic tobacco and the wholesale price of cigarettes shows how the companies are profiting by keeping down U.S. leaf prices while increasing cigarette prices. The average price per pound for flue-cured tobacco leaf rose just 19 percent between 1980 and 1998, while burley rose 14 percent. Meanwhile, the wholesale price of cigarettes, excluding federal excise taxes, increased 269 percent.[95] Asks U.S. Representative Charlie Rose, "Through wholesale price hikes, manufacturers have reaped an additional $69 billion in profit, while farmers have suffered an accumulated loss of about $500 million and have seen steady declines in their quota....A fair question is, who has reaped the profits?"[96] According to Jay Nelson, a tobacco analyst at Brown Brothers Harriman & Co, "Tobacco companies have an enviable weapon at their disposal if future legislation or negative public sentiment decreases consumption....they can always generate cash quickly by raising prices....With 24 billion packs sold annually, a 5 cent increase is a tidy $1.2 billion."[97]
Chart: U.S. tobacco price increases vs. wholesale (pre-tax) cigarette price increases 1980 – 1997
Chart: Declining U.S. manufacturer purchases vs. increased cigarette production 1986 – 1997

Disappearance of the Family Farm

As the tobacco companies' reap record profits, small family tobacco farms are just struggling to stay afloat. According to the 1997 U.S. Census of Agriculture, the number of tobacco farmers in the United States is dropping dramatically. Between 1992 and 1997, the number of tobacco farms dropped 32 percent, even as production levels stayed the same. As small tobacco farms go out of business, they are being replaced by larger, more mechanized farms. Between 1992 and 1997, the number of farms under five acres fell 34 percent, to only 56,285. At the other end of the spectrum, the number of tobacco farms of 50 acres or more grew by 45 percent, to 3,769.[98]
Chart: Declining Number of Tobacco Farms 1992 – 1997

Change in Number of Tobacco Farms by State, 1992-1997

# Farms	1992	1997	% Change
Kentucky	59,373	44,967	- 24%
Tennessee	22,953	14,995	- 35%
North Carolina	17,625	12,095	- 31%
Virginia	8,444	5,870	- 30%
South Carolina	1,965	1,275	- 35%
Georgia	1,658	1,180	- 29%

Source: *U.S. Department of Agriculture, 1997 Census of Agriculture.*

≡Box: Manufacturing Jobs On the Wane

IV: BUYING INFLUENCE, SELLING OUT FARMERS

The tobacco companies are for themselves. They don't look out for the growers. We're nothing but peons.[99]

-- Frank Dial, North Carolina tobacco farmer

The tobacco industry is one of the largest financial contributors to members of Congress which gives them enormous influence on the legislative process. Yet despite the companies' professed concern for American tobacco farmers, they have not used any of that influence to lobby on the farmers' behalf. On the contrary, they have used their political muscle to make it harder for American growers to compete with cheap imports and have shut them out of key negotiations over the future of tobacco in America. To add insult to injury, they have tried to use farmers as a shield to avoid government regulation.

The Money Trail

≡CHART: Tobacco Industry Political Donations, 1987-1997

Through political action committees (PACs), the tobacco industry has funneled millions of dollars to members of Congress. Between January 1987 and March 1998, for example, the tobacco industry gave $11.9 million in PAC contributions to Congressional candidates,[100] with two-thirds of those contributions going to races in non-tobacco growing states.[101] By contrast, organizations representing tobacco farmers contribute little to members of Congress. The Federal Elections Commission's database shows only one growers' PAC listed for 1998, with total contributions of $3,000.[102]

U.S. tobacco companies have also taken advantage of campaign finance rules to become among the biggest contributors of so-called "soft-money" to the Democratic and Republican parties. Tobacco industry contributions to the two parties more than tripled between the 1993-94 and 1997-98 election periods, from $1.1 million to almost $4 million.[103] Philip Morris was the number one contributor of soft money in 1997-98, doling out $2.4 million to the two major political parties.[104]

In addition to direct political contributions, the companies also spend millions of dollars a year on lobbying efforts. As the debate around the proposed June 20th settlement agreement heated up in the first half of 1998, the U.S. tobacco companies broke all previous industry spending records to lobby Congress – first in favor of the settlement and then against the McCain bill. Between January and June of 1998, the tobacco companies spent a whopping $43.3 million on lobbying, or about $81,000 for each member of Congress.[105]

These huge expenditures on funding political parties, candidates and lobbying campaigns have bought the companies influence on Capitol Hill, which they have used to impact – and sometimes even write – legislation affecting them. In 1997, for example, the industry managed to slip a provision into a cigarette tax bill which would have reduced their payments under proposed national legislation by some $50 billion over 25 years. Referring to the loophole, the staff director of the Congressional Joint Committee on Taxation said: "The industry wrote it and submitted it, and we just used their language."[106] Although the measure was later rescinded after a public outcry, the incident served to illustrate just how far the industry's influence can go when they want something.

Farmers & Manufacturers: The Growing Divide

U.S. tobacco companies have historically invoked the plight of the American tobacco farmer in their lobbying efforts in Washington and have actively courted the support of growers' organizations during key legislative battles. But as the companies' overseas operations increase in importance and their reliance on U.S.-grown tobacco diminishes, they are realizing that perhaps they can get along without the farmers' political support. This became apparent during the fight over national tobacco legislation in 1997-98, when the companies froze the farmers out of the negotiations over the June 20th settlement and then worked to defeat the McCain bill. As a legislative aide, who asked not to be identified, put it, "The companies decided it was easier to spend $40 million on ads than to rally farmer support to defeat the McCain bill."[107]

This exclusion of farmers from the June 20th settlement talks severely damaged the already strained relationship between tobacco farmers and the industry. "There has been a change in attitude, that we're going to have to look out for our own interests," says J.T. Davis, secretary of Concerned Friends for Tobacco, a political action committee representing Virginia tobacco growers. In response to farmer complaints about being excluded from the settlement talks, tobacco industry negotiator Phil Carlton said that growers were not included because they were not being sued for health-related costs. He asserted, however, that "the growers were discussed frequently."[108] At the height of the congressional debate around the McCain bill, Carlton said that "for the first time" he was "genuinely worried about growers.... I am now worried that the growers are not going to have a market for their products." To which Arnold Hamm, from the North Carolina Flue Cured Tobacco Cooperative Stabilization Corporation replied, "Where was your concern for tobacco farmers on June 20?.... For crying out loud, don't use us."[109]

The industry showed how little it cared about tobacco growers when it went all out to defeat the McCain bill, which included a proposal by Kentucky Senator Wendell Ford to provide some $28.5 billion in assistance to tobacco farmers. Ford's plan would have continued the tobacco price support program with funding from a settlement Trust Fund. Farmers who wanted to get out of the business would have been offered an $8 per pound "buyout" of their quota, while those who wanted to continue growing the crop would have received compensation for reduced quota if demand dropped. The plan also included college tuition assistance for growers and their children.

Box: The Lugar Bill

Instead of using their significant political muscle to lobby for the Ford provision, the tobacco companies instead used the debate to further browbeat U.S. tobacco farmers. In an open letter to growers in May 1998, R.J. Reynolds executive Andrew J. Schindler threatened that if the McCain bill passed, it would cause the company "to move all international production offshore (we will not produce export product in the U.S.)." He also warned that the McCain bill would cause both domestic and foreign demand for U.S.-grown tobacco to decline. "If any of us in the industry are put out of business or severely crippled by the McCain bill," he wrote, "we won't be around to make the payments for quota buyouts, transition payments or any other economic help for farmers. We also won't be a very viable or reliable market for domestic leaf if we're bankrupt or operating offshore." Schindler warned farmers that Lugar and others would oppose Senator

Ford's plan and that there might be "attempts to eliminate the tobacco program entirely, perhaps with no compensation to growers at all. There is no guarantee," he continued, "that growers will receive a dime from any of these provisions."[110]

Despite the plea for support, tobacco growers' groups were understandably reticent to join the tobacco industry's all-out assault against the McCain bill. As Andrew Shepherd, a Virginia tobacco farmer and vice-president of Flue-Cured Tobacco Cooperative Stabilization Corporation said at the time, "They're trying to use us as human shields, while trying to manipulate us...I don't buy it."[111] "Without an [industry] offer on the table," Shepherd said, "we would just be foolish as growers to blow up the only lifeboat we've got."[112]

By ultimately killing the McCain bill of course, the industry guaranteed that tobacco farmers wouldn't receive any money from national legislation, once again reinforcing their dependence on the companies. In January 1999, the tobacco companies entered into an agreement with elected officials from tobacco states to pay approximately $5.1 billion to assist growers over a twelve-year period, falling far short of the money that growers could have been entitled to under the McCain bill. And, written in to the agreement is a clause stating that any increase in the federal excise tax on cigarettes will be directly offset by a reduction in the amount that growers receive. By inserting this clause, the companies are seeking to ensure that tobacco farmers oppose any federal cigarette tax increase, even if some of the revenues are used to support tobacco farmers.

In addition, the money from the companies will only be available to compensate growers for lost quota. None of the money in this agreement could be used for the purposes of a "buy out" or for economic development. As the *Lexington Herald Leader* said in a January 1999 editorial, "it's sadly evident that farmers lost big last June when the tobacco bill died in the Senate....farmers, once in line for up to $28.5 billion in transition aid, now find themselves begging the cigarette companies for scraps."[113]

Manipulating Growers: "Grassroots" Campaigns and the FDA Issue

Since the 1960s, U.S. cigarette companies have understood the importance of getting tobacco growers to publicly stand up for the industry. In 1967, Earle Clements, president of the Tobacco Institute, noted that "Leaders in the grower segment have spoken out....This has been the result of a deliberate effort to place the grower leadership on the record, as partners with the manufacturers, to make it more difficult for critics to level their blasts at the manufacturers alone.... The leaders of the tobacco farm community – where many votes lie – have enlisted in our struggle. They have joined hands with the manufacturers. The importance of unity within <u>all</u> segments of the industry cannot be overemphasized. It is the key to survival."[114]

A recent example of the industry's use of tobacco growers for their own political ends was their attempt to organize and encourage tobacco farmers to oppose the Food & Drug Administration's (FDA) proposal to regulate manufactured tobacco products. Since the early 1990s, the tobacco companies have actively worked to convince the tobacco farmer and tobacco producing communities that FDA authority over tobacco products means FDA controls over tobacco farming. In 1996, the cigarette companies launched a slick, well-financed campaign to "get the FDA off the farm." Of course what the companies failed to mention was that the proposed FDA regulations concerned *manufactured* tobacco products only, and would not extend regulatory authority over the tobacco crop.

Lengthy internal documents outlining Philip Morris's campaign strategy around the FDA issue in key tobacco-growing states illustrate the carefully planned nature of the campaign and the company's recognition of the importance of using farmers as spokespeople. A 1996 strategy document, for example, outlines an ambitious effort to seek "more favorable coverage" from the North and South Carolina media on opposition to the FDA. The company planned to "supply and seek placement of editorials and op-eds" supposedly written by leading tobacco farmers, and provide media training to "selected grower spokespersons."[115] In Georgia, a consulting firm hired by Philip Morris suggested organizing meetings with editorial boards "over lunch at growers' homes" and organizing media tours of tobacco farms.[116]

"Action-plans" developed for Philip Morris by various consulting firms also identified key rural festivals at which the company could spread its anti-FDA propaganda. For example, a memo outlining the company's strategy in the Carolinas notes that "the Tobacco Festival and the Golden Leaf Festival each attract around 30,000 and feature a tobacco tying contest. This contest could be the basis for a major feature story through which we can weave key statements about FDA regulation."[117] Philip Morris and other U.S. tobacco companies also delivered truckloads full of free baseball caps and t-shirts saying "Keep the FDA Off the Farm" to various tobacco leaders, many of whom distributed them to thousands of farmers throughout the Southeast.[118]

By 1998, however, public health groups and many tobacco growers' associations had found common ground on the issue FDA authority. In their release of the "Core Principles" these groups asserted that the "FDA should have authority to establish fair and equitable regulatory controls over the manufacture, sale, distribution, labeling (including country of origin) and marketing of tobacco products, both domestic and imported, comparable to regulations established for other products regulated by the FDA" (see Annex I). Such regulation would ensure that tobacco users are provided with full and complete information about the products they are using, which farmers believe is also in their best interest, given the nature of global tobacco production.

V: FORSAKING FARMERS

Undermining the Price Support System

The cigarette companies have made it clear that they don't care that much about the program, other than they don't like it much. [119]

-- Michael Walden, Professor of Economics, North Carolina State University

Box: The United States Tobacco Price Support Program

By keeping U.S. tobacco prices from falling to third world levels, the U.S. tobacco price support system has frustrated attempts by the tobacco companies to further increase their profit margins. Although they publicly voice support for the program, the companies have worked for years to undermine it. As one farmer notes, "it's a strategic move not to have their fingerprints on dismantling the program."[120] Recently, however, the companies have begun to more openly question the viability of the program. In a January 1999 letter to tobacco company negotiator Phil Carlton, Philip Morris Executive Steven Parrish stressed that it was "imperative that we be honest and realistic about the situation....The fact is, as a result of the recent settlement, there will be a significant reduction in the demand for tobacco in this country. Whatever is done to address the financial problem of growers and quota holders must take this into account. It is in no one's best long term interest to devise a system which merely makes a bad situation worse by encouraging growers to produce tobacco for which there is no demand."[121]

The leaf dealers have been even more open about their desire to see the tobacco program scrapped in favor of a free market system. In filings with the SEC, both Universal and Standard Commercial refer to the U.S. price support system as "an industry-funded" program, ignoring the fact that farmers usually fund half of it.[122] Universal asserts that:

> *The price support system has caused U.S. grown tobacco to be more expensive than most non-U.S. tobacco, resulting in a declining trend in exports. Industry leaders continue to explore options including program changes to improve the competitive position of U.S. tobacco.... If not corrected through federal government program reforms and reduced support prices, U.S. pricing could result in a decline in domestic production and marketings in the future. Management believes that the risk of a significant decline in the total U.S. crop in fiscal year 1999 is small, but notes that the Company is well positioned to acquire leaf tobacco from many sources in world markets.*[123]

Perhaps the clearest evidence that U.S. tobacco companies would like to dismantle the tobacco price support program is their declining purchase intentions, which have led to plummeting quotas for both flue-cured and burley growers. Flue-cured farmers now face the smallest quota in the history of the program, down 17.5 percent from 1998 levels, to 666.2 million pounds.[124] Burley growers meanwhile were hit by the biggest quota cut in the program's history, down 29 percent from 1998 levels.[125] Reacting to the companies' reduced purchase intentions, North Carolina Congressman Bob Etheridge said, "Tobacco farmers and their families have stood by the manufacturers in every major battle on Capitol Hill. The manufacturers have provided for their own stability through a national legal settlement, yet they have only increased the risk to the tobacco farmers who have supported them."[126]

Still reeling from the companies' announced cuts, burley producers were called on by Brown & Williamson's Larry Forgy in February 1999 to join forces with the industry to defeat President Clinton's proposed 55 cents-a-pack tax increase on cigarettes. In a thinly veiled threat to further cut purchase intentions if the tax was not defeated, Forgy noted that "If we defeat the new taxes, Brown & Williamson believes quota reductions have about reached bottom and may, over time, go up.....We need your help again to defeat this new tax... It is in our interest; yes indeed, but it is also in the farmers' interest, Kentucky's interest, and the entire tobacco family's interest." Danny McKinney, CEO of the Burley Co-op in Kentucky, said that farmers would likely fight the tax, but he questioned Forgy's definition of family. "If we're a family, most families get together and talk about everything that concerns the family. We have concerns about imports."[127]

It is clear that the price support program is not in the economic interest of the tobacco companies, since it prevents the U.S. price of tobacco from falling to levels comparable to those in low-cost production areas of the world. Some observers believe that the companies have continued to reduce their purchase intentions in the hope that tobacco farmers will eventually vote to discontinue the program. To date, the farmers have consistently voted to maintain the program, but as their quotas fall, many – especially flue cured producers who have high capital costs to cover – are questioning how much less tobacco they can produce and still break even.
Box: Philip Morris Agricultural Leadership Development Program

Tobacco farmers are concerned that the elimination of the system will lead to a precipitous drop in price, forcing them to produce more and more tobacco in order to stay in business. This, in turn, will threaten the viability of their small family tobacco farms. According to the U.S. Department of Agriculture, elimination of the program "would likely cause consolidation into fewer but larger, more mechanized tobacco farms, with reduced costs of production."[128] Bruce Flye, president of the Flue-Cured Tobacco Stabilization Corporation, told Congress in 1998 that if the tobacco program collapses "we have been told by executives of a major cigarette manufacturer that we could expect prices to drop from an average of $1.70 per pound to as low as 70 cents or 80 cents a pound." This would create a "huge windfall" for the companies, says Flye, of around $2 billion per year.[129] It would also affect global tobacco prices, which are informally pegged to the U.S. price. The result would be an even greater supply of cheap tobacco and a consequent increase in the profits – and power – of the manufacturers. As Howard Montague, a tobacco farmer in Kentucky, says "If they destroy the program, we'll be at the mercy of the tobacco companies."[130] The companies would likely begin to contract directly with large-scale growers at reduced prices, making it increasingly difficult for small-scale producers to compete.

