

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
--------------------------	---------------	------	-------------

001. list	re: Tobacco Farmers White House meeting [Personally Identifiable Information] [partial] (1 page)	08/08/1998	b(6)
-----------	--	------------	------

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Tom Freedman
OA/Box Number: 17553

FOLDER TITLE:

Tobacco Farmer [Folder 1]

2015-0274-S

rc1892

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

TOD: [unclear] 12/10/03

THE WHITE HOUSE

Office of Legislative Affairs, Senate Liaison

Telephone: (202) 456-6493

Fax: (202) 456-6468

Fax Cover Sheet

To: Tom Friedman

From: ☐ Tracey Thornton
☐ Caroline Fredrickson
☐ Roger Ballentine
☐ Joel Wiginton

☐ Virginia Rustique
☐ Janelle Erickson
☐ Marty Hoffmann
☐ Matt Bianco

Fax: 6-7431 AM

Phone: 6-2216

Date: 3-8-99

Pages including cover sheet: 4

Message: 101

United States Senate
Washington, DC 20510

Facsimile

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

Copies to
Cynthia Rice
Rich Tarplin
HHS
Leg. aff.
Tom Friedman

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

COMMITTEE:
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.

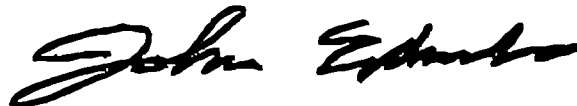
North Carolina has a specific plan outlined that will target fifty percent of settlement funds to go in a foundation to fund efforts to help these farmers and communities maintain economic stability. The other fifty percent is earmarked for spending on children's health and education on tobacco issues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

President William J. Clinton
March 5, 1999
Page 2

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,

A handwritten signature in black ink, appearing to read "John Edwards", with a stylized, cursive script.

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

February 4, 1999

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

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,



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) 826-4104

First Citizens Bank Building
630 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

FEB 10 09:50

Dear Mr. President:

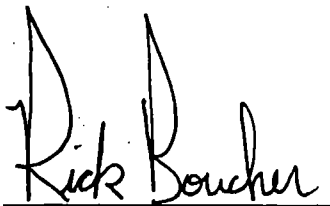
We are writing to express our serious concerns regarding your proposal to initiate federal litigation against the tobacco industry and the devastating effect it would have on tobacco farmers and their communities, communities which are already reeling from the events of the past year.

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.

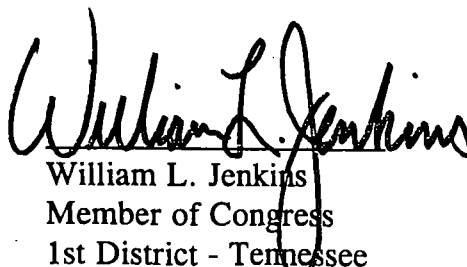
Earlier this week, the United States Department of Agriculture announced that the burley tobacco quota for the upcoming growing season will be down by 28.8%. This large cut indicates the extent to which tobacco farmers are bearing the brunt of the costs of the settlements reached between the tobacco 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.

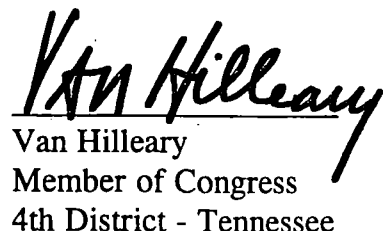
Sincerely,



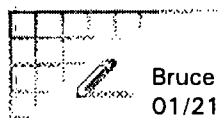
Rick Boucher
Member of Congress
9th District - Virginia



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



Van Hilleary
Member of Congress
4th District - Tennessee



Bruce N. Reed
01/21/99 04:06:02 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Tobacco farmers

Fund To Help Tobacco Farmers

By ESTES THOMPSON

Associated Press Writer

DURHAM, N.C. (AP) -- The nation's four largest cigarette companies agreed today to set up a \$5.15 billion trust fund to help tobacco growers who face a shrinking market due to settlements of lawsuits that have sharply raised the price of smoking and stepped up anti-smoking initiatives.

The agreement climaxed two days of private meetings between company officials and representatives from 11 tobacco states. For a time, it appeared the trust fund was in jeopardy because R.J. Reynolds balked at participating. The company said a better way to help the farmers would be to buy more of their tobacco.