Such a scenario has led many public health groups to oppose the elimination of the price support system. The fall in the U.S. price of tobacco would likely cause a boom in tobacco production in this country and abroad. Without current controls on who can grow tobacco commercially, large agribusiness conglomerates could begin to buy up tobacco lands and open new land for cultivation. Their ability to sell tobacco at a lower price would not only increase profits for the companies, but would also likely result in reduced cigarette prices worldwide, stimulating demand.

What's There to Hide? Product Labeling Issues

U.S. tobacco companies have always strenuously resisted efforts to regulate the manufacture of tobacco products, often arguing that such measures would put American tobacco farmers out of business. Yet in many cases, such restrictions could help American growers by putting foreign leaf under the same microscope that American tobacco is now under. The following three examples serve to illustrate this:

Pesticides

U.S. tobacco company resistance to government efforts to limit pesticide residues in imported leaf has put U.S. tobacco producers, who are more restricted in what pesticides they can use, at a competitive disadvantage. In the words of the Pesticide Action Network, a public policy group that works on foreign pesticide issues, "To ensure an endless supply of inexpensive cigarettes and cigars and high profits for tobacco companies, millions of pounds of toxic chemicals are being used on millions of acres of land around the world....A general lack of environmental, pesticide and labor regulations make developing countries fertile ground for expansion of the tobacco industry."[131] A 1984 tobacco industry memo regarding a Congressional bill to regulate the content of imported tobacco noted that "fortunately the language concerning pesticides was removed."[132] Although an amendment to the Food Security Act of 1985 required that imported tobacco undergo testing for pesticide residues similar to the tests required for domestically grown leaf, farmers point out that imported tobacco leaf is still only tested for around 20 chemicals, out of the hundreds that are used abroad.[133] According to some tobacco farmers, for every 100,000 lbs. of tobacco imported into the United States, customs only checks one bale for illegal pesticides.[134]

Ingredient Labeling

The tobacco companies have also fiercely resisted numerous Congressional attempts to require them to list the ingredients in their cigarettes. In addition to providing consumers with important information, such a requirement would tend to benefit U.S. tobacco farmers, since the companies reportedly use flavorings to "disguise the shortcomings of less than premium tobacco leaf."[135] Consumer demand for cigarettes with fewer additives would likely force the companies to use more premium U.S. leaf. According to *Tobacco Reporter*, U.S. companies are also using increasing amounts of reconstituted tobacco -- which is made from ground up stems, stalks, tobacco dust, additives, glues, fungicides and other materials -- in order to cut costs.[136] Currently, they are not obligated to disclose how much reconstituted tobacco they use.

In testimony before the U.S. Congress in 1982, R.J. Reynolds CEO Edward Horrigan argued against requiring the companies to list the ingredients in cigarettes saying that it was "unnecessary for the protection of consumers..... The identity of additives used by each manufacturer is among the most closely guarded of their trade secrets," he explained, "for such ingredients play a substantial role in differentiating each manufacturer's brands from other brands and in maintaining consumer acceptance." Calling such requirements "unworkable," Horrigan stated that cigarette tobacco and paper had "literally hundreds of 'chemical substances'....[and that] to list all such substances would take not only an entire cigarette package, but a carton-size label in fine print....the end effect...would be to turn cigarette packages into little textbooks."[137]

Made in the USA?

U.S. cigarette companies are quick to use American images and claims of American origin to sell their products, but they are unwilling to disclose the percentage of domestic tobacco in their U.S.-manufactured cigarettes, meaning that neither the government or consumers can determine how much of their cigarettes are actually "Made in the U.S.A." Their refusal raises the question of whether they are violating the Federal Trade Commission's (FTC) December 1998 guidelines for businesses using the "Made in the USA" label. There at least two possible cigarette company violations of the FTC guidelines:

1. Marlboro and other cigarette brands carry the claim "Made in the USA" on their labels. According to FTC guidelines, "standard, voluntary, unqualified U.S. origin claims must be substantiated by evidence that a product is 'all or virtually all' made in the United States....'All or virtually all' means that all significant parts and processing that go into the product must be of U.S. origin. That is, the product should contain no – or negligible – foreign content." Cigarette manufacturers refuse to disclose the precise percentage of domestic tobacco used in their U.S.-manufactured cigarettes. However, since the USDA estimates that domestically produced cigarettes are made up of about 40 percent foreign tobacco, it is unlikely that most cigarette brands would comply with the "all or virtually all" guidelines.

2. Companies do not have to expressly state that the product is made in the USA to be in violation of the FTC guidelines. "In identifying implied claims," the FTC explains, "the Commission focuses on the overall impression of the advertising, label, or promotional material. Depending on the context, U.S. symbols or geographic references (for example U.S. flags, outlines of maps, or references to U.S. locations of headquarters or factories) may convey a claim of U.S. origin either by themselves or in conjunction with other phrases or images."[138] U.S. cigarette manufacturers regularly refer to their "American blend" cigarettes, in spite of the fact that they contain a large percentage of foreign tobacco. Indeed, the companies have made American blend something of a generic term for the blend of flue-cured, burley, and oriental tobaccos used in their cigarettes – to the point that it is even used to described cigarettes made overseas with 100 percent foreign tobacco.

Since tobacco farmers and many consumers of tobacco believe that US tobacco is of a higher grade and quality than foreign leaf and is generally produced with greater health and safety controls (including stronger restrictions on pesticides), it is in the best interest of both U.S. tobacco growers – as well as smokers – to require cigarette companies to appropriately label their products with regard to country of origin.

VI. Building Bridges: Challenges & Opportunities

The interests and future of tobacco farmers and public health officials are inescapably intertwined in tobacco-producing states, and these two parties must continue talking to find mutually acceptable solutions. [139]

-- Former President Jimmy Carter
November 1998

The political, agricultural, social and health effects of tobacco have been intricately intertwined for decades. Had steps been taken in 1964 when the first Surgeon General's Report on tobacco and health was released, short and long-term solutions could have been developed that would have prevented the dilemma now facing many tobacco farmers. Yet for all those years, tobacco producers and health groups rarely if ever talked. Health groups perceived the farmer as an integral part of the tobacco companies, insensitive to the health of the American people, in particular children and adolescents. Tobacco producers, meanwhile, were convinced that the health community wanted to ban all tobacco products, put tobacco producers out of business and disrupt the economic livelihood of their communities. Recently, both have learned that their goals, objectives, challenges and opportunities are in fact more intricately intertwined than anyone could have imagined.

There can be no question that the future economic viability of tobacco growers is dependent not only on whether tobacco consumption declines in this country but also on what occurs in the production, manufacture, and sale of tobacco and tobacco products globally.

It is probably accurate to say that tobacco will always be produced in the United States. But as this report indicates, tobacco companies and leaf dealers, seeking to maximize profits, are and will continue to shift their operations overseas. The findings of this report would clearly indicate that the American tobacco grower, tobacco worker, and related industries in tobacco producing states remain at risk and must therefore begin to consider future options in what may be a less tobacco-dependent environment in the United States.

Establishing Dialogue

The first serious efforts to establish a dialogue between tobacco growers and the public health community came as a result of former President Jimmy Carter's efforts in 1985. President Carter, a farmer himself, and one who had lost family due to tobacco use, decided that one of the first domestic tasks of the Carter Center would be to try and bridge the gap between farmers and health groups by opening up dialogue and discussions in a safe environment. That year, growers and health groups were able to have an open and honest dialogue for the first time.

In 1996, with assistance from the Robert Wood Johnson Foundation, the Southern Tobacco Communities Project was established to facilitate bringing tobacco producers and the public health community together to carry on what the Carter Center had initiated. Objectives of the project were to:

- replace inflammatory rhetoric, stereotyping and automatic enmity if favor of civil, problem-solving dialogue;

- understand each others' needs, values and concerns;

- identify areas of common ground and even interdependence, while acknowledging areas of difference; and

- work together to create realistic, sensible, and sustainable options for communities and families facing pressures associated with transition.

Breaking through decades of mistrust and misunderstanding was not an easy task. After several meetings, however, it was evident that there might be some opportunities for working cooperatively and for supporting mutually acceptable goals. On the national level, producer groups and health groups talked openly about tobacco growers' needs should national tobacco control legislation be enacted. Through the Campaign for Tobacco Free Kids and with the assistance of the Southern Tobacco Communities Project, a set of national Core Principles between the tobacco producing community and the public health community was developed (see Annex 1). These Principles were released in March of 1998 at an historic press conference in the House Agriculture Committee room of the U.S. House of Representatives. The Principles, supported by more than 40 agricultural and health organizations, cover key tobacco agricultural and health goals, including provisions requiring:

- that imported tobacco products meet the same health and safety standards required for domestic tobacco;

- that labels on manufactured tobacco products disclose the percentage of foreign tobacco used in the product;

- that a tobacco program that controls production and sets a price is in the best interests of the tobacco producer and the public health community; and

- that the FDA's responsibility over tobacco is to ensure that there are fair standards in place governing the manufacture, sale, distribution, labeling and marketing of **manufactured** tobacco products and that with respect to on-farm activities, the FDA should work through existing agencies and structures (EPA, USDA).

Upon learning of the release of the Core Principles between the tobacco agricultural community and the health organizations, President Clinton released the following statement:

> *I congratulate the public health and tobacco producer communities for working together to promote bipartisan, comprehensive tobacco legislation that dramatically reduces youth smoking and protects American farmers and their communities. I am firmly committed to protecting farmers and their communities, and have made this commitment one of the five key elements that I will insist upon before signing tobacco legislation. I*

hope you will continue your efforts to expand your coalition and to enact comprehensive tobacco legislation this year that protects our Nation's children.

Statement by President Clinton
The White House
March 16,1998

J.T. Davis, Secretary of Concerned Friends of Tobacco commented on the day of the release of the Core Principles that:

Today is truly an historic day for the tobacco farmer, the tobacco farmer community, and the public health community. Two entities that have long viewed each other as adversaries have come together after many months of civil dialogue with a plan to enhance the public health of this nation and at the same time develop a plan to take the tobacco farmer and the tobacco farm communities into the 21st century and to sustain a healthy economy.

Rod Kuegel, President of the Burley Tobacco Growers Cooperative, Inc. noted that:

None of us want America's youth to use tobacco products. And all of us believe that- whether in the past, present, or future –it is wrong to direct tobacco advertising at young people. For our farmers, public health is more than vaccinations and blood pressure checks. It is also the well being and quality of life within our small, rural communities. And the economic lifeblood in these communities is the tobacco program. Without it our farmers will not have the money to buy health insurance. They cannot pay the medical bills, and they cannot make the mortgage payments.

Andrew Shepherd, a Virginia farmer and a Vice President of the Flue-Cured Tobacco Cooperative Stabilization Corporation probably summed it up best at the press conference releasing the Core Principles when he said:

Health advocates (the anti's as we used to call them) and farmers really needed to get to know one another. Meetings between us, away from the rhetoric of politicians, both pro and con and influence of special interest groups, led to the realization that many of us on both sides had similar concerns. Among these concerns was youth smoking and access. I know of no farmer who would encourage or condone his own children smoking or the children of others for that matter. Common ground began to take shape around this key concept and has expanded to the agreement you see today.

During Senate consideration of the McCain tobacco control legislation during the summer of 1998, health groups and tobacco farm groups worked cooperatively to ensure that the interests of tobacco farmers and the public health community were taken care of. While that legislation ultimately did not pass, health groups remain committed to those goals.

In addition to efforts at the national level, tobacco producers and health organizations have continued to dialogue and work towards finding mutually acceptable goals at the state level.

This has been particularly important as moneys from the tobacco settlement between the tobacco companies and the state Attorneys General are allocated. In Virginia, tobacco producers and health groups were able to agree on legislation that both groups could support. This lead to unanimous passage of the legislation in both chambers of the Virginia Assembly. In Kentucky, farm and health groups reached a understanding that the funds from the settlement should be divided between the two, with half going to assist tobacco producers and half going to public health initiatives. Other dialogues and discussions have been taking place in other tobacco states in order to reach mutually acceptable goals and objectives.

The findings of this report would strongly indicate that the collaboration and dialogue between the public health community and the tobacco growers and their communities must continue if we are to find solutions to what can only be described as an unstable environment. The tobacco companies, which for years have used their political and economic influences to keep their interests protected in spite of overwhelming evidence on the health ramifications of their products, will continue to face legal and regulatory challenges not only here in the United States but globally as well.

Box: Putting the Squeeze on Foreign Growers

Although U.S. tobacco companies provide substantial assistance to foreign tobacco growers, by no means do these farmers have an easy ride. They receive very low prices for their tobacco and often work directly with hazardous pesticides, many of which are banned or restricted in the United States. Brazil, one of the United States' main competitors in the global leaf trade, provides a good example of how U.S. tobacco companies are putting the squeeze on foreign tobacco growers in order to boost profits.

Having signed a contract with a particular company, Brazilian tobacco farmers may only purchase seeds, fertilizers and pesticides from that company.[140] Growers pledge to sell their harvest exclusively to the company, which determines how much land will be cultivated and how much of each type of input should be used. Company inspectors make regular visits to the farms to make sure its guidelines are being followed. One reason that Brazilian tobacco is so inexpensive is the widespread use of child labor on the tobacco farms. In some areas of Brazil, the companies have reportedly asked that school schedules be rearranged so that children will be available to work in the fields.[141] Currently, some 520,000 children under the age of 18 work on tobacco farms in Brazil, 32 percent of whom are younger than 14.[142]

Even though Brazilian leaf sells for about half the price of American leaf, apparently it is still not cheap enough for U.S. companies.[143] In an effort to keep production costs even lower, says a report in the *New York Times*, the large tobacco companies have banded together and now "decide prices among themselves, and punish growers heavily should they decide to sell elsewhere....the big companies join together to estimate the growers' cost of production plus a modest margin. To help enforce their control, the companies hold back a share of the farmer's payment until the entire harvest is delivered." Farmers who try to withhold their crops over grading disputes often have their crops seized by police acting on behalf of the companies. In 1998, local officials were predicting that approximately 35 percent of the tobacco growers would end the harvest owing more money to the companies than they earned. The companies are "strangling the growers," says a local official. "Each year they come up with a new way to squeeze the growers tighter."[144]

Box: Foreign Leaf Imports on the Rise

Since the 1960s, the cigarette companies have reduced the amount of American-grown tobacco in their U.S.-made cigarettes from around 90 percent to 60 percent, replacing it with cheaper foreign tobacco in an effort to maintain high profit margins.[145] During the 1990s, this trend intensified. By 1998, imports had reached record highs, totaling 44.7 percent of the tobacco used in the United States, a more than 10 percent increase since 1990.[146] As the *Washington Post* points out, "Use of foreign-grown tobacco has been steadily rising for years, even as overall domestic use has leveled off. This trend has punctured the profits of [U.S.] tobacco farmers."[147]

Although the companies regularly blame their declining purchases of U.S. tobacco on falling cigarette consumption in the U.S., their increased use of imported leaf is a much more important factor. In fact, U.S. companies have *increased* domestic cigarette production at the same time they are decreasing their purchase of U.S. tobacco. Between 1960 and 1995, even though U.S. cigarette production increased by 41 percent, tobacco production declined by 35 percent.[148]

Box: Crazy Tobacco

Tobacco farmers in southern Brazil have for years been growing large quantities of a genetically-altered, fast-growing tobacco plant containing twice the normal amount of nicotine. The seeds for these plants have been supplied by Brown & Williamson, which secretly developed them with DNA Plant Technology (DNAP), a California-based bio-tech company.[1] In 1997, DNAP was indicted for violating the U.S. Tobacco Seed Export law which requires a permit to export tobacco seeds (the law was repealed in 1991). According to the U.S. Justice Department, which filed criminal charges against Brown & Williamson and DNAP, on numerous occasions, employees of Brown & Williamson and DNAP smuggled these seeds to Brazil and other countries including Argentina, Canada, Chile, Costa Rica, Honduras, Nicaragua, Nigeria and Zimbabwe.[149]