But during negotiations today, R.J. Reynolds relented and signed onto the trust fund, which was restructured. Previously, the four companies -- R.J. Reynolds, Philip Morris, Brown & Williamson and Lorillard -- would have paid into the fund over 10 years; the agreement extends that to 12 years.

"There are many, many details yet to be worked out," said Phil Carlton, the lawyer representing the tobacco companies. "One of the concerns was one of the companies in particular had a problem with paying the money out that would have been its share in the first couple of years."

Tobacco farmers have been worried about their future as the drive against smoking intensified.

Costly settlements of state claims against tobacco companies seeking reimbursement for the cost of treating sick smokers have sharply raised the price of cigarettes and that is expected to reduce demand.

The trust fund initially was proposed by Philip Morris after the major cigarette makers agreed to a \$206 billion settlement with 46 states over health care costs last November. Part of that agreement required the companies to meet with state officials to discuss the trust fund for farmers.

Philip Morris announced last week it would deposit \$300 million into the fund this year, even if other companies chose not to participate. But the No. 1 tobacco company said its future participation hinged on the other companies joining the fund.

During the fund's first year, the companies would put in \$380 million, with Philip Morris' \$300 million contribution making up the bulk of the payment.

The second year, the companies would deposit \$280 million; the third year, \$400 million; years

four-10, \$500 million a year; the 11th year, \$440 million; and the 12th year, \$150 million, the officials said.

North Carolina Gov. Jim Hunt said each state will receive a share of the fund equal to the amount of tobacco it grows.

States participating in the discussions are North Carolina, Ohio, South Carolina, Tennessee, Alabama, Florida, Georgia, Indiana, Kentucky, Virginia and West Virginia.

Hunt said the directors of the trust will determine the amount of the payments and when they are disbursed.

"We all leave here today winners with a positive outlook for a measure of financial assistance for our tobacco farmers," Hunt said.

During discussions Wednesday, R.J. Reynolds' senior vice president, Tommy Payne, said his company had concerns about how the trust fund money would be spent and whether it might raise antitrust issues. He said Reynolds' plan to buy more tobacco would not pose such problems because antitrust laws "do not preclude companies from coming to independent decisions."

Others, however, dismissed Reynolds' concerns and questioned whether they were the real reason for the company's reluctance to sign onto the fund.

Message Sent To:

Elena Kagan/OPD/EOP
Barry J. Toiv/WHO/EOP
Thomas L. Freedman/OPD/EOP
Cynthia A. Rice/OPD/EOP
Joshua Gotbaum/OMB/EOP



LET US SEARCH THE CLASSIFIEDS FOR YOU!

Eclassified

SIGN UP TODAY! IT'S FREE!

*to be all o
farms
w/*

NORTH CAROLINA
[RETURN TO SECTION](#) | [NEXT STORY](#)

2/2/99

SEARCH

Select a search:

- Today's News
- News Archive
- Obituaries
- Classified

Enter keywords:

START
[Get Help](#)
[Expand Search](#)

MARKETPLACE

- [Yellow Pages](#)
- [Classified](#)
- [TriangleJobs.com](#)
- [Triangle cars.com](#)
- [Real Estate](#)
- [Merchandise](#)
- [Services](#)

ADVERTISEMENTS


YELLOW PAGES

**THE DEFINITIVE
ONLINE SOURCE
FOR EVERYTHING
LOCAL.**


CLICK HERE

CONTACT US

Feedback
[User Agreement](#)
 © The News & Observer
 Publishing Co.
 215 S. McDowell St.
 Raleigh, NC 27602
 Main: 919.829.4500
 Online: 919.829.4611
 Circulation: 919.829.4700

Farms fading fast in North Carolina, census shows

By BOB WILLIAMS, Staff Writer

Farms disappeared at a rate of more than one a day in North Carolina from 1992 to 1997, new figures from the U.S. Department of Agriculture show.

The number of farms in the state fell from 51,854 in 1992 to 49,406 in 1997, a loss of 2,448 farms, or nearly five percent, according to the latest edition of USDA's Agricultural Census, released Monday. USDA conducts a census of the country's farms and ranches every five years.

The number of farms with annual sales of more than \$10,000 fell nearly twice as fast during the period, or about nine percent.