DNAP first contracted with Brown & Williamson in 1983 to develop the high-nicotine strains (hundreds were developed) and ship them to Brazil to be grown under the secret project code "Y-1." By 1990, approximately 4.5 million pounds of the enhanced tobacco was being grown in the region annually -- enough to produce 180 billion cigarettes a year.[150] Between 1990 and 1994, Brown & Williamson shipped nearly 8 million pounds of the genetically altered tobacco to the United States for use in its brands, including Pall Malls and Lucky Strikes.[151]

The tobacco, dubbed "fumo louco" ("crazy tobacco" in Portuguese), was reported to cause dizziness among the farm workers who handled it, so powerful was its narcotic effect. "Even out in the field, I had a hard time approaching the stuff without getting dizzy...that smell was heavy, felt cold in my lungs. It made the back of my neck crawl," said Juca Schneider, a tobacco field instructor.[152] While the FDA says that it was aware that a high-nicotine tobacco seed had been developed it did not know that it was being cultivated in such large commercial quantities. Brown & Williamson executives assured the FDA in 1994 that the project had been stopped and that they were no longer using the super-tobacco in their brands. But as a former field instructor for Brown & Williamson says, "The company line is that what we're planting today is different tobacco, but anyone who works with the stuff knows that's just a story."[153]

Box: No Future in Exports

U.S. tobacco companies have tried to convince farmers that as smoking rates decline in the United States the export market will keep them in business. However, as a result of the companies' support for leaf production and cigarette manufacturing abroad, opportunities for U.S. leaf exports are diminishing. In fact, the overall volume of U.S. tobacco leaf exports has been declining. In 1990, the United States exported some 492 million pounds of tobacco. By 1997, this figure had dropped to 484 million pounds.[154] Farrell Delman, the president of the Tobacco Merchants Association, says that farmers can expect tobacco exports to continue to

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[1] DNAP is a owned by the Mexican conglomerate Empresas La Moderna, which in 1997 sold Mexico's biggest cigarette company to Brown & Williamson for $1.7 billion.

decline, actually falling **below 1924 levels** by the year 2000. "We will hit the low point in our recorded history. . . . It's a pretty sorry reality for the Gucci of world leaf quality," Delman says. An increase in overseas production of tobacco combined with Asian economic troubles are contributing to the decline.[155]

The U.S. share of the world leaf export market has declined dramatically as well -- in the past four decades, it fell from 60 percent to just over 10 percent.[156] As Standard Commercial points out in its SEC filing, "U.S. grown tobacco is more expensive than most non-U.S. tobacco, resulting in a declining trend in exports, which management believes should be offset by increased demand for foreign tobacco."[157] Says one North Carolina tobacco farmer, "It's a very difficult situation when your #1 customer is also your #1 competitor."[158]

U.S. cigarette exports, on the other hand, have increased in recent years, from 164 billion pieces in 1990 to 217 billion in 1997.[159] Yet this has been of little benefit to U.S. tobacco farmers since a loophole in U.S. leaf import laws allows the companies to use unlimited amounts of foreign leaf in the cigarettes they export from the United States. And, although cigarette consumption is on the rise in many parts of the world, notes USDA tobacco economist Dan Stevens, "cigarettes are being made in other parts of the world now for these markets."[160]

Box: China: The Limits of Space

China, which produces and consumes around a third of all the tobacco in the world, is a prime target of U.S. tobacco companies. As one cigarette company executive puts it, "Thinking about Chinese smoking statistics is like trying to think about the limits of space."[161] Every year U.S. tobacco companies lobby Congress to renew the China's Most Favored Nation status. Philip Morris (which is a member of the Business Coalition for U.S.-China Trade) and other U.S. tobacco firms also hope to see China become a member of the World Trade Organization (WTO), increasing their capacity to procure tobacco and produce cigarettes for China and regional markets. Of course given the numerous joint ventures between the companies and the government to boost Chinese tobacco production, U.S. farmers can be sure they will not benefit from any of this.

Box: Company Profiles

(Figures in billions of dollars)

Philip Morris

Philip Morris is the world's largest multinational cigarette company, controlling over 16 percent of the global market.[162] It sells the world's most popular brand, Marlboro, in addition to such brands as L&M, Virginia Slims and Merit. The company's international tobacco division is its fastest growing in terms of both profits and sales. The company now sells more cigarettes abroad than it does in the United States, and in 1997 its foreign profits outstripped U.S. profits for the first time. The company has subsidiaries, affiliates and licensing agreements in 54 countries around the world. As Allan Kaplan, a tobacco analyst at Merrill Lynch & Co says, "They've got a good buffer. No matter how badly things go in the United States, international sales will carry them along."[163]

		1990	1997	% Change
Sales				
	International	$10.7	$26.3	+ 146%
	Domestic	$10.4	$13.5	+ 30%
Profits				
	International	$1.4	$4.6	+ 229%
	Domestic	$4.2	$3.3	- 21%

=Chart: Proportion of PM overseas sales in 1990 and in 1997 (2 pie charts)

British American Tobacco (BAT)

Brown & Williamson's parent company, British American Tobacco (BAT), is the second largest cigarette company in the world. In January 1999, it purchased fellow tobacco giant Rothmans, putting it just behind Philip Morris, in terms of global market share.[164] All of the company's operations are run out of the company's office in the United Kingdom, except for those of Japan, Mexico, South Korea and the United States, which are handled at Brown & Williamson's Kentucky headquarters.[165] Some of the company's most popular brands include Lucky Strike, Kool, and Pall Mall. BAT has subsidiaries and affiliates in 65 countries around the world, while Brown & Williamson makes more than 20 brands of cigarettes for sale in North America, Japan, and South Korea. It is the third largest U.S. cigarette maker, with about 16 percent share of the U.S. market. In 1997, the company sold over 77 billion cigarettes in the United States and 54 billion abroad.[166]

	1990	1997[167]	% Change
Sales	$17.0	$24.45	+ 44%
Profits	$1.9	$1.6	- 16%

R.J. Reynolds

R.J. Reynolds controls less than 4 percent of the global market. It has subsidiaries, affiliates and licensing agreements in 57 countries. Its leading brands include Camel, Salem and Winston. Up until 1997, the company's international sales had been growing faster than domestic sales. Since then, however, economic crises in overseas markets such as Russia have caused international profits to decline. These troubles led the company to announce in March 1999 that it was selling its international tobacco operations to Japan Tobacco for $8 billion.[168]

		1990	1997	% Change
Sales				
	International	$2.25	$3.4	+ 51%

Domestic	$5.8	$4.9	- 16%
Profits			
International	$.38	$.58	+ 54%
Domestic	$1.95	$1.15	- 41%

Universal Corporation

Headquartered in Richmond, Virginia, Universal is the largest independent leaf dealer in the world, with operations in 28 countries. As company Vice President James Starkey says, "The world market is where the bulk of the growth is."[169]

	1990	1997	% Change
Tobacco Sales	$1.56	$3.03	+ 94%
Tobacco Profits	$0.08	$0.21	+ 161%

Dimon Incorporated

Dimon, based in Danville, Virginia, is the world's second largest leaf dealer. It has operations in 37 countries. Dimon recently acquired UK-based Intabex Holdings Worldwide SA, which was the fourth largest leaf tobacco dealer in the world. With leaf buying, processing and exporting operations in 35 countries, the acquisition helped Dimon become Universal=s main competitor.[170]

	1990[1]	1997	% Change
Sales	$0.8	$2.12	+ 165%
Profits	$0.06	$.18	+ 205%

Chart: Dimon profits by region 1995 – 1997

Standard Commercial Corporation

Standard Commercial Corporation has subsidiaries and affiliates in 22 countries, including the United States, Brazil, India, Malawi, Thailand, Turkey and Zimbabwe. In its 1998 SEC filings, the company noted that "The majority of the growth in tobacco operating profits was due to higher volumes and improved margins in the Company's international operations."

	1990	1997	% Change
Sales	$0.54	$1	+ 85%

[1] Combined sales and profits of Dibrell and Monk.

Profits	$0.035	$0.03	- 9%

Sources: Company SEC Filings and Annual Reports.

Box: Manufacturing Jobs On the Wane

Recently, the tobacco companies' American employees have also begun to feel the effects of the industry's shift overseas. As they increase their manufacturing capacity abroad, the companies have been laying off thousands of their U.S. employees as part of their "restructuring" efforts. In December 1998, R.J. Reynolds announced that it would cut 1,300 jobs at its Winston-Salem plant.[171] This was in addition to the 3,000 employees it laid off in 1997. All tolled, these layoffs were expected to yield the company approximately $155 million in annual savings beginning in the year 2000.[172] In May 1998, Geoffrey Bible denied rumors that Philip Morris might close cigarette plants in Virginia, North Carolina and Kentucky and move overseas, saying: "We prefer to manufacture cigarettes for the domestic market here in the U.S."[173] Less than one year later, the company announced it would stop making cigarettes in Kentucky, closing down its Louisville plant and laying of 1,400 people.[174] Prior to this announcement, Philip Morris was already expected to save over $900 million by the year 2000 as the result of its closure of several facilities and its offers of early retirement to some of its older employees.[175] Said union representative Ron Harsh, "We've written the letters, we've made the phone calls and been on the street in support of the tobacco industry.... After all, they're our jobs."[176]

As the cigarette companies cut back their orders, U.S. leaf dealers are also beginning to slash jobs. In March 1999, Dimon Inc. announced its plans to close a North Carolina plant and lay off a quarter of its workforce – some 200 full-time employees and 1,000 seasonal workers. As Company CEO Claude B. Owen Jr. noted, "Unfortunately, with the uncertainty that continues to swirl throughout all sectors of the U.S. tobacco industry, we don't expect the orders or processing business to return in the near future," Owen said.[177]

Box: The Lugar Bill

During the debate over the McCain bill, Indiana Senator Richard Lugar offered a competing plan to that put forward by Senator Ford. Lugar's plan would have abolished the tobacco price support program over a three-year period, offering farmers a buyout of $8 per pound. After the three years were up there would be a "free market" in tobacco. Kentucky Senator Mitch McConnell, the second largest recipient of tobacco company largesse in the U.S. Senate, backed the Lugar bill.[178] Other tobacco-state Senators were not so impressed. As Virginia Senator Chuck Robb noted during the debate on the Lugar bill, without the program farmers would be faced with selling their crop to four tobacco companies that buy 98 percent of the tobacco. "This would not be a free market," he said, "This would be a market where the buyers would dictate the price to sellers and reap the rewards....The only true benefactors would be large corporate farms and tobacco companies."[179] One flue-cured farmer explained the farmers' dilemma to us like this: "Lugar *sounded* good. Compete in a free market. But there ain't no free market. We're competing with leaf dealers. They bankroll foreign farmers and then Lugar tells us 'you've got to compete with the Brazilian farmer.' Well, we can't."[180]

Box: Philip Morris Agricultural Leadership Development Program

Another way in which Philip Morris hopes to influence tobacco policy and legislation is through its Agricultural Leadership Development Program, a two-year program that trains young tobacco growers through coursework and travel abroad to "function as a better informed, more articulate and more valuable community and state leader." Established in 1984, the program provides $10,000 fellowships to participants.[181]

Some observers believe that the program is designed to create an alternative leadership within the tobacco growing community to replace those growers' representatives who have in recent years become critical of the company's increasing reliance on foreign tobacco. To support this theory, they point to the fact that virtually all of the leaders of the National Tobacco Growers' Associations that have sprung up in tobacco growing states in recent years have passed through the Philip Morris program. These Associations have been extremely critical of recent discussions between the burley and flue-cured stabilization cooperatives and public health groups.[182] They have also begun to publicly question the tobacco price support system. Says Billy Carter, president of the North Carolina Tobacco Growers' Association, "To a large extent, we are overpriced in terms of the product we're producing. We are overpriced for the world market, and we have to address that."[183]

Other observers believe that the program is simply an effort to instill fear in the hearts of U.S. tobacco producers. Once they visit Brazil or Zimbabwe and see first-hand the advanced production facilities and the low cost at which these producers can supply Philip Morris, many farmers return to the United States convinced that in order to compete they will need to cut costs even further. As one tobacco industry observer noted, "the companies used to act secretly overseas. Now they're sending U.S. tobacco farmers to Brazil to see what the farmers there are doing. What they're really saying is 'here's what they're doing in Brazil, now get off your butts and give it to us cheaper'."[184]

Box: The United States Tobacco Price Support Program[185]

The U.S. Tobacco Price Support Program has existed since the early 1930s. Although it has undergone numerous changes since then, the underlying rationale for the program – to support and stabilize tobacco prices for farmers – remains unchanged. Farmers vote every three years on whether to continue the program, which has two key components:

- **A price support system**, to guarantee producers a minimum price for their product.
- **A marketing quota system**, to limit the amount of tobacco each farmer can sell.

Price Support

Under the price support program, the government guarantees that tobacco farmers will receive a minimum price for their tobacco. Each year, the U.S. Department of Agriculture (USDA) announces a support price for each grade of tobacco covered under the program. If leaf buyers do not bid above the government rate, growers can sell their tobacco to a cooperative association, which buys it with money borrowed from the Commodity Credit Corporation

(CCC). The association then re-dries, packages, stores and eventually sells the tobacco, with the proceeds going to repay the loan from the CCC. Since 1982, under the "No-Net-Cost Tobacco Program Act," farmers and the tobacco companies contribute to a fund each year to cover any potential losses suffered by the cooperative associations as a result of their purchases of tobacco. This ensures that taxpayers are not subsidizing the price support system.

Marketing Quotas

In return for receiving a guaranteed minimum price for their tobacco, farmers have agreed to abide by a system of marketing quotas, which limit the overall supply of tobacco (and thus indirectly keep prices higher). Each year, the USDA sets the overall quota for each type of tobacco based on a formula which includes:

- the purchase intentions of cigarette manufacturers, which are submitted annually to the USDA -- if a cigarette company fails to purchase at least 90 percent of its declared intentions, it must pay penalties;
- average annual exports for the three previous years; and
- the amount of tobacco needed to reach a specific reserve stock level -- 15 percent of the effective quota, or a minimum of 100 million pounds of flue-cured and 50 million pounds of burley.

In the past, poundage quotas for producers were directly linked to farmland, meaning that in order to sell a portion of their quota, tobacco farmers had to lease or rent part of their land. Today, individual quota holders can sell part of their quota (i.e. the right to produce a certain amount of tobacco) separately from their farm, as long as it is sold to an active tobacco farmer within the same county. Farmers who don't own quota have to pay around 40-50 cents per pound to rent it. This means that many growers now pay one-fifth to one-third of their tobacco income just for the right to produce the crop.[186]

Annex 1:

CORE PRINCIPLES STATEMENT BETWEEN THE PUBLIC HEALTH COMMUNITY AND THE TOBACCO PRODUCERS COMMUNITY

JANUARY 28, 1998

In the spirit of cooperation and with a commitment towards:

- *Reducing disease caused by tobacco products*
- *Ensuring the future prosperity and stability of the American tobacco farmer, the tobacco farm family, and tobacco farming communities*

the undersigned organizations and individuals call on the president of the United States, the Congress of the United States, and all States Attorneys General to commit to supporting and enacting effective tobacco legislation and policies that include the following points of agreement.

That on issues related to agricultural production of tobacco there is agreement:

1. That a tobacco production control program which **limits the supply** and which **sets a minimum purchase price** is in the best interest of the public health community and the tobacco producer community. From a harm reduction standpoint, it is in the best interest of the public health community to support enhanced assurance of quota stability for domestic production of tobacco.

2. That any cost associated with the administration or operation of a tobacco program be guaranteed to be paid for under any legislative proposal, and that the federal government no longer bear the cost for the administration or operation of such a program.

3. That there be greater cooperation between the tobacco growing community and the public health community to ensure that quality control and health and safety standards are maintained in the production of tobacco, both domestically and abroad, and that industry information and research should be made available for public review. Agencies with public health responsibility, including the Food and Drug Administration (whose authority over manufactured tobacco products **should not** extend to on-farm tobacco production), should work cooperatively through structures already in place in the Department of Agriculture and Environmental Protection Agency so as **not** to extend any additional control and bureaucracy over the on-farm production of tobacco.

4. That tobacco quota holders and tobacco lease holders should be given the opportunity to have their quotas compensated for at a fair and equitable level, and that the protection of tenant farmers be given special consideration as part of this process to ensure that they are not adversely affected.

5. That a significant amount of money be allocated so that tobacco growing states and communities have options and opportunities to ensure their economic viability into the 21st century. There must be significant involvement of tobacco growing communities in determining the allocation of these funds, and decision making for plans to enhance the economic infrastructures of these communities should be governed primarily through community-based input. Agricultural-based development in particular ought to be given a high priority.