And there was an even more dramatic drop in the number of farms growing tobacco. The number of farms producing the state's top cash crop fell from 17,625 to 12,095, or more than 31 percent.

At the same time, however, North Carolina exceeded all other states in improving the average value of agricultural products sold per farm. That average value, unadjusted for inflation, rose 68 percent in North Carolina compared to 22 percent nationwide.

Hogs and cotton were the driving forces behind those increases.

The number of hogs on North Carolina farms jumped about 89 percent, from 5.1 million in 1992 to more than 9.6 million in 1997.

Cotton production also was up sharply, rising about 101 percent, from 455,466 bales in 1992 to 916,278 bales in 1997.

Fifty four percent of the state's farms sold less than \$10,000 each, accounting for less than two percent of total sales. Nearly eight percent of the farms had sales exceeding \$500,000 and accounted for 73 percent of the state's agricultural sales.

The census showed that more farms are being operated by women and fewer by blacks and other minorities. The number of female farm operators rose to 4,063, up 3 percent from 1992. The number of minority farm operators fell to 2,111, down 15 percent from 1992.

Larry Wooten, vice president of the North Carolina Farm Bureau in Raleigh, said he wasn't surprised by the new numbers.

"The trends in North Carolina generally reflect what has been happening nationally," said Wooten. "Production costs are going up, but farm prices aren't. Farmers have to get bigger or they are dropping by the wayside."

He said the drop in farms producing tobacco was expected and has probably worsened considerably since the census was taken in 1997.

[FRAME / UNFRAME](#)

probably worsened considerably since the census was taken in 1997. Government tobacco allotments fell 17 percent in 1998 and were reduced another 18 percent this year. North Carolina produces more tobacco than any other state.

"Tobacco has taken it on the chin several times since 1997," said Wooten. "It's been pretty bad and I really don't know what we can do to change those trends."

Among the other findings in the new census report: North Carolina farms sold \$7.68 billion in agricultural products in 1997, an average of about \$155,376 per farm.

The average farm in North Carolina grew to 185 acres in 1997 compared to 172 acres in 1992.

The average farm operator was 55.2 years old in 1997, up from 54.7 years old in 1992.

Land in farms totaled 9.1 million acres, 29.3 percent of the state's land area.

Forty nine percent of farm operators considered farming their principle occupation. Fifty one percent of farm operators considered something besides farming as their principle occupation.

Individual or family farms accounted for 87 percent of all farms in North Carolina.

The agricultural census is available on the Internet at <http://www.agr.state.nc.us/stats> Copies can also be obtained from the National Agricultural Statistics Service at (800) 523-3215 or the North Carolina Agricultural Statistics Service at (919) 856-4394.

Bob Williams can be reached at 829-4656 or bobw@nando.com.



[[TOP](#) | [NEXT STORY>>](#) | [NC](#) | [HOME PAGE](#)]

NEWS: BUSINESS | EDITORIAL | N.C. | SPORTS | TRIANGLE 24HR NEWS: TOP | BIZ | INFOTECH | NATION | OPINION | POLITICS | SPORTS | WORLD
 FEATURES: A&E | DAY | FAITH | FOOD | HOME | MOVIES | Q | TRAVEL | TRIANGLE GUIDE | 24HR ENTERTAINMENT | 24HR HEALTH
 MARKETPLACE: YELLOW PAGES | CLASSIFIED | AUTO | REAL ESTATE | EMPLOYMENT | MERCHANDISE | SUBSCRIBE | BOOKSTORE | TRIANGLE MARKETPLACE

 SEARCH

EDITORIAL

RETURN TO SECTION | NEXT STORY

1/24/99

Editorial: Doing right by *farmers*

Tobacco companies' commitment of more than \$5 billion for *farmers* and quota holders promises them a degree of financial security. But those who oversee the fund should ensure that the relief isn't short-lived.

Finally, good news for *tobacco farmers* and quota holders: last week's agreement by the four major cigarette makers to put up \$5.15 billion to help the nation's leaf producers adjust to the declining demand for *tobacco*. When all the details are worked out, the money should bring much-needed relief to many families, some of whom have been driven to the brink of bankruptcy.