That on issues related to public health there is agreement:

1. That it is in the best interests of the public health community and the tobacco producer community that the FDA should have authority to establish fair and equitable regulatory controls over the manufacture, sale, distribution, labeling (including country of origin) and marketing of tobacco products, both domestic and imported, comparable to regulations established for other products regulated by the FDA. Such regulations should have as their goal the protection of public health and the assurance that users of tobacco products are provided with full and complete information about the products they are using. In order to accomplish this goal, industry information and research should be made available for public review.

2. That there should be strong complementary federal, state and local laws which guarantee that tobacco products are **not** marked, advertised or otherwise made available to anyone **under the age of 18.**

3. That **prohibition** of the use of tobacco products by informed adults of legal age **is not a goal** of the public health advocates or tobacco producers.

4. That there should be mechanisms in place to prevent the importation of foreign tobacco, whether in raw agricultural leaf, reconstituted or homogenized leaf, tobacco by-products, or any other form or alteration of tobacco, the does not meet pesticide residue requirements and other quality controls required for domestically grown and produced tobacco.

5. That if there is an increase in the federal excise tax in any legislative proposal, a portion of the tax would be used for carrying out public health initiatives, and a portion of the tax would be used to assist farmers and their communities in addressing their economic dependence on tobacco.

Signatories[1]:

National:

American Academy of Addiction Psychiatry
American Association for Respiratory Care
American Cancer Society
American College of Cardiology
American College of Chest Physicians

[1] As of 26 November 1998.

American College of Preventive Medicine
American Heart Association
American Public Health Association
American School Health Association
Americans for Non-smokers Rights
Association of Schools of Public Health
Association of Teachers of Preventive Medicine
Campaign for Tobacco Free Kids
The Carter Center
College on Problems of Drug Dependence
Family Voices
Federation of Behavioral, Psychological and Cognitive Sciences
Interreligious Coalition on Smoking or Health
National Association of Local Boards of Public Health
National Black Farmers Association
National Hispanic Medical Association
Oncology Nursing Society
Partnership for Prevention
President Jimmy Carter
Rural Advancement Foundation International

Regional:

American Cancer Society, Mid-South Division (AL, AR, LA, KY, MS, TN)
American Heart Association Ohio Valley Affiliate (KY, OH, WV)
Burley Stabilization Corporation
Burley Tobacco Growers Cooperative, Inc.
Commodity Growers Cooperative Association
Flue Cured Tobacco Stabilization Corporation

State:

Alabama Attorney General Bill Pryor
Georgia Public Health Association
American Lung Association, KY
Kentucky Attorney General Ben Chandler
Center for Sustainable Systems, KY
Coalition for Health & Agricultural Development, KY
Kentucky Academy of Family Physicians
Kentucky Action (ACS, AHA, ALA, KMA...)
Sierra Club, Cumberland Chapter, KY
South Carolina Public Health Association
Albemarle Co. (VA) Medical Society
Allies for Tobacco, Inc., VA
American Cancer Society, Virginia Council
Concerned Friends for Tobacco, VA

Halifax County Board of Supervisors, VA
Medical Society of Virginia
Virginia Agricultural Growers Association
Virginia Dark-Fired Growers Association, VA
Virginia Farm Bureau
Virginia General Assembly
Virginia Public Health Association
Virginia Sun-cured Growers Association
Virginia Tobacco Growers Association

Annex 2:

Foreign subsidiaries and affiliates of Philip Morris, R.J. Reynolds, BAT, Universal, Dimon & Standard Commercial (see separate file).

Annex 3: Quotes

POSSIBLE PULL QUOTES:

"There is a growing global market for the mild tobacco mixture known as 'American blend' and for American-style cigarettes....More and more of the leaf that goes into those products is being harvested abroad, putting pressure on U.S. growers but increasing profitability for processors by lowering the price of tobacco." [187]

-- *Washington Post*

"In an effort to respond to cigarette manufacturers' increasing demand for lower cost American blend cigarette ingredients, the major leaf tobacco merchants have made significant investments in South America, Africa and Asia, the principal sources of flue-cured and burley tobacco outside the U.S. This trend is expected to continue in the foreseeable future as the quality of foreign grown tobacco continues to improve."[188]

-- Dimon Inc.

"For the last 40 years, the tobacco industry has become masters at protecting their "right" to sell a harmful product at the expense of public health. Now it is protecting its "right" to make profits in overseas markets at the expense of the American tobacco farmer and factory worker, using the public health groups and the tobacco settlement as the scapegoat."[189]

-- Scott Ballin, National Center for Tobacco Free Kids

"We are still in the foothills when it comes to exploring the full opportunities of many of our new markets."[190]

-- Geoffrey Bible, Chairman, Philip Morris

"Do you want it grown in the United States of America, where it benefits these rural communities that have depended on it for generations. Or, do you want it grown in Brazil or Zimbabwe by multinational corporations?"[191]

-- Andy Shepherd, vice-president, Flue-Cured Tobacco Cooperative Stabilization Corporation

"On the burley tobacco front, PM USA has recently decided to increase its usage of cheaper, imported burley tobacco....The reduction in our buying intentions and the resulting quota decrease, coupled with the anticipated weak 1992 burley market, will likely strain our relationships with important Members of Congress who represent the burley area. WRO [Washington Relations Office] is making every effort to minimize the negative impact of this business decision, including assisting PM USA in developing a press response to the soft market conditions as well as engaging Senator Ford's (D-KY) staff in discussions on burley market conditions. Importantly, we continue to work with the flue-cured leadership to devise a solution – whether legislative or administrative – to make domestic leaf more competitive with offshore."[192]

-- Craig Fuller, Director, Philip Morris Washington Relations Office, "1993 November/December Monthly Reports"

"You've been sinking my boat for the last 20 years through price reductions and imported tobacco. I've got one question...why should I be interested in saving your boat?" [193]

-- Sherill Jernigan, North Carolina Tobacco Farmer, addressing cigarette company representatives

"Philip Morris strongly supports NAFTA and also supports the Uruguay Round process....[A]rtificial trade barriers have kept us out of some countries. The removal of trade barriers will provide us with expanded market opportunities. We are well positioned to take advantage of the new opportunities that the removal of trade barriers will offer us. I see both the NAFTA and the Uruguay Round as real "winners" as far as Philip Morris is concerned."[194]

--1994 Philip Morris document: "Washington Relations Office Annual Meetings Q's & A's"

"The price support system has caused U.S. grown tobacco to be more expensive than most non-U.S. tobacco, resulting in a declining trend in exports. Industry leaders continue to explore options including program changes to improve the competitive position of U.S. tobacco. Other factors affecting the competitive position of U.S. tobacco in the world market include the efficiency of the marketing system, relative costs of production and leaf quality in the United States and in foreign countries."[195]

-- Universal Corporation, 1998 SEC Filing

"Spring and summer festivals attract extremely large crowds in the tobacco regions of the state....We propose setting up anti-FDA booths, similar to the ones used at the Sunbelt Agriculture Expo, at the festivals and distributing materials, advance anti-FDA position in interviews. The goal is to keep people interested and talking about our issue." [196]

-- Cohn & Wolfe, "Georgia Grassroots Program: March-June 1996," prepared for Philip Morris

COMPANY COMMITMENT TO U.S. TOBACCO GROWERS:

"The five companies I represent are making it very clear to the growing community they want to purchase American leaf because that's the best there is. They don't want inferior product. They want to buy tobacco as they're doing now."[197]

-- Tobacco Industry Negotiator Phil Carlton

"Dimon has a strong commitment to American-grown tobacco." [198]

-- Dimon Inc. spokesman Todd Haymore

"The increasing demand for our cigarettes seems to indicate that there's a bright future for U.S. growers and manufacturers." [199]

-- Elizabeth Cho, Philip Morris spokeswoman.

"The notion that companies don't care about [domestic] growers is simply wrong." The problem is that the growers "just get down in the dumps when their livelihood is in peril." [200]

-- Tobacco Industry Negotiator Phil Carlton

"The last time I checked, C. Everett Koop had never bought a single pound of tobacco, and neither had Bill Clinton. It would be a crying shame if these farmers bought into the line of bull they are getting from the public health people and Bill Clinton....When we float $5 billion and [the farmers] come back and say they want $12 billion, it makes me wonder if we should offer anything at all....The companies are under no legal obligation to do anything for the growers and allotment holders."[201]

-- Tobacco Industry Negotiator Phil Carlton

"I'm not sure the growers are willing to completely trust the companies to take care of the growers' problems at some later date, after [the companies] have gotten what they wanted."[202]

-- Jerry M. Jenkins Jr., Virginia tobacco farmer

TOBACCO COMPANIES MOVING OFFSHORE:

"PM is the largest exporter of cigarettes in the U.S. responsible for well over half the cigarettes exported from the U.S. PM will not shift production offshore as a result of the Ford amendment."[203]

--1994 Philip Morris document: "Washington Relations Office Annual Meetings Q's & A's"

"There's no way the grower community will escape [these] lawsuits. Taken to the extreme, if these [cigarette] companies wind up out of business, and new companies start producing tobacco for the world's consumption offshore, does anyone really believe that sort of operation would be sensitive to traditional growers in Virginia and eastern North Carolina?" [204]

-- Tobacco Industry Negotiator Phil Carlton

"Several multinational cigarette manufacturers have expanded their operations throughout the world, including in Africa, Asia, Central and Eastern Europe and the Former Soviet Union, in order to increase their access to and penetration of these markets. As cigarette manufacturers expand their global operations, [Standard Commercial] believes there will be increased demand for local sources of leaf tobacco and local tobacco processing facilities, primarily due to the semiperishable nature of unprocessed leaf tobacco and the existence of domestic tobacco content laws in certain countries. [Standard Commercial] also believes that the international expansion of cigarette manufacturers will cause these manufacturers to place greater reliance on the services of financially strong leaf tobacco merchants with the ability to source and process tobacco on a global basis and to help develop higher quality local tobacco sources." [205]

-- Standard Commercial Corporation, 1998 SEC Filing

"To ensure breadth and depth of supply of tobacco, particularly the tobacco used in American blend cigarettes, [Dimon] has expanded and plans to continue to expand its operations in South America, Africa and China, the largest production areas of flue-cured and burley tobacco outside of the U.S." [206]

-- Dimon Inc.

"In Poland, increase taxes and punitive duties on imports were severely restricting business, especially in the hard currency outlets. Although there were some opportunities for imports from Brazil (which attracted lower rates of import duty), longer term expansion was likely to depend on manufacturing in Poland."[207]

-- British American Tobacco internal memo, 1990

"The foreign leaf content law is a driving factor influencing competitors toward offshore production. B&W, along with the other Group companies, will need to develop new sourcing strategies in order to compete effectively in low price markets."[208]

-- Brown & Williamson, "1994-1998, Five Year Plan Preview -- Restricted,"

"Over the long term, local production appears to be the only means through which we can gain broad access to the total Chinese market, as any growth in the domestic import segment will be severely limited by the tight foreign exchange controls and import quotas imposed by the CNTC to protect the Chinese tobacco industry." [209]

-- Philip Morris 1992-1994 strategic plan for China

"Tobacco is the success story of economic reforms in this country."[210]

-- Managing Director, Tanzania Leaf Tobacco Co. Ltd. (a subsidiary of Universal)

"If you look around the world, tobacco companies have been pioneers in developing countries. We hope we can serve as a model in the Kyrgyz Republic and are proud to be a part of your country's development."[211]

-- DIMON president and CEO Albert C. Monk III, speaking at a ceremony welcoming the Kyrgyzstan Foreign Minister to the company's Headquarters

"Highlighting the recent expansion moves was the acquisition of 100% of Meridional in Brazil. This will complement our already strong export presence...and should enable Standard to improve operating margins in one of the world's most important tobacco markets. The Standard sign is up, our people ready and everyone is looking forward to the upcoming season with enthusiasm."[212]

-- Universal President Robert E. Harrison, 1998 letter to shareholders

"The greatest beneficiary of the growth in [global] cigarette consumption could well be in Africa, where there is vast acreage suitable for tobacco production and generally enough labor to support major production growth."[213]

-- Universal CEO Henry H. Harrell

"There's no way we can compete with the Brazilian farmer, or the farmer in Zimbabwe." [214]

-- C.D. Bryant, Virginia tobacco grower

"If you're selling cigarettes in a lesser developed country, you could put anything in a cigarette pack and there wouldn't be anyone to ever check it." [215]

-- Peter Burr, agricultural economist, U.S. Department of Agriculture

INCREASED TOBACCO IMPORTS, DECREASED PURCHASES OF U.S. LEAF:

"Our greatest challenge in the leaf department of Philip Morris USA is to contain costs and maintain quality to keep us competitive in the marketplace. The result of this challenge is a growing demand for less expensive tobaccos....The quest for lower cost is causing U.S. cigarette manufacturers to increasingly evaluate flue-cured and burley tobaccos grown off-shore."[216]

-- David Milby, Vice President for Leaf, Philip Morris

"[It] is the advent of new external challenges that make 'business as usual' practices unacceptable. U.S. legislative actions that have been and will be erected such as: restricting the use of offshore tobacco in U.S. produced cigarettes; adopting strict standards for the propensity of cigarettes to ignite fabrics; and the increase in federal excise taxes....Aggressively pursuing strategies to counter these factors will be crucial over the Plan period. Strategies have been developed to exploit opportunities and creatively examine our cost structure relative to the new dynamics in the marketplace. This includes a thorough examination of every process that has gone unchallenged in the past....Over the Plan period we will: **Strive to become the lowest cost producer**. Project CORE is an aggressive cost reduction project with a target to reduce manufactured product costs for VFM brands by 50% within five years, while maintaining acceptable quality. Primary emphasis is on tobacco and materials utilization, and cigarette design. The challenge is increased by the new foreign leaf restrictions. An organization and system for tracking blend mix is being developed to ensure that B&W meets the law, but maximizes the potential of offshore tobacco. Initiatives to support this include: reformulating biotechnology strategy; coordinating closely with the USDA on legislation development; optimizing B.A.T./B&W by-product allocations; and investigating offshore sourcing alternatives." [217]

-- Brown & Williamson, *1994-1998, Five Year Plan Preview,* "Restricted"

Q: "Why did PM USA support the recently enacted Ford Amendment requiring U.S. cigarette manufacturers to use at least 75% U.S. grown tobacco in their products during each calendar year?"

A: "In passing this law, Senator Ford sought to bring stability to the domestic tobacco program and ensure the log-term viability of tobacco production in the U.S. PM USA believes that U.S. tobacco farmers produce the finest tobacco in the world, and Senator Ford's goals were consistent with our own. Moreover, PM USA is the largest purchaser of U.S. tobacco. Historically, PM has relied less on imported tobacco than our competitors, so the Ford amendment strengthened our competitive position." [218]

--1994 Philip Morris document: "Washington Relations Office Annual Meetings Q's & A's"

"I've worked my butt off since I was 12 years old in tobacco and you have never bought a pound of my tobacco – you stole it! And I'm 72 years old now." [219]

-- Gene Tedder, North Carolina Tobacco Grower, addressing cigarette company representatives

"Companies can buy local tobacco in the countries where they sell, which is cheaper. A lot of the growth markets are in areas where they have to produce cheaper cigarettes, anyway." [220]

-- Peter Burr, agricultural economist, U.S. Department of Agriculture

"Companies don't care what happens to farmers long term. They'd like to drive the price down and buy overseas; the writing's on the wall for farmers." [221]

-- Scott Ballin, National Center for Tobacco Free Kids

"We're kind of shocked at the purchase intentions. We're really at a loss of words for why purchasing intentions would be that low for 1999." [222]

-- Arnold Hamm, North Carolina Flue Cured Tobacco Cooperative Stabilization Corporation

"It's just devastating. They've basically just told one out of three tobacco growers that they don't need them anymore."[223]
-- Rod Kuegel, President of the Burley Tobacco Growers Cooperative Association, commenting on the companies' reduced purchase intentions for 1999.

HELPING GROWERS OVERSEAS:

"Leaf Advisory Team: Mr. Bramley reported that the Leaf Advisory Team had been set up along the lines previously agreed and the team planned to visit Hungary, Poland and Bulgaria during January. It was hoped that by April next year, the team would be in a position to provide useful advice on Leaf growing in each of these countries."[224]

-- British American Tobacco internal memo, 1990

"[Dimon] intends to utilize its agronomy expertise in helping to develop low-cost sources of American blend quality tobacco and its existing relationships with the major multinational cigarette manufacturers to gain market share in these growth regions."[225]

-- Dimon Inc., 1998 SEC Filing

"Unless there is continuous encouragement to farmers to continue producing tobacco, they will find other crops....The farmers require a lot of supervision. We send out an army of farm technicians to assure quality control."[226]

-- Winston P. Uy, President of Lancaster Philippines, referring to Philippine farmers

"There's a lot to do to raise the quality of Polish tobacco....The small average plot size is the main problem. It's impossible to change the small farms into big farms all at once."[227]

-- Dimon's Manager in Poland

CIGARETTE AND LEAF EXPORTS:

"[Our new joint venture in India] will enable us to increase exports and provide even better service to our international customers with a reliable supply of Indian leaf."[228]

-- Standard CEO Robert Harrison

"So, when you learn that the Netherlands is one of the leading destinations of American leaf, do not make the mistake of thinking you are selling to a guy wearing wooden shoes, planting tulips and spitting when he speaks – in fact, you are selling to a guy in riding boots who wears a cowboy hat – the Marlboro man."[229]

-- Owen Smith, Philip Morris representative, undated speech

"[Dimon] has expanded its international operations in areas where the export of tobacco has increased due to increased demand for lower priced tobacco. In particular, the Company has significant investments in its purchasing, processing and exporting operations in southern Brazil, Indonesia, Thailand and the African countries of Malawi, Tanzania and Zimbabwe. In recent years, these countries' economic problems have received wide publicity related to devaluation of the local currency and inflation. While devaluation can affect the Company's purchase costs of tobacco and its processing costs, they have not and are not expected to adversely affect the Company's ability to export tobacco from these countries." [230]

-- Dimon Inc., 1998 SEC Filing

"The export market is the growing market. U.S. companies are likely to look harder at their operations abroad and produce fewer cigarettes [in the United States]."[231]

-- Peter Burr, agricultural economist, U.S. Department of Agriculture

"The real threat is that the [tobacco] industry is maneuvering itself to move offshore....Obviously we can only conclude that they don't care about us."[232]

-- C.D. Bryant, Virginia tobacco farmer and Director, Concerned Friends for Tobacco

"The cigarette companies have been quietly cultivating foreign growers who can supply increasingly high quality tobacco at about half the price of home grown leaf. Foreign tobacco has become serious competition to American tobacco farmers....Manufacturers have begun to move their operations closer to their market. Of course, cheaper labor and cheaper materials mean more profits. That the tobacco companies, built since colonial times on the backs of American farmers, would abandon these farmers for cheaper foreign tobacco offends any American's sense of justice and fair play. But justice and fair play aren't what the tobacco industry is about. The $45 billion enterprise of growing tobacco and producing cigarettes has always been about profit. Despite pressure from antismoking groups and personal injury lawyers, it still is."

-- Editorial, *Greensboro News & Record*, 8 September 1996

NAFTA & TRADE:

"Coordinated preliminary company involvement in the coalition (USA*NAFTA) effort aiming to secure legislative implementation of the NAFTA, including transmittal of $100,000 for this effort. Also, attended several BRT-related NAFTA meetings, including one on grassroots implementation and one of the Working Group/Coordinating Committee, to plan strategy for 1993."

-- Craig Fuller, Director, Philip Morris Washington Relations Office, "1993 November/December Monthly Reports"

"We believe that NAFTA will create expanded market opportunities for Philip Morris and therefore result in increased employment opportunities for U.S. workers." [233]

--1994 Philip Morris document: "Washington Relations Office Annual Meetings Q's & A's"

"[Mexico] has the capacity to grow the best filler-type burley in the world."[234]

-- Derek Vaughn, U.S. Leaf Dealer

"NAFTA helped make Mexican tobacco more attractive to U.S. cigarette manufacturers. The treaty was signed shortly before the December 1994 devaluation of the peso, which made Mexican tobacco competitive on the world market. The two factors boosted Mexico's visibility. Its traditional European and Japanese customers saved money on exchange rates, and because of NAFTA, Mexican tobacco didn't apply to the TRQ requirement in the U.S." [235]

-- *Tobacco Reporter*, "The Promise of Mexico"

THE TOBACCO PRICE SUPPORT PROGRAM

"It is hard to maintain the integrity of the tobacco program at the same time that you're competing in the lower-priced leaf market." [236]

-- David Milby, Vice President for Leaf, Philip Morris

"In the domestic cigarette marker, given the shift to discount brands, we arranged a meeting for Bill Campbell with the Flue Cured Tobacco Cooperative Stabilization Corporation. The purpose of the June 12 meeting was to encourage the establishment of a program for flue-cured producers on the need to adjust to competition from imported leaf. A similar meeting will be held later this year in the burley producing region."[237]

-- 1992 Memo to Michael Miles from Craig Fuller, director of the Washington Relations Office of Philip Morris.

"Health advocates in the tobacco-producing states have supported the tobacco program or at least some type of price support and production control program....It's really in our interest to see that the production is controlled and that people don't become direct employees of the cigarette companies. And we really do recognize that at this point all of our family farms do exist in many cases because of tobacco and the reliable income that it provides." [238]

-- Amy Barkley, Director, Kentucky Coalition for Health and Agricultural Development

"[The tobacco program] protects us -- that's the shield. That's the only thing that's kept us from the companies. That's the only thing that protects us from them coming down. It's not like most agricultural commodities where you have several buyers -- we only have three or four. And so we have to have that protection to remain viable. Without that protection, we become an appendage of the tobacco companies, and we're completely at their mercy. And I don't think that Congress or this administration or the American people want that to happen."[239]

-- Rod Kuegel, President of the Burley Tobacco Growers Cooperative Association

"Eliminating the U.S. tobacco program would increase price volatility and cause prices to fall by 20 percent or more. A price decline of this magnitude would likely reduce the number of family farms growing tobacco by 50 percent and would be devastating to many communities...that lack off-farm employment opportunities."[240]

-- Will Snell, associate professor, University of Kentucky Agricultural School

"If you dismantle this program, you would not end the production of tobacco. You would end the ability of all these family farmers to produce tobacco and you would probably create a structure more like what you see in some parts of California...[where] the cigarette companies would control the farming and everybody would be a hired hand. And the income would all flow up except for a salary." [241]

-- President Clinton

GROWING CONSENSUS BETWEEN PUBLIC HEALTH GROUPS & TOBACCO FARMERS

"The public health community has come to better understand that tobacco producers, their families and the people in their communities have a very different set of values than do the tobacco companies."[242]

-- Bill Novelli, National Center for Tobacco Free Kids

"We need a better understanding of what's to be done in these communities. For us to say, 'Grow something else' is simplistic. But for (the farmers) to say they can't do anything else is also simplistic."[243]

-- Scott Ballin, National Center for Tobacco Free Kids

"Growers and health advocates are at some risk for participating in discussions with one another, and both sides have occasionally been criticized by their own friends and allies for doing so. But potential benefits to all sides from continuing are substantial. When all communication is conducted through filters of media and third-party reports, what is most likely to come through is what is shouted the loudest and what is most inflammatory and "newsworthy." Direct, face-to-face discussions invariably result in new, more accurate understandings. They create empathy and therefore recognition of common values, goals and concerns. When people realize that they can talk to each other with civility, they can work together when appropriate on certain issues while opposing each other on other issues. And areas of joint interest continue to be discovered as discussion proceeds. At the personal level, people who used to be considered opponents learn that they do share many values, such as hard work, community involvement, personal and social responsibility, and a concern for youth and community economic, physical and mental health." [244]

-- E. Franklin Dukes, Project Director for the Institute for Environmental Negotiation which helped convene meetings between tobacco growers and public health advocates

"The old line is that anyone who has anything to do with tobacco is evil. That's not true. The companies are the ones who did the research, who hid the documents."[245]

-- Scott Ballin, National Center for Tobacco Free Kids

"This is an unholy alliance."[246]

-- Tim Cansler, Kentucky Farm Bureau Lobbyist

MOBILIZING TOBACCO GROWERS:

"The public issues our industry faces will require both growers and manufacturers to speak in a united voice. We are small in numbers, but if we speak loud enough, we can be heard by our law makers at the local, state and national levels."[247]

-- David Milby, Vice President for Leaf, Philip Morris

"Target farmers and farmer associations in key mid-western farm states and mail personal letters, signed by several prominent Carolina growers, encouraging their support and asking them to contact their Congressional delegation to oppose further government regulation of tobacco."[248]

-- 1996 Philip Morris memo, proposing a "farmer-to-farmer" campaign to enlist the support of non-tobacco growers to fight FDA regulations

"Audience: Farmers
Message Points: The proposed tax will be a cataclysm for the tobacco farmer and the economy of the tobacco growing states. Tobacco farmers will be unable to replace their highly profitable tobacco crops and as a result they, and their state's economy, will suffer. If tobacco farmers switch to alternative crops – the markets of those crops throughout the United States will be destabilized and economic disaster will reverberate in every tobacco farming community."[249]

-- "Federal Excise Tax/Environmental Tobacco Smoke Audience & Message Point Development," Philip Morris, 1993

"Cohn & Wolfe will continue to utilize third-party spokespersons to address civic and advertising club meetings in Georgia and Tennessee markets. This strategy becomes more effective if we can use Philip Morris spokespersons or elected officials to address the groups (we found last year that most of these clubs prefer to have industry representatives or lawmakers instead of growers or NASCAR representatives)."[250]

-- Cohn & Wolfe, "Georgia Grassroots Program: March-June 1996," prepared for Philip Morris

"Develop allies among farmers elsewhere in the country to support tobacco farmers' fight against FDA efforts. Enlist the support of tobacco related organizations such as the North Carolina Tobacco Growers Association to bridge communications with farmers facing similar government regulatory issues."[251]

-- Philip Morris, "First Quarter 1996 Media Relations"

"The Commissioner (perhaps Czar is a better word) of the U.S. Food and Drug Agency (FDA) has decided that his agency has regulatory authority over cigarettes. This assertion of regulatory authority by the FDA is another example of the work of mindless Washington bureaucrats who have, in one declaration, put the livelihoods of hundreds of thousands of hard-working people at risk. To Kessler and his FDA, these people may be just faceless, nameless men and women who are viewed as the enemy; co-conspirators engaged in a sinister effort to cause the uninformed masses to start and then continue using tobacco products. They are not. They are the men and women who grow, tend, harvest, warehouse and market tobacco. Well, Mr. Commissioner, when you get to the court house – and yes, we'll see you in court over this illegal assertion of jurisdiction – you will get to meet some of these people."[252]

-- Philip Morris, "FDA Media Plan – Confidential," 1995

"We're very much concerned we're getting caught up in politics… We're feeling we're getting used as pawns in a political chess game." [253]

-- J.T. Davis Jr., tobacco farmer and member of Concerned Friends For Tobacco

COMPANY CAMPAIGNS ABROAD:

"We have also helped organize growers in a number of countries. With their assistance, for example, the industry was instrumental in moving the Food and Agricultural Organization away from its anti-tobacco stance. Indeed, the FAO has made a 180 degree turn on this point. Countries where we worked closely with the growers, and which were especially important in getting this change of position, include Malawi, Zimbabwe, Thailand, and Argentina."[254]

--1985 Philip Morris memo

"Contact to be made through appropriate channels with: Agricultural Ministers of influential tobacco-growing countries to enable them to communicate the commercial interests of their respective tobacco industry to their official Health Ministers attending the conference."[255]

-- 1979 memorandum from industry task force outlining strategy to counter Fourth World Conference on Tobacco or Health

"...suggest if not already so constituted Mexico City manufacturers form a group of themselves to adequately represent industry. We have learned many lessons in countries. Prevention at minimum alleviates and buys time." [256]

-- 1970 Philip Morris memorandum

MERGERS:

"In the tobacco business, big is beautiful... There are big potential synergies in production, marketing and distribution."[257]

-- Ronald Wildmann, analyst at Bank Leu AG in Zurich

"A key trend in the tobacco industry has been consolidation among manufacturers and among leaf tobacco merchants. This concentration should increase the need for better quality tobacco and improved processing, thereby providing a good growth opportunity for the Company." [258]

-- Universal Corporation, 1998 SEC Filing

"The problem with the recent mergers and consolidations in the industry is that they reduce competition." [259]

-- Jerry Jenkins, Virginia tobacco grower

COMPANY PROFITS:

"The international tobacco business has become an increasingly important source of earnings for RJR Nabisco and can be the most significant driver of our future tobacco-earnings growth." [260]

-- Steven Goldstone, CEO, RJR Nabisco

"[Between 1984 and 1994], the wholesale price of cigarettes has gone up 72 cents per pack....During the same ten-year period the average farmer price support has dropped 12 cents per pound....Through wholesale price hikes, manufacturers have reaped an additional $69 billion in profit, while farmers have suffered an accumulated loss of about $500 million and have seen steady declines in their quota....A fair question is, who has reaped the profits...?"[261]

-- U.S. Representative Charlie Rose, North Carolina

"Devaluation will make us even more competitive. Our prices should be more attractive next year....The key to competing is to increase quality without increasing prices too much. If we can do that, we have great potential."[262]

-- Winston P. Uy, President of Lancaster Philippines

"The majority of the growth in tobacco operating profits was due to higher volumes and improved margins in the Company's international operations."[263]

-- Universal Corporation, 1998 SEC Filing

MISCELLANEOUS:

"The one thing we've been good at is managing through instability. We stick to our knitting. We don't get involved in politics."[264]

-- Universal President Jim Starkey.

"With the anticipated slide in cigarette use following November's landmark tobacco settlement, the increased use of overseas tobacco threatens to send many of those farmers into bankruptcy."[265]

-- *Washington Post*

"If the multinational tobacco companies could capture the China market, it wouldn't make a difference if every American stopped smoking tomorrow."[266]

-- Tobacco control expert Dr. Judith Mackay

"Any tobacco legislation must protect tobacco farmers and their communities. We know that tobacco farmers are honest, hard-working people, most of whom live and work on small, family-owned farms. In some states, entire communities rely on income from the tobacco crop. Any legislation must protect these farmers, their families and their communities from loss of income."

--President Clinton, 17 September 1997

ANNEX 4: SOURCES FOR MORE INFORMATION

TOBACCO RESOURCES ON THE WORLD WIDE WEB

Key Sources of News and Information:

International Tobacco List-serv: (news service on international tobacco issues)
Send the message "subscribe intl-tobacco <your e-mail address>" to listproc@essential.org

Kentucky Herald-Leader
http://www.kentuckyconnect.com/heraldleader/hlonline_.shtml

Louisville Courier-Journal
http://www.courier-journal.com/

Raleigh Observer
http://www.news-observer.com/

Richmond-Times Dispatch
http://www.gatewayva.com/rtd/special/tobacco/

Tobacco BBS (North American-based newspaper and wire stories on tobacco issues, as well as comprehensive resource guides; considerable coverage of international tobacco issues)
http://www.tobacco.org

Winston-Salem Journal Now
http://www.journalnow.com/

Non-Governmental Organizations:

Campaign for Tobacco-Free Kids
http://www.tobaccofreekids.org

Friends of Tobacco
http://www.fujipub.com/fot/index.html

International Tobacco Growers Association
http://www.tobaccoleaf.org

Kentucky Action
http://www.realsolutions.org/KY/

Kentucky Farm Bureau
http://www.kyfb.com/

Virginia Rural Economic Analysis Program
http://www.reap.vt.edu/reap/

Reports:

British Columbia, Canada. Comprehensive list of the toxic constituent values reported for all major brands of cigarettes available in British Columbia.
http://www.hc-sc.gc.ca/ehp/ehd/tobacco/research/constituents/tar.pdf

Core Principles Statement Between The Public Health Community And The Tobacco Producers Community
http://www.virginia.edu/~envneg/tobacco/CorePrinciplesSummary.html

"International Tobacco Sales," *U.S. Foreign Policy In Focus*, Vol. 3, No. 17 (Washington, DC: Institute for Policy Studies, 1998)
http://www.foreignpolicy-infocus.org/briefs/vol3/v3n17tob.html

National Cancer Policy Board, Institute of Medicine and Commission on Life Sciences, National Research Council, *Taking Action to Reduce Tobacco Use*
http://www.nap.edu/readingroom/books/tobacco/

U.S. Department of Health and Human Services, *Preventing Tobacco Use Among Young People: A Report of the Surgeon General*
http://www.cdc.gov/nccdphp/osh/sgryth2.htm

U.S. Food and Drug Administration (proposed regulations on nicotine and the sale of tobacco products to children)
http://www.access.gpo.gov/su_docs/fda/index.html

U.S. Food and Drug Administration proposed regulations
http://www.fda.gov/opacom/campaigns/tobacco/tobregs.html

U.S. Food & Drug Administration, *Regulations Restricting the Sale and Distribution of Cigarettes and Smokeless Tobacco to Protect Children and Adolescents*
http://www.fda.gov/opacom/campaigns/tobacco/execrule.html