For *farmers* struggling to cope with a 35 percent quota reduction over the last two years, the agreement will have the important short-term effect of restoring cash flow. But the fund's long-term value will depend on how it is administered. The \$2 billion that North Carolina is expected to receive over the next 12 years should be used not just to replace lost income, but to encourage *farmers* and others who rely on *tobacco* revenue to kick that habit for good.

Thursday's agreement flowed from the \$206 billion settlement in November between the industry and 46 states. That pact, meant to compensate states for treating sick smokers, required separate talks aimed at easing its impact on *farmers* and quota holders. It didn't guarantee anything along those lines, though, and as late as Wednesday, when Winston-Salem-based R.J. Reynolds *Tobacco Co.* said it wouldn't contribute, prospects looked dim. Reynolds' eventual agreement to put up one-fourth the total money suggests that it joins the other companies in recognizing its duty to help growers and quota holders weather the financial storm brought on largely by the industry's deceitful practices.

But *farmers*, especially, must also take responsibility for their own futures -- and the trust fund needs to operate in a way that helps them do so. Over time, payments should be structured to encourage creativity in finding reliable new sources of income. That may mean providing subsidies to support crop diversification, start-up funds for new businesses, or scholarships for training that leads to a career change.

Further, North Carolina will reap the most benefit from the new fund if its directors, whom Governor Hunt will appoint, are sensitive to differences in need. In doling out money, they ought to assess the relative impact of the lost *tobacco* income. A farmer whose family depends entirely on his earnings from *tobacco*, or a widow whose

inherited allotment is her lifeline, deserves to be compensated sooner and at a higher level than a businessman whose quota accounts for but a fraction of his wealth.

One downside to last week's *tobacco* news is that none of the newly committed money will directly aid *tobacco*-dependent communities. Financial help for anyone other than *farmers* and quota holders will likely be carved from the November settlement, decreasing money available for public-health purposes. Still, the promise of a more secure financial future for *tobacco* growers is something Tar Heels should welcome.



[[TOP](#) | [NEXT STORY>>](#) | [EDITORIAL](#) | [HOME PAGE](#)]

NEWS: BUSINESS | EDITORIAL | N.C. | SPORTS | TRIANGLE 24HR NEWS: TOP | BIZ | INFOTECH | NATION | OPINION | POLITICS | SPORTS | WORLD
FEATURES: A&E | DAY | FAITH | FOOD | HOME | MOVIES | Q | TRAVEL | TRIANGLE GUIDE | 24HR ENTERTAINMENT | 24HR HEALTH
MARKETPLACE: YELLOW PAGES | CLASSIFIED | AUTO | REAL ESTATE | EMPLOYMENT | MERCHANDISE | SUBSCRIBE | BOOKSTORE | TRIANGLE MARKETPLACE

*to be used
for MS
March 1999*

Current Status of Phase II Funds

1. \$5.15 billion, paid out over 12 years to producers and quota holders of cigarette tobacco produced in the US. The following is the annual payment schedule.

<u>Year</u>	<u>Million \$</u>
1999	380
2000	280
2001	400
2002-2008	500
2009	295
2010	295

2. National Board

- comprised of 3-5 distinguished citizens who are knowledgeable about the tobacco program and named by the companies
- designates the depository for funds
- directs investment and distribution of funds, has authority to hire staff
- determines allocation between states
 - 1998 basic quota of flue-cured and burley used
 - 1998 actual production figures used for states that don't have quota
- statistics provided by USDA

3. Separate non-profit corporations set up in the following states:

- NC, KY, TN, SC, VA & GA
- Governed by a state board of directors
 - Chairman Governor
 - Vice-Chairman Commissioner of AG
 - Secretary Attorney General
 - (1) State Senator (appointed by the Pres. of Senate)
 - (1) State Representative (appointed by the Speaker)
 - (3-6) active tobacco farmers and quota holders (appointed by the Governor)
 - (1) citizen of the State with a distinguished public service record
 - (2) members of each state's congressional delegation (Rep. or Sen.)