Washington Post Series on global tobacco issues
http://www.washingtonpost.com/wp-srv/inatl/daily/nov/18/series.htm

Tobacco Industry Information:

Addicted to Profit: Big Tobacco's Expanding Global Reach
http://www.essential.org/action/addicted/addicted.html

Brown & Williamson
http://www.bw.com

Dimon Incorporated
http://www.dimon-inc.com

International Organization for Standardization (ISO): Tobacco, tobacco products and related equipment
http://www.iso.ch/cate/65160.html

IRRC Tobacco Information Service (profiles of tobacco companies around the world)
http://www.irrc.org/profile/tis/tishome.htm

Jack Cannon's Tobacco Industry Information (including previously secret industry documents):
http://www.gate.net/~jcannon/tobacco.html

Japan Tobacco Sponsorship Web Page
http://www.jtnet.ad.jp/WWW/Welcome.html

R.J. Reynolds
http://www.rjrt.com or
http://www.rjrnabisco.com

Tobacco Reporter
http://www.TobaccoReporter.com

Universal Corporation
http://www.universalcorp.com

U.S. Securities & Exchange Commission (a wealth of information on publicly traded companies in the United States)
http://www.sec.gov/cgi-bin/srch-edgar

U.S. Department of Agriculture, Foreign Agricultural Service (world tobacco production figures)
http://www.fas.usda.gov

Tobacco Industry Documents:

Brown & Williamson Documents
http://www.bw.aalatg.com/

Brown & Williamson Documents Concerning Development of High-Nicotine Tobacco Plant
http://www.gate.net/~jcannon/y-1/

Brown & Williamson Documents published by the University of California
http://www.library.ucsf.edu/tobacco/bw.html

Philip Morris Documents

http://www.pmdocs.com

U.S. House of Representatives Tobacco Industry Documents Online
http://www.house.gov/commerce/TobaccoDocs/documents.html

A review of the tobacco industry documents uncovered during the Mangini trial in the United States:
http://www.library.ucsf.edu/tobacco/mangini/report/

Tobacco industry documents uncovered during the Blue Cross/Blue Shield trial in the U.S. state of Minnesota
http://mnbluecrosstobacco.com/toblit/trialnews/docs/

USDA Tobacco Briefing Room
http://www.ers.usda.gov/briefing/tobacco/

1997 Agriculture Census
http://www.nass.usda.gov/census/

U.N. Food and Agriculture Organization Statistics
http://apps.fao.org/default.htm

Rural Advancement Fund International
http://www.rafiusa.org/index.html

Southern Tobacco Communities Project
http://www.virginia.edu/~envneg/tobacco/home.html

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THE WHITE HOUSE
WASHINGTON

Tobs letter

FACSIMILE / MEMO FROM: John Corcoran

OFFICE OF PRESIDENTIAL LETTERS AND MESSAGES
OLD EXECUTIVE OFFICE BUILDING, ROOM 93

VOICE: (202) 456-5515 FAX: (202) 456-5426

Matt we should let Cynthia see

NUMBER OF PAGES (INCLUDING COVER): ______

DATE: 7/23/99

TO: Mary Smith

VOICE: ______

FAX: 67431

☐ FOR YOUR ACTION

☐ INCOMING LETTER(S) FROM: ______

RE: ______

☐ FOR YOUR REVIEW / APPROVAL

☒ PER MY E-MAIL OR VOICE-MAIL MESSAGE TO YOU

☒ PER YOUR REQUEST

ADDITIONAL COMMENTS: Thanks. They're pretty much the same, so I'm just sending a couple samples. Let me know if you want to see the rest. There's 5 total, all from Jan or Feb.

JHC

293647

Missouri Council for Burley Tobacco, Inc.

23560 Nichols Road
Weston, Missouri 64098
816-685-3389

January 28, 1999

Farmer concerns

The Honorable William Jefferson Clinton
President of the United States/ The White House
1600 Pennsylvania Ave. N.W.
Washington, D.C. 20500

Dear President Clinton:

In your "State-of-the-Union" address, your proposed lawsuit against the tobacco industry was ill-received in this tobacco community.

As the small family tobacco farmer looks for ways to sustain his way of life and his heritage, destroying the industry that sustains that way of life is a poor choice at best.

For the past year the small tobacco farmer has received the promise that "he will be taken care of."

The best way to take care of the small tobacco farmer is to leave his livelihood in place and his industry alone.

Sincerely,

Louis Smither

Louis Smither, Chairman

FEB 3 1999

296309

Neal Shapiro

Commonwealth of Kentucky
HOUSE

FRANKFORT, KENTUCKY 40601

Thomas M. McKee
State Representative
Home Address:
Route 8, Box 56
Cynthiana, KY 41031
Ph. (Home) 606-234-5879

Office Address:
Room 324B - Capitol Annex
Frankfort, KY 40601
Ph. 502- 564-8100, Ext. 667
Message Line 1-800-372-7181

February 25, 1999

The Honorable William J. Clinton
President of the United States
1600 Pennsylvania Avenue, N.W.
Washington DC 20500

Dear Mr. President:

Generation to generation, the area in North Central Kentucky which I represent has been and remains very dependent upon tobacco and the business needed to support that crop's production.

I serve on the House Agriculture and Natural Resources Committee and the Tobacco Task Force in the Kentucky General Assembly. We have examined and tried various other crops, but none have proven as successful as tobacco production. The terrain in my area is rolling and is best utilized with hay, grass, and cattle, with the flatlands and ridges supporting the tobacco crops. We do grow limited acres of grain, but we simply cannot switch to grain production on a large scale because of environmental and erosion problems. Without burley tobacco, the economy in the 78th District would suffer devastation.

I discussed these issues with you following your presentation in Carrollton, Kentucky, in the spring of 1998. At that time, you indicated you were not against tobacco farmers, tobacco production, or tobacco companies. You simply wanted to address the issue of under-age tobacco use. I agree with you. The many farmers that I represent share this concern and we all want to work together as a team to achieve this same goal. Education, not raising the price of the product, is the key to success. At the time of our conversation, Senator Wendell Ford's Leaf Act was still a viable option. Unfortunately, his bill was never allowed to solve our problems. The settlement reached November 3, 1998, between the four major tobacco companies and the Attorneys General of the 46 unsigned states has breathed new life into the industry.

The Honorable William J. Clinton
February 25, 1999
Page Two

Specifically, Mr. President, I ask that you reconsider the 55 cent per pack proposed cigarette tax and your decision to ask the U.S. Attorney General's Office to sue tobacco companies. Both of these proposals will have a detrimental effect on the tobacco economy and will result in many farmers losing their land, their homes, and the very livelihood that has supported, educated, fed, and clothed their children for generations. I would also ask that the state be allowed to maintain the full amount of the settlement funds in the tobacco agreement between the states and the tobacco companies. I would further point out that the tobacco program has served as a model for the entire agricultural economy. As you know, this program has operated for many years with virtually no federal dollars and has resulted in getting the tobacco economy to its current level. The price-support system for tobacco needs to be maintained.

Tobacco production and the use of tobacco products are as old as history itself. This product will be produced somewhere in the world. I maintain that the best quality tobaccos are produced in our country, and I simply ask that our farmers be allowed to continue production and keep the dollars at home.

I share your concern for the health problems associated with tobacco use; however, I realize that many other factors contribute to health problems in our country. Abuse or overuse of many products is detrimental to our health.

Best wishes for the remainder of your term. I look forward to working with you on this issue and many others that will help make our country a better place to live.

Sincerely,

Thomas M. McKee

Thomas M. McKee
State Representative

TMM:sl

301810

MASON COUNTY FISCAL COURT

JAMES L. "BUDDY" GALLENSTEIN
Judge / Executive

John Estill
County
Attorney

Marty Wallingford
Pat McKay IV
F.J. "Bear" Finn
Commissioners

February 5, 1999

The Honorable William J. Clinton
President of the United States of America
700 Pennsylvania Avenue
Washington, DC 20510

Re: Tobacco Settlement

President Clinton:

When Christopher Columbus first set foot in the new world, his crew members were the first Europeans to smoke tobacco, taking the custom back with them when they returned home. From the beginning as one of America's first exports, tobacco has been a source of revenue for over 400 years. The proceeds from tobacco laid the foundation for our nation's economic existence. The leaf was so valuable that it was once accepted as legal tender, and to pay debts and taxes.

Today, approximately 45 million Americans enjoy cigarette products and thousands of jobs and billions are generated every year through the manufacturing, distribution and sale of these products. The activities of the tobacco industry create waves of economic benefits that flow continuously into almost every segment of the American economy. As you can see, the benefits of tobacco are expansive and *its future is our future*.

Agriculture has a significant impact on the Mason County economy, with tobacco being the largest single cash product. Moreover, Mason County has the distinction of being "The World's Second Largest Burley Tobacco Market." Therefore, as you can imagine, we have been watching the tobacco settlement talks with great interest and concern. Pursuant to the recent State of the Union Address, I cannot in good conscience, support the idea of placing the tobacco industry under even greater peril by imposing an additional $.55 cent excise tax upon each pack of cigarettes. The previous $.45 cent increase has already resulted in a reduction in the demand for American tobacco. To increase costs yet again would further depress farm family income that has been declining over the past decade. These backbone families are already on the brink of extinction. Additional taxes would simply cripple these families.

Furthermore, with regard to the Master Settlement Agreement, it is my feeling and the feeling of the people of Mason County as well as the Commonwealth of Kentucky, that these monies should go

APR 12 1999

219 Stanley Reed Court • Maysville, KY 41056 • Telephone 606-564-6706 • Fax 606-564-7315

to the state, without attachment by the federal government, for distribution to producers, quota holders, and tenants.

In closing, I would like to respectfully ask that you reconsider your request that Janet Reno file a U.S. suit (identical to the state suits) against the tobacco companies. This has already been resolved and we need no further interference from the federal government.

Sincerely,

James L. "Buddy" Gallenstein

James L. "Buddy" Gallenstein
Mason County Judge/Executive

.abg

CHARLES S. ROBB
VIRGINIA

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United States Senate

WASHINGTON, DC 20510-4603

XY Cross

COMMITTEES:
ARMED SERVICES
FINANCE
INTELLIGENCE
JOINT ECONOMIC COMMITTEE
Democratic Policy Committee

September 28, 1999

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We are writing to reiterate our strenuous objection to an increase in the federal excise tax on tobacco products.

As we have both discussed with you previously, such a tax increase would harm low income individuals, devastate tobacco growers and their communities, and lead to massive job losses for tobacco manufacturing workers.

We have worked with you to insure that our nation's economic prosperity reaches all our citizens. We passed a dramatic expansion of the Earned Income Tax Credit, and we've fought for an increase in the minimum wage. Another increase in the tobacco tax, however, effectively penalizes those at the lower end of the economic spectrum and runs counter to the work we've done on their behalf. It is difficult to understand why we'd even consider raising taxes on the less fortunate during a time of supposed budget surplus.

Not only would another increase in the tobacco excise tax hurt those who can least afford it, but it will also be a crushing blow to tobacco growers, tobacco workers, their families and their communities. In both Virginia and North Carolina, entire regions are dependent on growing and manufacturing tobacco products, and each increase in the excise tax on this legal product further threatens the economic strength of these areas. We cannot imagine anything more cruel than to promote a tax which would destroy communities that are already reeling from a natural disaster that is almost beyond comprehension.

The Master Settlement Agreement between the state Attorneys General and the tobacco companies, and the impending increase in the excise tax, are already causing an incredible financial strain on families who want the same for their families as everyone else: good schools, a decent job, a secure retirement. Further efforts to raise the excise tax will simply put these dreams at risk, and we urge you not to pursue this tax increase.

Sincerely,

John Edwards

John Edwards

Chuck Robb

Charles S. Robb

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United States Senate

WASHINGTON, DC 20510-4603

tobacco fairness

COMMITTEES:
ARMED SERVICES
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INTELLIGENCE
JOINT ECONOMIC COMMITTEE
Democratic Policy Committee

OFFICE OF SENATOR CHARLES ROBB

FAX: 202/224-8689

FASCIMILE TRANSMITTAL

DATE:

TIME:

TO: Tom Freedman

FIRM:

FAX: 456-7431

PHONE:

FROM: Rudgi Schuyler

 # OF PAGES INCLUDING COVER:

COMMENTS: To paraphrase Albert Brooks in Broadcast News, "you say it there it comes out here." The tobacco issue is a single issue concern to only one group of people: those in the tobacco industry. Between the talk of a tobacco tax and the lawsuit, you guys are KILLING US!

If you have any problems with the receipt of this transmission, please call the sender listed above immediately, 202/224-4024. Thank you.

GEORGE ALLEN
U.S. SENATE

For Immediate Release:
Friday, September 24, 1999

Contact: Jay Timmons
804-775-2000

Allen Calls on President Clinton to Drop the Tobacco Lawsuit

"If you persist, every farmer in Southside and Southwest Virginia will know your real mission"

Richmond, VA. Former Virginia Governor George Allen today called on President Clinton to reconsider the federal lawsuit announced on Wednesday against American companies involved in tobacco. In a strongly worded letter to the White House, Allen expressed concern both for the 120,000 Virginians whose jobs are attributed, directly or indirectly, to tobacco, and for the chilling precedent being set "when lawsuits become a political tool wielded by government."

"The federal government has vast powers and resources," Allen noted in his letter to the President. "You have been entrusted by the people to use them wisely and judiciously. This lawsuit does not appear worthy of that trust and threatens to undermine the rule of law that is the foundation of American liberties."

The former Governor warned that Virginians would not be duped by hypocritical expressions of concern about the interests of growers and others involved in this legal industry from the Clinton Administration and its apologists in light of the tobacco lawsuit. "If you persist in going forward, every farmer in Southside and Southwest Virginia will know that your real mission is to put him out of business. And the precedent you set will leave many good working people across America fearing that their jobs could be the government's next target."

A copy of Governor Allen's letter to President Clinton follows.

###

GEORGE ALLEN

GOVERNOR OF VIRGINIA, 1994-1998

September 24, 1999

The Honorable William Jefferson Clinton
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20100

Dear Mr. President:

I was disappointed to learn that you have directed the U.S. Justice Department to move forward with a federal lawsuit against the American companies involved in tobacco. I am writing to urge you to reconsider this inappropriate course of action.

As a Virginian, I am concerned about the impact this abusive lawsuit will have on the 120,000 working men and women in my State whose livelihoods are tied to this legal product -- tobacco. As an American, I shudder at the precedent being set by this attack on the livelihoods of decent, hardworking families and their local communities.

When lawsuits become a political tool wielded by government, we all need to be on our guard. The federal government has vast powers and resources. You have been entrusted by the people to use them wisely and judiciously. This lawsuit does not appear worthy of that trust and threatens to undermine the rule of law that is the foundation of American liberties.

The American people cannot help but be skeptical about the motivation
behind this lawsuit. At first, your Administration claimed to be concerned about
the children. As you are aware, Mr. President, responsible States already are
taking strong action to curb youth smoking. Throughout Virginia, billboards warn
of the penalties for selling cigarettes to minors – and we have increased resources
to see that these laws are strictly enforced. As a parent, I only wish that the
federal government would take as seriously its own responsibilities in keeping
illicit drugs away from our children.

Authorized and paid for by Friends of George Allen

The Honorable William Jefferson Clinton
September 24, 1999

Page 2

This lawsuit has every appearance of a money grab, pure and simple. Year after year, the budgets you have submitted to Congress have counted on unrealized tobacco revenues to pay for new and bigger government programs. Now that the Congress has rightly decided that the States will determine for themselves how to spend their funds from the tobacco settlement (instead of funneling a share through Washington), the federal government is launching a suit of its own. This suit ignores the sound advice of attorneys that there is no legal standing and no statutory grounds for recovery and is oblivious to the hypocrisy of the federal government claiming lost revenues on the one hand while collecting roughly $6 billion in taxes each year from tobacco sales.

For years, your administration has claimed sympathy for tobacco growers and communities. Actions speak louder than words, Mr. President.

If you persist in going forward, every farmer in Southside and Southwest Virginia will know that your real mission is to put him out of business. And the precedent you set will leave many good working people across America fearing that their jobs could be the government's next target. I respectfully request that you reconsider and direct your Justice Department to drop this ill-advised lawsuit.

With kind regards, I remain,

Sincerely,

George Allen

George Allen

CAMPAIGN for TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

FACSIMILE TRANSMISSION

NUMBER OF PAGES (INCLUDING COVER PAGE) 14

TO: Tom Pridman

FROM: Scott Ball

DATE: 11/2/99

SUBJECT:

Tom

FYI

S

TOBACCO IN THE 21ST CENTURY: TURNING OVER A NEW LEAF

Remarks of
Scott D. Ballin, JD
Senior Policy Consultant
Campaign for Tobacco Free Kids

"The Practice of Health in
Tobacco Growing Communities:
New Partners for
Today's Challenges"

Abingdon, Virginia
October 28-29,1999

"The interests and future of tobacco growers and public health officials are inescapably intertwined in tobacco-producing states, and the two parties must continue talking to find mutually acceptable solutions".

Former President Jimmy Carter

TOBACCO IN THE 21st CENTURY: TURNING OVER A NEW LEAF

Good Afternoon. This is indeed an important gathering of people who just a few years ago were barely willing to speak to each other or didn't even know each other existed. I have been involved in the tobacco issue for more years than I want to admit. There have been definite 'stages' of change over the last 35 years since the first of the more than 25 Surgeon General's reports was released. But nothing like the prospect for change that awaits tobacco in the 21st century —now just two months away. For most of those 35 years tobacco producers and the health groups had a "them against us mentality", and to some extent that mentality stills exists. It exists on the public health side and it exists on the agricultural side. But the "them" versus "us' classification can no longer be clearly defined. Lines of distinction are becoming increasingly blurred. People are having to redefine and clarify their positions. People are beginning to look for ways to accommodate the legitimate interests of others but *without sacrificing their own goals*. Many of you in this room should be credited with making all of this happen.

Although I hear from both producers and health people alike that the future of tobacco seems more uncertain today than ever before, I also believe that there are opportunities for 'positive change' that have never existed before...opportunities that will protect the public health and ensure economic security for tobacco producing communities.

I believe that the future of tobacco and the future of public health will be partially determined by what happens in this room and what you as leaders decide to do or not do when you leave Abingdon. The time has come to fundamentally change the way in which the tobacco companies have conducted themselves over the last 45 years and to bring ***accountability and responsibility*** to their business practices that serve all of our needs and objectives. My primary message to you this afternoon is —don't disregard what you hear over the next day and a half...keep an open mind about the future —realize and accept that "change" is inevitable and that change can be managed in a way that serves all of our interests.

For the growers and those representing agricultural interests, you must accept the fact that tobacco is the single most preventable cause of death in the United States, that it is addictive and that tobacco products must conform to health and safety requirements at least comparable to other legal products such as drugs, foods and cosmetics. For health organizations and those working in the health area, you must accept that for the tobacco producing communities, tobacco has been their livelihood for decades if not centuries, and something that has preserved the small family farm. I don't think anyone in this room would suggest or advocate that tobacco be banned. But I would hope that all of you realize and accept that the status- quo of tobacco cannot be preserved and tobacco will be very different in the next century. Many different forces are at work. The question is, will we be "reactionary" or will we "proactively" serve as the agents of change?

International Production and International Health

While it is easy and expedient for tobacco producers to blame the settlement, the threat of lawsuits, and reduced consumption as the reasons behind the uncertainty that tobacco producers are facing, these issues are insignificant and often used as smokescreens by the companies. These are things that when all is said and done the tobacco manufacturers brought upon themselves –things that could have been avoided 35 years ago. It is also equally wrong for health groups to blame the tobacco producers for the suffering that has been caused by the tobacco companies who knew that their products caused disease and did nothing about it.

The reality is that consumption of tobacco is declining in this country at only about one and a half to two percent each year. That may increase in the coming years and, hopefully, it will be the kids who make up the majority of any reductions. The reality is that the price of a pack of cigarettes is not so much determined by the increase in the federal excise tax but by the companies' persistent price hikes over a number of years. The reality is that in spite of the settlement, companies are profiting. If they are hurting at all it's more the result the competition amongst themselves as they work to maintain and expand market share, both here and overseas.

I believe that the real and most immediate threat to producers lies in what is happening in the production and manufacturing of tobacco in the overseas markets, and the blind eye that many policy makers turn to it. Ironically, the success of the tobacco companies and leaf dealers in developing their growing and manufacturing operations overseas hurts **both** the US tobacco producer and puts at risks the health of billions of people around the world, including here in the US. And it will get worse if something isn't done. A look at the tobacco companies and leaf dealers SEC reports, their statements to such trade journals as the **Tobacco Reporter** and the **Tobacco International**, and various public reports about investments and operations overseas should send shock waves through tobacco producers, policy makers and public health organizations alike.

While production of both burley and flue cured tobacco has increased substantially in such countries as Zimbawe,China, Malawi and Brazil production in the US has declined --- the only major tobacco producing country that shows declines.

While US farmers try to maintain a fair price for their tobacco, US companies are providing the seed, technology, and other resources that allow foreign producers to sell tobacco for as much as $ 1.50 less per pound. A pound of tobacco in Zimbabwe runs about $ 0.63, a pound of tobacco in India, $ 0.31, in Brazil, $ 0.59.

Over the last decade, US tobacco manufacturers have built or purchased dozens of manufacturing plants around the world. Leaf deals have set up operations in new parts of the world that just a few years ago had no US companies. For example, an article in the **Tobacco Reporter** recently noted that Standard Commercial, as part of its long term strategic plan, has established state- of- the- art processing plants in India and China. As the CEO of Standard Commercial Robert Harrison has stated, *"with great pressures on the industry and increasing demand for lower cost components...we see great potential to increase exports from China and India, providing a continuing supply to a large number of customers."* And, just as Philip Morris was announcing the closing of its plant in Louisville not too long ago, it was in the process of spending approximately $ 150 million to refurbish a plant in Switzerland that was going to supply PM products to approximately 60 countries world wide. A **Tobacco Reporter** article from a couple years ago noted that in Mexico, where none of the US tobacco companies and leaf dealers had been just a few years ago, they are all there now. James Starkey with Universal Leaf told one tobacco trade journal, " *The more important the price of the final product the more the customer will substitute its US leaf purchases……Price continues to be a major issue, or the major issue.*" In January of this year the **Tobacco Reporter** carried an article on a speech made last year at the Geneva TABEXPO by Allen King the CEO of Universal Leaf, the largest leaf dealer in the world. The magazine noted two things that King believed essential for the future:

- Recognize changing trends in tobacco consumption, and
- Understand the capacities of different regions to meet that demand

King concluded his talk to the conference with what the Tobacco Reporter called a **clear** recommendation:

> In order to meet the demands of a changing market for flue-cured and burley leaf, **the industry must expand production in new leaf sources and in less traditional regions.** But without the support of manufacturers, King warned, the leaf supply industry would be unable to assume the risks. From King's perspective, **only "strategic partnerships" between dealers and manufacturers will guarantee reliable sources of leaf in the next century**.

And this month's **Reporter** highlights the Hong Kong tobacco conference taking place this week. I noticed that several of the major presentations are focused on how technology can and should be used to improve the qualities of Chinese tobacco leaf and products. And guess who has been providing some of that technical assistance? You guessed it, US tobacco companies. I think you get the picture.

And there is much much more that you will be able to see shortly when we issue our long awaited report on how the tobacco manufacturers and leaf dealers are abandoning the interests of the tobacco farmers in the US, leaving them on the 'outside looking in'.

What is happening on the global level in the production and processing of tobacco should be a 'wake up' call to US farmers. The tobacco manufacturers partial 'exit' strategy is already well underway and has been for a number of years. For 'profit' the tobacco companies have been willing for decades to sacrifice the public health and I believe they are and will be willing to sacrifice the US tobacco producer when they no longer serve their political or economic needs. I am not suggesting that the companies will abandon the US market completely. Tobacco will be grown here, but the question remains, how much, what kind, and by whom?

On many occasions, I have heard farmers express the dilemma that on the one hand they have some idea of what the companies are doing to them, on the other they are quick to point out that the companies are their 'customers'. I think that the producers need to start looking at their business differently. Their real customers are adults who use their product. Farmers agree that kids should not smoke or use tobacco and should not be targeted by the tobacco companies --- yet the evidence clearly suggests the tobacco manufacturers have done otherwise. I would suggest that tobacco producers would also agree that adult users should be given full complete and accurate information about the product so that they can make an informed choice. And yet the adult users of tobacco are kept in the dark about these products. Not only kept from receiving complete information about the dangers associated with the product but also about such things as domestic content (i.e. how much foreign/domestic leaf is being used in tobacco), pesticides, and whether the product is made with reconstituted tobacco. Why should US tobacco companies be able to produce a product that contains as much as 40% foreign leaf and claim these products to be "made in America" both here in the US and in foreign exports? The FTC guidelines, issued last year, indicate that for a product to be claimed as such it must be made of virtually all American made components. Growers should be demanding disclosure and put a stop to the deception. Consumers, just as they should know all of the health and safety information about the product should also know where it comes from and whether the leaf is real leaf or some form of reconstituted tobacco product. While withholding the critical information about the product the tobacco companies have been quick to tout the implied health benefits of so-called low tar and low nicotine. Yet there is little to no evidence that any of these products actually provide a health benefit.

And if you think that what the tobacco manufacturers are doing overseas will put US growers out of work and devastate tobacco producing communities, the concerns of the public health community on the devastating disease and death that awaits the world is equally serious and critical. The disease and death caused by tobacco use on a global level is already an epidemic. The World Bank and the World Health Organization estimate that with current "smoking patterns, about 500 million people alive today will eventually be killed by tobacco use. More than half of these are children and teenagers". By 2030 tobacco is expected to be the single biggest cause of death worldwide, accounting for about 10 million deaths per year that if not stopped. For the most part, the world is ill-equipped to deal with the influences and power of the big tobacco companies, who are taking their successful marketing and advertising campaigns that have worked so well here, overseas. The world does not have the health care infrastructures in place to deal with the ravages of disease that will be caused by the aggressive marketing of these products. Today after decades of deceptions and cover-ups and millions of lives lost, the companies are now ***'sort of'*** acknowledging that their products cause disease and are addictive. Yet little in the form of ***substantive*** change in their corporate behavior is taking place either here in the US or overseas. Do you wonder why the public health community has been so critical of the tobacco companies when millions of premature deaths in this country could have been avoided had the tobacco companies carried out the promises they made to the country in the 1950's, that they would **"put public health above all corporate interests"**.

I think that every public health advocate and policy maker working on the tobacco issue who questions the sincerity of the tobacco producer should go and visit a tobacco farm and a tobacco producing community and talk to the people. I also think that every tobacco producer and policy maker who questions the sincerity of the public health community should visit a hospital and see first hand the ravages that tobacco can cause in the form of cancer, heart disease, emphysema and many other diseases. The harm caused is not just to the people suffering from the disease but to their families and communities as well. And we should realize too that if we don't prevent children and adolescents from using tobacco, they too are likely to end up dying prematurely as did some of their parents and grandparents.

The Tobacco Program

As much as tobacco producers have tried to educate me about the complexities of the tobacco program, this lay person pleads "semi-ignorant". I can tell you however, that many in the public health community now realize that a tobacco program is both important and necessary if the small family tobacco farm is to survive. And there is validity to the argument that without a program to control production and price, the tobacco companies would force prices down and develop corporate farming that would allow them to produce tobacco on large corporate farms anywhere in the country. Some argue that elimination of the program would probably add only a couple cents to the pack of cigarettes. This may be true but there is the added reality that driving the price down not only allows tobacco companies to purchase tobacco at bargain basement prices here in the US but the collapse of the US program will drive prices down world wide —further increasing the tobacco companies profits. And who will be the ones most adversely affected? The US small family farm. What a tobacco program should look like in the 21st century to deal with what is a rapidly changing environment remains to be seen.

Just as the public health community believes that there should be controls over the manufactured tobacco product by the FDA, so should there be a tobacco program to control price, production as well as *quality*. Let me talk about 'quality' for a moment. For decades US tobacco stood apart from foreign leaf because of the "quality" of the leaf, the specific tastes that only US leaf could provide. Yet that, in the tobacco companies' and leaf dealer's own words, is changing. There will be a time in the not too distant future where US and foreign leaf will be indistinguishable to the consumers of tobacco. Already PM is sending out the word that under contract buying it may buy only the 'cream of the crop'. It may make good business sense to them; it is a disaster to the US producer. My message about "quality" is that in the 21st century producers in the US must at least be thinking about 'quality' in terms of the **health and safety** of the leaf and the manufactured product.

The Food and Drug Administration

For the last decade the tobacco companies have used the threat of the FDA as a reason why farmers should rally behind the tobacco manufacturers cause. They put fear in many tobacco producers that FDA agents would sweep out of the sky, seize their crops, put them out business, and ruin their lives and communities. I want to suggest to all the growers, agricultural leaders and policy makers here today that the so-called threat of the FDA was never and is not what the tobacco companies claim it to be. It is an effort to ensure that the tobacco companies comply with fair manufacturing, sales and distribution standards, labeling and marketing standards that they said they would decades ago. The FDA is the key public health agency charged with ensuring that manufactured products, including drugs, devices,foods,cosmetics, and dietary supplements are what they claim to be. Why, when we know medically and scientifically that the use of tobacco causes disease, should it be treated any differently? For decades tobacco products remained outside the regulatory framework of the agency not because it should not have been included but because of the clout of the tobacco companies.

Just as the tobacco program is essential to producers, FDA authority over tobacco products is essential to public health. It is a corner stone if not **the** corner stone to the public health community's national agenda. It levels the regulatory playing field, and it establishes proper health and safety controls over a product that presents significant public health risks. It ensures proper controls over the sale and marketing of tobacco products to children and adolescents, ensures full and complete and accurate labeling of the products so that adult consumers can make a fully informed choice about the products they chose to use or not use. I believe that FDA regulation, which provides a set of standards and requirements that all tobacco manufacturers need to follow, will also create a competitive environment that will break the monopolistic control that PM and several companies have had and will allow for new products to be developed that may reduce the risks of disease and death. The FDA has an essential public health role to play in the 21st century.

I have spent more than ten years working on this issue. I know what our intentions were then as far as what we believed to be fair regulation, and I know what those intentions are today. For those of you who might think that this was a 'backdoor attempt to ban tobacco' as the tobacco companies have claimed, it was not and is not. In fact if you look at the public health community's statements, if you look at some of the legislation that was introduced in the early 1990's,, we made sure that tobacco products could not be banned solely because they caused cancer, heart disease, and were addictive, unless they were in violation of some other regulatory provision of the law. We stand by that and we resent the tobacco companies continued efforts to claim that FDA will lead to a ban of tobacco. Let me remind everyone that this effort was something that started under the Bush Administration with the leadership of Secretary of HHS Louis Sullivan, and Assistant Secretary of Health James Mason. **This is an issue that should be supported by both republicans and democrats**. We should not being playing politics with the health and welfare of the American people, whether it's those who use these hazardous substances or those whose livelihoods have depended on its production.

The Need for Continuing Research and Development

Tobacco, and the products made from it, are technologically and pharmacologically complex. There are thousands of constituents in tobacco that are produced when the tobacco is burned. The tobacco companies themselves further complicate our ability to understand the cigarette by adding chemical additives into their products for many different reasons; taste, burning qualities, maintaining nicotine levels, compensating for taste in lower tar brands. Even the design of the cigarette itself, the kind of paper used, the filters, draw, and other qualities of the products are varied and have complex medical and pharmacological effects. Many of these things directly influence the health of the consumer. Not only do we not yet have the FDA in place to evaluate and look at these issues, we will need ongoing research in place to deal with these complex issues and the new products that might one day appear on the market.

We need to also better understand the science of the production of the leaf itself, not just from an agricultural standpoint, but from a health and safety standpoint as well, something that tobacco producers should embrace as they look to the 21st century. Good science and the appropriate regulatory structures are what should be the driving force of the future, not the tobacco companies tactics and distortions of the science for marketing purposes.

Genetically Modified Tobacco(GMT)

Some of you may be aware that there is research being conducted that will allow transgenic tobacco to be used to develop life saving medicines and industrial enzymes efficiently and cost effectively. Whether this exciting new area of research holds any real promises for growers and health groups still remains to be seen. From what I have seen and heard this is an area that could reap tremendous benefits in many different ways. CropTech will be making a presentation on the state of their research initiatives; I don't want to take anything away from the presentation that will be made later. Trust me however, that this is an exciting area of research and may hold great promise for the 21st century.