- determines how funds allocated from the national trust shall be equitably distributed among producers and quota holders
 - certifies instructions for distribution to the National Trust
 - to look for other sources of money (state's share of MSA) to fund economic relief for other sectors of the state's economy dependent of tobacco
4. Other states that produce less than 5% of domestic flue-cured and burley
- OH, IN, FL, MO, WV, AL & all others
 - National Trust would allocate funds to a three-person board
 - Governor, Attorney General, Commissioner of AG and maybe one producer
5. Conditions
- payments subject to "volume adjustment" described in MSA and indexed to a CPI inflator
 - all funds shall be used exclusively for tobacco farmers and quota holders
 - State Boards must consult with farmers and quota holders to formulate a relief plan
 - No portion of the funds may be used for lobbying purposes or to influence the outcome of an election
 - payments will be reduced on a dollar for dollar basis to the extent any federal or state excise tax is earmarked for tobacco farmers
 - trusts must be approved by a Court as a "Qualified Settlement Trust" and remain under court supervision
 - payments must be tax deductible for the manufacturers, if not, the tax liability will be deducted from the \$5.15 billion

• allow use for tobacco community

State Allocation of Phase II Funds

Tobacco Producing State	Tobacco State's % of Total	Total Funds Allocated	1998 Flue-Cured Quota	Flue-Cured Share Of Funds	1998 Burley Quota	Burley Share Of Funds
		(million \$)	(million lbs.)	(million \$)	(million lbs.)	(million \$)
North Carolina	38.34%	1,974.51	536.4	1,906.22	19.2	68.29
Kentucky	29.97%	1,543.46			434.3	1,543.46
Tennessee	7.65%	393.98			110.8	393.98
South Carolina	7.01%	361.02	101.6	361.02		
Virginia	6.65%	342.48	72.5	257.71	23.8	84.76
Georgia	5.91%	304.37	85.6	304.17	0.1	0.20
Ohio	1.37%	70.56			19.9	70.56
Indiana	1.17%	60.26			17.0	60.26
Florida	1.16%	59.74	17.6	59.74		
Missouri	0.43%	22.15			6.2	22.15
West Virginia	0.28%	14.42			4.1	14.42
Alabama	0.05%	2.58	0.7	2.52	0.0	0.06
All others	0.01%	0.52			0.8	0.52
	100.00%	5,150.00	814.4	2,891.37	636.1	2,258.63

FACSIMILE MESSAGE

Flue-Cured Tobacco Cooperative Stabilization Corporation

P. O. Box 12300

Raleigh, North Carolina 27605-2300

Telephone: (919) 821-4560

Fax: (919) 821-4564

SENT BY:

Arnold Hamm

DATE:

3-1-99

Page 1 of

4

TO:

Tom Freedman

ATTENTION:

SUBJECT:

*The information contained in this facsimile message is **CONFIDENTIAL** and intended only for the party indicated above.*

Message

Current Status of Phase II Funds

1. \$5.15 billion, paid out over 12 years to producers and quota holders of cigarette tobacco produced in the US. The following is the annual payment schedule.

<u>Year</u>	<u>Million \$</u>
1999	380
2000	280
2001	400
2002-2008	500
2009	295
2010	295

2. National Board

- comprised of 3-5 distinguished citizens who are knowledgeable about the tobacco program and named by the companies
- designates the depository for funds
- directs investment and distribution of funds, has authority to hire staff
- determines allocation between states
 - 1998 basic quota of flue-cured and burley used
 - 1998 actual production figures used for states that don't have quota
- statistics provided by USDA

3. Separate non-profit corporations set up in the following states:

- NC, KY, TN, SC, VA & GA
- Governed by a state board of directors
 - Chairman Governor
 - Vice-Chairman Commissioner of AG
 - Secretary Attorney General
 - (1) State Senator (appointed by the Pres. of Senate)
 - (1) State Representative (appointed by the Speaker)
 - (3-6) active tobacco farmers and quota holders (appointed by the Governor)
 - (1) citizen of the State with a distinguished public service record
 - (2) members of each state's congressional delegation (Rep. or Sen.)