And it isn't just CROPTECH that is interested in GMT. Just recently at the 53rd Annual Tobacco Chemists meeting in Montreal an entire morning was set aside to discuss the future of GMT products. Let me read what one of Philip Morris' top research scientists has said:

> Biotechnology has the potential to provide a wide range of benefits to the business community. The estimated value of transgenic crops in the global market has increased from $ 75 million in 1995 to approximately $ 1,500 million in 1998. <u>Opportunities for the use of biotechnology to aid tobacco production and utilization include improved varieties and yields, improved agricultural practices, enhanced quality traits, reductions in costs, and novel product development.</u>
>
> With the uncertainty in the regulatory arena<u>, it may be necessary not only to implement procedures for the segregation of genetically modified tobacco from non-genetically modified tobacco, but also to segregate different types of genetically modified tobacco from each other…..Furthermore segregation and traceability throughout the supply chain would be necessary to preserve the usefulness and value of specialty tobaccos.</u>
>
> Tobacco with enhanced quality traits has the potential to address issues held by the manufacturers and consumers of tobacco products and may add value to the grower or seed producer in the form of premium pricing. Products with improved processing characteristics, novel flavors and modified product chemistry would fall within this category. Specific traits could include: higher yield of quality leaf per unit area of land; flavor metabolism, reduced accumulation of metals, reduced alkaloids, reduced tobacco specific nitrosomines and enhanced processing properties.
>
> Comparatively little use has been made of the wealth of information available on genetically modified tobacco to make technological contributions to the quality of tobacco as a crop…..<u>The opportunities available through the use of biotechnology are enormous. The full potential of its application for the agricultural community has not yet been realized. The design and development of plants with almost any characteristic(s) can be described in biochemical and genetic terms are theoretically possible.</u> Basic research and industrial application merged to produce commercialized products. <u>It may be time that the tobacco world serious considers the advantages that could be realized with the use of this new and powerful technology.</u>
>
> Source: **<u>Recent Advances in Tobacco Science, Genetics and the Future of Tobacco</u>**, Symposium Proceedings, 53rd Meeting Tobacco Science Research Conference, Montreal, Canada, September 12-15, 1999.

The fact that the research, development, and placement of these products into the market place may be only a few years a way, demands that public health people fully understand and realize the positive and negative ramifications of these technologies. As even PM recognizes, this means the possible regulation of such products by the FDA, EPA and USDA. It is also means that producers must fully understand that this area may fundamentally alter the manner in which they grow and produce tobacco, maybe not in the next 2-3 years but definitely in the next 5-10 years. It may be one of the reasons that the tobacco companies want to end the tobacco program so desperately and why they are already experimenting with bailing and other means of being able to 'segregate and trace' the tobacco.

Industrial Hemp

As with many things in our society the issues surrounding hemp are complex and opinions varied on whether it should be legalized as an industrial product? I am not going to go into a detailed discussion on hemp----but I will say that this is issue that is dramatically changing. When I first started following hemp a couple of years ago, no state and few policy makers would even seriously raise it as a significant issue. Today more and more states are passing legislation that will set up experimental industrial hemp production. The national Farm Bureau I understand supports the legalization of industrial hemp. The North American Industrial Hemp Association which meets next week in Chicago has worked to distance itself from those who use the hemp issue to support legalization of marijuana. The DEA is softening its position on the issue and is willing to look at ways that experimental production might be feasible under controlled conditions. Is the tobacco program a model for the production of hemp ? Just last week the Fayette County Farm Bureau of Kentucky passed a resolution endorsing the legalization of hemp. Where this is going I do not know. What positions will or will not be taken by health and agricultural groups remains to be seen, but this is an issue that is out there getting more and more attention and discussion.

Building Stronger, Broader and Deeper Working Relationships between the Public Health Community and the Tobacco Producing Communities

I believe that those who work or volunteer for the voluntary public health organizations have an obligation to better understand and work with the tobacco producing communities in their states. Their missions include the health and welfare of **all** Americans. I believe that the tobacco producers and their communities have a responsibility to work with and better understand what these organizations are all about and realize that they are the ones who believe in ensuring that your future and the future of your children are healthy and productive. These organizations do more than just work on tobacco, their missions are to reduce mortality and morbidity, to reduce and hopefully eliminate the cancer, heart disease and strokes that afflict all of us. Instead of referring to them as "anti-tobacco" I think that they should be identified as the "pro-health" organizations. And I think that instead of defining tobacco-producing communities as "pro-tobacco" I think they should be identified as "pro-farm families and communities". Whether it's public health or farming, we are in the "people" business. We all want to see the 'quality of life' preserved for future generations.

Conclusion

If anyone had asked me two years ago what the state of tobacco would be in the next five to ten years, I would have given them a very different answer than I would today.

Where we are today would not be possible had many of the people in this room not played the role that they did. What has been happening over the last five years reminds me of my 7th grade biology class, where we watched the amoebae divide, then divide again, and again and again. As more people become involved and talk to their colleagues, the more we will be able to tackle the challenges that await us in the 21st century.

I see the work of the last decade as just the beginning of a new era ---It took that long to just begin to erase the deep lines that have existed between public health people and tobacco producing communities. We have established a new level of trust and working relationships-----but the 21st century will require all of us to work towards finding meaningful solutions. No we won't always agree, and we won't always agree even within our own respective organizations. But if we don't push the envelope, if we don't provide the leadership, then the road ahead will continue to be difficult if not impassable. Where we can, we need to continue to "encourage" policy makers at the national and state level to make policy decisions that bridge the gaps between the public health communities and tobacco producing communities and to find solutions that serve all of our interests. For more than 35 years the health of the American public and particularly its children have been put at risk due to the tobacco companies failure to fulfill their promises to the American people. Today its not just the health of people who are at risk, its also the tobacco producers and their communities that are also at risk. Let's not make the mistakes we made 35 years ago. **Thank You.**

GOP Tells Business Owners That Effort To Finance Fights Against OSHA Is Lost

By JIM VANDEHEI
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Business officials were privately told by GOP leaders that their crusade to provide small-business owners with more authority to fight the Occupational Safety and Health Administration was all-but doomed by union pressure applied to moderate Republicans.

At the behest of lobbyists representing the Associated Builders and Contractors, Speaker Dennis Hastert of Illinois had scheduled a vote for tomorrow on whether to give business owners the right to recoup legal costs when they prevail in court against OSHA or the National Labor Relations Board.

The legislation would cost about $4 million a year, according to the Congressional Budget Office, and would apply to companies with fewer than 100 employees and a net value of less than $7 million.

But Mr. Hastert is now likely to cancel the vote because as many as three dozen Republicans, mostly from industrial regions in the Northeast and Midwest, have refused to cross the unions, fearing political retaliation.

The AFL-CIO sent word to Capitol Hill that this was one of the most important nontrade issues facing organized labor this year, according to an aide to Minority Leader Richard Gephardt of Missouri. A lobbying campaign launched by the buildings and construction trades union also may have pressured some lawmakers.

The AFL-CIO plans to spend more than $40 million on the fall elections and individual unions will pour millions more into Democratic coffers in the form of uncapped soft-money contributions. House Republicans who consistently vote with labor have been told that the AFL-CIO and other unions won't campaign to defeat them.

The Associated Builders and Contractors dispatched roughly 500 small-business owners to Capitol Hill for a last-ditch lobbying effort. But GOP officials said it would be virtually impossible for the industry to pull this off.

These officials privately blamed the business community for failing to adequately pressure wavering Republicans to embrace the proposal and conceded that, once again, when push comes to shove, organized labor can count on a small group of Republicans.

"We call those folks squishes," said W. Thomas Musser, President of the Associated Builders and Contractors, who lamented that 30 or so Republicans were refusing to defy labor.

By canceling the vote, Republican leaders would protect their moderate members, many of whom face tough re-election campaigns this year, from having to choose between business interests and the AFL-CIO.

Farmers to Sue Big Cigarette Makers, Charging Violation of Antitrust Law

By GORDON FAIRCLOUGH
Staff Reporter of THE WALL STREET JOURNAL

Thousands of tobacco farmers are taking the nation's four largest cigarette makers to court, accusing the companies of violating antitrust laws and using their market power to take billions of dollars out of growers' pockets.

The farmers are expected to file their suit in federal court in Washington today, alleging that tobacco companies have set out to undo a U.S. government-administered quota system designed to prop up prices for tobacco leaf. The suit is expected to seek $69 billion in damages.

Alexander Pires, the lawyer representing the farmers, said that more than 4,000 tobacco growers so far have joined the suit, which is seeking class-action status.

The case represents a splintering of what has been a potent political alliance between cigarette makers and tobacco farmers. And it opens yet another front in the legal war against the tobacco industry, which is already facing courtroom attacks from smokers, the federal government and cigarette wholesalers.

Declining demand for U.S. tobacco—the result of falling domestic cigarette consumption and increased use of imported leaf—has caused economic hardship for many growers, who feel they were shortchanged by the $206 billion legal settlement reached in 1998 between the tobacco industry and state governments. The states had sued the industry seeking to recoup money spent caring for sick smokers.

The farmers' lawsuit is expected to allege that the tobacco companies misled growers into opposing tobacco legislation introduced by Sen. John McCain (R., Ariz.) that would have settled antitobacco lawsuits, at a cost to the industry of $500 billion, and provided about $28 billion in aid to the farmers.

The bill was defeated and the cigarette companies subsequently settled with the states. As part of that agreement, the industry agreed to pay $5.15 billion into a trust fund for farmers. The farmers' lawsuit also is expected to allege that the industry was aided by the attorneys general of the 14 tobacco-growing states that agreed to the trust-fund deal.

The lawsuit is expected to name as defendants: **Philip Morris** Cos.; **R.J. Reynolds Tobacco Holdings** Inc.; Brown & Williamson Tobacco Corp., a unit of **British American Tobacco PLC**; and Lorillard Tobacco Co., a unit of **Loews** Corp.

Michael E. Pfeil, a spokesman for Philip Morris, the largest buyer of U.S.-grown tobacco, said, "I think it's unfortunate that a group of growers would bring yet another lawsuit against the industry." R.J. Reynolds and Brown & Williamson declined to comment on specifics of the suit but said they have tried to be supportive of the farmers. Lorillard representatives couldn't be reached to comment.

THE WALL STREET JOURNAL
WEDNESDAY, FEBRUARY 16, 2000

Industrial Stocks Climb Strongly, With 3M and Caterpillar Rising

ABREAST OF THE MARKET

By ROBERT O'BRIEN
Dow Jones Newswires

NEW YORK–Cheaply priced industrial stocks posted sharp gains as the recovery in blue chips stretched into a second day.

Minnesota Mining & Manufacturing gained 6¼ to 89⅛, luring buyers seeking value rather than growth to a stock that had fallen 20% from a high little more than a month ago. Similarly, **Procter & Gamble**, which began the session 22% cheaper than at its January high, rose 3⅞ to 95¾.

The session looked much like Monday's, when the effort to close the gap between the "have nots" in blue-chip issues and the "haves" in the technology camp got under way in earnest.

Many industrial issues that gained Monday rose again. **Alcoa** added 1⅜ to 73⅝ to bring its two-day rise to 5¾; **Caterpillar**, which added 1 5/16 to 40, posted an 11% two-day gain.

The Dow Jones Industrial Average rose for a second straight session, gaining 198.25 points, or 1.88%, to 10718.09.

"We came into this week down 9% on the Dow and up 9% in the Nasdaq [Composite Index], and we were trying to close that gap," Arthur Hogan, chief market analyst at Jefferies, said. "We initially tried to accomplish that by selling the composite, but these stocks are just too popular."

In fact, with an intraday reversal, technology issues offered just as much drama as the blue chips.

Intel overcame an intraday decline of nearly 6% to finish up 2⅛ at 112 on the Nasdaq Stock Market as its semiannual developers' conference started.

With a little spillover of enthusiasm, **Rambus** (Nasdaq) gained 40 19/64 to 151 47/64; the company, which designs chip sets, is a provider of memory-chip technology to Intel.

Elsewhere in the chip sector, **Applied Materials** (Nasdaq) gained 5 7/16 to 166½, reflecting hopes for the semiconductor-equipment maker's fiscal first-quarter results. Those numbers, which came out after trading closed, showed the company topped earnings projections. It also announced plans for a 2-for-1 stock split, its fifth split in the past eight years.

Some more-speculative technology issues gave ground, showing investors can't buy technology issues indiscriminately without running the risk the market will work against them. **Akamai Technologies** fell 7⅞ to 222½, **Freemarkets** dropped 7⅞ to 220 7/16, and **Wink Communications** sank 11 to 50⅞, all on Nasdaq.

Even some major technology issues fell. They included **Cisco Systems** (Nasdaq), which declined 2½ to 128.

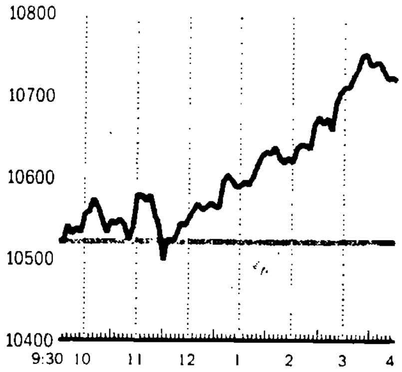
Fundamentally, several factors helped blue-chip stocks. Results continue to show strength, even for some stocks that have been beaten down. **Navistar International**, the industrial-vehicle maker, gained ½ to 36 after slipping to a 52-week low of 33 Monday; it posted on-target profits.

Rate pressures steadied for a second session, helped by some accommodating remarks from Federal Reserve governor Edward Gramlich. Banking issues, many of which traded at lows coming into the session, got a lift. **Chase Manhattan** added 2 to 81 1/16. **J.P. Morgan** rose 3⅞ to 116⅛. **First Union**, which fell Monday to a 52-week low, advanced ⅞ to 30⅜.

"We came into the session with a 10% correction in the Dow industrials," Alan Skrainka, market strategist at Edward Jones, said. "The sell-offs we see, though, don't have much follow-through because the fundamentals are so strong."

The Dow's Performance

DJIA at 5-minute intervals yesterday



Meanwhile, oil stocks finished higher, as crude-oil prices continued to trade near a nine-year high. **Atlantic Richfield** rose 2 1/16 to 69 11/16. **Exxon Mobil** gained 2⅞ to 79 5/16. **Kerr-McGee** rose 1 7/16 to 48⅜.

Wal-Mart finished weaker, off 1 1/16 to 56 13/16. The retailing giant, which reported fiscal fourth-quarter profit ahead of Wall Street's forecasts and its year-earlier results, saw its shares fall as investors showed some concerns about challenges to the company's growth.

Starwood Hotels added 1 7/16 to 23 15/16. The White Plains, N.Y., lodging concern eased some of the uncertainty that has clouded its stock price recently by filling its permanent post of chief operating officer; it named Robert Cotter, currently president of international operations, to what is the No. 2 position at the company. PaineWebber raised its rating on the stock to attractive from neutral after the announcement.

Progressive rose 3 13/16 to 55 15/16. Credit Suisse First Boston raised its rating on the Mayfield Village, Ohio, auto-insurance concern to strong buy from buy.

Hartford Life rose 3 9/16 to 36½. Salomon Smith Barney raised its rating on the stock of the Simsbury, Conn., insurance concern, saying that at current prices, the stock represents what it called an exceptional value.

Unum, the Portland, Maine, insurance provider, a rival of Hartford Life, continued the decline that got under way last week after the company reported disappointing profits. The stock lost ¾ to 13 7/16, sinking intraday to a 52-week low.

Maytag fell 4¼ to 28¼, continuing to tumble after Monday's warning from the company that first-quarter and full-year profits will miss Wall Street's targets. In a research note, Lehman Brothers said there could be more earnings disappointments from the company this year.

Some of the best performances among technology stocks came out of the computer makers, as **Apple Computer** (Nasdaq) gained 3 3/16 to 119, **Compaq Computer** gained 1 13/16 to 26 7/16, **Dell Computer** rose 1 7/16 to 37⅞ and **Hewlett-Packard** added 2⅛ to 125⅛. During the session, Credit Suisse First Boston reiterated its strong buy rating on Dell.

Symbol Technologies rose 7¼ to 87, as a combination of strong profits and excitement about an investment by Intel contributed to gains. After Monday's close, Intel and Symbol agreed to a multiyear development agreement to create wireless-networking capabilities and said Intel plans to invest $100 million in Symbol through the purchase of a 1.5% stake.

SEC Filing Outlines Soros Fund's Move Into Technology Stocks

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK–Financier George Soros's hedge-fund group moved into technology stocks during the fourth quarter, nearly doubling the size of its stock portfolio to $8.62 billion, according to its filing with the Securities and Exchange Commission.

As part of its previously reported bet on technology, Soros Fund Management sold 107 of 243 stock positions it held at the start of the quarter and added 175 new ones, the filing indicated. Among the new positions: **Oracle Corp.** (4,163,450 shares), **Nextel Communications Inc.** (1,798,500), **Nokia Corp.** (1,061,500), **Verisign Inc.** (942,500) and **Clarify Inc.** (870,000). Among the positions eliminated during the fourth quarter were **Electronic Data Systems Inc.**, **McDonald's Corp.** and **Tricon Global Restaurants Inc.**

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