- determines how funds allocated from the national trust shall be equitably distributed among producers and quota holders
 - certifies instructions for distribution to the National Trust
 - to look for other sources of money (state's share of MSA) to fund economic relief for other sectors of the state's economy dependent of tobacco
4. Other states that produce less than 5% of domestic flue-cured and burley
- OH, IN, FL, MO, WV, AL & all others
 - National Trust would allocate funds to a three-person board
 - Governor, Attorney General, Commissioner of AG and maybe one producer
5. Conditions
- payments subject to "volume adjustment" described in MSA and indexed to a CPI inflator
 - all funds shall be used exclusively for tobacco farmers and quota holders
 - State Boards must consult with farmers and quota holders to formulate a relief plan
 - No portion of the funds may be used for lobbying purposes or to influence the outcome of an election
 - payments will be reduced on a dollar for dollar basis to the extent any federal or state excise tax is earmarked for tobacco farmers ✓
 - trusts must be approved by a Court as a "Qualified Settlement Trust" and remain under court supervision
 - payments must be tax deductible for the manufacturers, if not, the tax liability will be deducted from the \$5.15 billion ✓

State Allocation of Phase II Funds

Tobacco Producing State	Tobacco State's % of Total	Total Funds Allocated	1998 Flue-Cured Quota	Flue-Cured Share Of Funds	1998 Burley Quota	Burley Share Of Funds
		(million \$)	(million lbs.)	(million \$)	(million lbs.)	(million \$)
North Carolina	38.34%	1,974.51	536.4	1,906.22	19.2	68.29
Kentucky	29.97%	1,543.46			434.3	1,543.46
Tennessee	7.65%	393.98			110.8	393.98
South Carolina	7.01%	361.02	101.6	361.02		
Virginia	6.65%	342.48	72.5	257.71	23.8	84.76
Georgia	5.91%	304.37	85.6	304.17	0.1	0.20
Ohio	1.37%	70.56			19.9	70.56
Indiana	1.17%	60.26			17.0	60.26
Florida	1.16%	59.74	17.6	59.74		
Missouri	0.43%	22.15			6.2	22.15
West Virginia	0.28%	14.42			4.1	14.42
Alabama	0.05%	2.58	0.7	2.52	0.0	0.06
All others	0.01%	0.52			0.8	0.52
	100.00%	5,150.00	814.4	2,891.37	636.1	2,258.63

FACSIMILE MESSAGE

Flue-Cured Tobacco Cooperative Stabilization Corporation
P. O. Box 12300

Raleigh, North Carolina 27605-2300
Telephone: (919) 821-4560 Fax: (919) 821-4564

SENT BY:

Arnold Hamm

DATE:

3-1-99

Page 1 of

4

TO:

Tom Freedman

ATTENTION:

SUBJECT:

*The information contained in this facsimile message is **CONFIDENTIAL** and
intended only for the party indicated above.*

Message

FACSIMILE MESSAGE

Flue-Cured Tobacco Cooperative Stabilization Corporation

P. O. Box 12300

Raleigh, North Carolina 27605-2300

Telephone: (919) 821-4560

Fax: (919) 821-4564

SENT BY:

Arnold Hamm

DATE:

3-1-99

Page 1 of

4

TO:

Tom Freedman

ATTENTION:

SUBJECT:

*The information contained in this facsimile message is **CONFIDENTIAL** and intended only for the party indicated above.*

Message

- 03/01/98 17:08 8919 821 4564 002/004
- Current Status of Phase II Funds**
1. \$5.15 billion, paid out over 12 years to producers and quota holders of cigarette tobacco produced in the US. The following is the annual payment schedule.

<u>Year</u>	<u>Million \$</u>
1999	380
2000	280
2001	400
2002-2008	500
2009	295
2010	295

2. National Board

- comprised of 3-5 distinguished citizens who are knowledgeable about the tobacco program and named by the companies
- designates the depository for funds
- directs investment and distribution of funds, has authority to hire staff
- determines allocation between states
 - 1998 basic quota of flue-cured and burley used
 - 1998 actual production figures used for states that don't have quota
- statistics provided by USDA

3. Separate non-profit corporations set up in the following states:

- NC, KY, TN, SC, VA & GA
- Governed by a state board of directors
 - Chairman Governor
 - Vice-Chairman Commissioner of AG
 - Secretary Attorney General
 - (1) State Senator (appointed by the Pres. of Senate)
 - (1) State Representative (appointed by the Speaker)
 - (3-6) active tobacco farmers and quota holders (appointed by the Governor)
 - (1) citizen of the State with a distinguished public service record
 - (2) members of each state's congressional delegation (Rep. or Sen.)

- determines how funds allocated from the national trust shall be equitably distributed among producers and quota holders
 - certifies instructions for distribution to the National Trust
 - to look for other sources of money (state's share of MSA) to fund economic relief for other sectors of the state's economy dependent of tobacco
4. Other states that produce less than 5% of domestic flue-cured and burley
- OH, IN, FL, MO, WV, AL & all others
 - National Trust would allocate funds to a three-person board
 - Governor, Attorney General, Commissioner of AG and maybe one producer
5. Conditions
- payments subject to "volume adjustment" described in MSA and indexed to a CPI inflator
 - all funds shall be used exclusively for tobacco farmers and quota holders
 - State Boards must consult with farmers and quota holders to formulate a relief plan
 - No portion of the funds may be used for lobbying purposes or to influence the outcome of an election
 - payments will be reduced on a dollar for dollar basis to the extent any federal or state excise tax is earmarked for tobacco farmers
 - trusts must be approved by a Court as a "Qualified Settlement Trust" and remain under court supervision
 - payments must be tax deductible for the manufacturers, if not, the tax liability will be deducted from the \$5.15 billion

State Allocation of Phase II Funds

Tobacco Producing State	Tobacco State's % of Total	Total Funds Allocated	1998 Flue-Cured Quota	Flue-Cured Share Of Funds	1998 Burley Quota	Burley Share Of Funds
		(million \$)	(million lbs.)	(million \$)	(million lbs.)	(million \$)
North Carolina	38.34%	1,974.51	536.4	1,906.22	19.2	68.29
Kentucky	29.97%	1,543.46			434.3	1,543.46
Tennessee	7.65%	393.98			110.8	393.98
South Carolina	7.01%	361.02	101.6	361.02		
Virginia	6.65%	342.48	72.5	257.71	23.8	84.76
Georgia	5.91%	304.37	85.6	304.17	0.1	0.20
Ohio	1.37%	70.56			19.9	70.56
Indiana	1.17%	60.26			17.0	60.26
Florida	1.16%	59.74	17.6	59.74		
Missouri	0.43%	22.15			6.2	22.15
West Virginia	0.28%	14.42			4.1	14.42
Alabama	0.05%	2.58	0.7	2.52	0.0	0.06
All others	0.01%	0.52			0.8	0.52
	100.00%	5,150.00	814.4	2,891.37	636.1	2,258.63

FACSIMILE MESSAGE

Flue-Cured Tobacco Cooperative Stabilization Corporation

P. O. Box 12300

Raleigh, North Carolina 27605-2300

Telephone: (919) 821-4560

Fax: (919) 821-4564

SENT BY:

Arnold Hamm

DATE:

3-1-99

Page 1 of

4

TO:

Tom Freedman

ATTENTION:

SUBJECT:

*The information contained in this facsimile message is **CONFIDENTIAL** and intended only for the party indicated above.*

Message

State Allocation of Phase II Funds

Tobacco Producing State	Tobacco State's % of Total	Total Funds Allocated	1998 Flue-Cured Quota	Flue-Cured Share Of Funds	1998 Burley Quota	Burley Share Of Funds
		(million \$)	(million lbs.)	(million \$)	(million lbs.)	(million \$)
North Carolina	38.34%	1,974.51	536.4	1,906.22	19.2	68.29
Kentucky	29.97%	1,543.46			434.3	1,543.46
Tennessee	7.65%	393.98			110.8	393.98
South Carolina	7.01%	361.02	101.6	361.02		
Virginia	6.65%	342.48	72.5	257.71	23.8	84.76
Georgia	5.91%	304.37	85.6	304.17	0.1	0.20
Ohio	1.37%	70.56			19.9	70.56
Indiana	1.17%	60.26			17.0	60.26
Florida	1.16%	59.74	17.6	59.74		
Missouri	0.43%	22.15			6.2	22.15
West Virginia	0.28%	14.42			4.1	14.42
Alabama	0.05%	2.58	0.7	2.52	0.0	0.06
All others	0.01%	0.52			0.8	0.52
	100.00%	5,150.00	814.4	2,891.37	636.1	2,258.63

Can Dallas
talk to me?

Current Status of Phase II Funds

1. \$5.15 billion, paid out over 12 years to producers and quota holders of cigarette tobacco produced in the US. The following is the annual payment schedule.

<u>Year</u>	<u>Million \$</u>
1999	380
2000	280
2001	400
2002-2008	500
2009	295
2010	295

2. National Board

- comprised of 3-5 distinguished citizens who are knowledgeable about the tobacco program and named by the companies
- designates the depository for funds
- directs investment and distribution of funds, has authority to hire staff
- determines allocation between states
 - 1998 basic quota of flue-cured and burley used
 - 1998 actual production figures used for states that don't have quota
- statistics provided by USDA

3. Separate non-profit corporations set up in the following states:

- NC, KY, TN, SC, VA & GA
- Governed by a state board of directors
 - Chairman Governor
 - Vice-Chairman Commissioner of AG
 - Secretary Attorney General
 - (1) State Senator (appointed by the Pres. of Senate)
 - (1) State Representative (appointed by the Speaker)
 - (3-6) active tobacco farmers and quota holders (appointed by the Governor)
 - (1) citizen of the State with a distinguished public service record
 - (2) members of each state's congressional delegation (Rep. or Sen.)

- determines how funds allocated from the national trust shall be equitably distributed among producers and quota holders
 - certifies instructions for distribution to the National Trust
 - to look for other sources of money (state's share of MSA) to fund economic relief for other sectors of the state's economy dependent of tobacco
4. Other states that produce less than 5% of domestic flue-cured and burley
- OH, IN, FL, MO, WV, AL & all others
 - National Trust would allocate funds to a three-person board
 - Governor, Attorney General, Commissioner of AG and maybe one producer
5. Conditions
- payments subject to "volume adjustment" described in MSA and indexed to a CPI inflator
 - all funds shall be used exclusively for tobacco farmers and quota holders
 - State Boards must consult with farmers and quota holders to formulate a relief plan
 - No portion of the funds may be used for lobbying purposes or to influence the outcome of an election
 - payments will be reduced on a dollar for dollar basis to the extent any federal or state excise tax is earmarked for tobacco farmers
 - trusts must be approved by a Court as a "Qualified Settlement Trust" and remain under court supervision
 - payments must be tax deductible for the manufacturers, if not, the tax liability will be deducted from the \$5.15 billion

FACSIMILE MESSAGE

*Tom
(Arnold)*

From: *Flue-Cured Tobacco Cooperative Stabilization Corporation*
P.O. Box 12300-2300
Raleigh, NC 27605
Telephone: 919-821-4560
Fax: 919-821-4564

SENT BY: Arnold Hamm

DATE: 8/5/98 PAGE 1 OF 15

TO: Tom Freedman

ATT: _____

SUBJECT: Thursday's presentation

Tom:

Following are hard copies and a narrative of the short presentation. We will be staying at the Capitol Holiday Inn 202-479-4000 and I will have my cell phone on, (919)-215-2594. There seems to be some question as to whether or not an overhead projector and screen will be available. Anything you can do to help grease the wheels would be appreciated. I will have 2' x 3' placards in the event overheads don't suit, so I'll at least need an easel. Talk with you later.

Arnold

Arnold

08/05/98 10:50 8919 821 4364 777 DOMESTIC POLICY 4001 111

The Loss Of Farm Income and Tobacco Farmers In The Southeast

I. The Looming Economic Crisis In The Rural Southeast

- slide 1. Adjusted for inflation tobacco prices, production costs and price support averages have caused tobacco farmers to take drastic measures to remain viable.
- slide 2. This has forced tobacco farmers out of business and lead to a consolidation of tobacco farm size for remaining tobacco farmers.
- slide 3. The threat of tobacco industry litigation and legislation has caused US cigarette manufacturers to conservatively manage stocks by lowering purchases - the economic effect on flue-cured tobacco producers is devastating.
- slide 4. Not only are tobacco farmers as a whole at economic risk - but beleaguered Black and limited-resource (less than \$25,000 household income) tobacco farmers are even more vulnerable.

2. Cigarette Manufacturers Make Changes That Affect Tobacco Farmers

- slide 5 & 6. Cigarette manufacturers have steadily increased flue-cured tobacco imports despite promises in the 1980's to limit imports.
- slide 7. Cigarette manufacturers have decreased their on hand stocks of domestic flue-cured tobacco forcing more farm tobacco to be placed under loan.

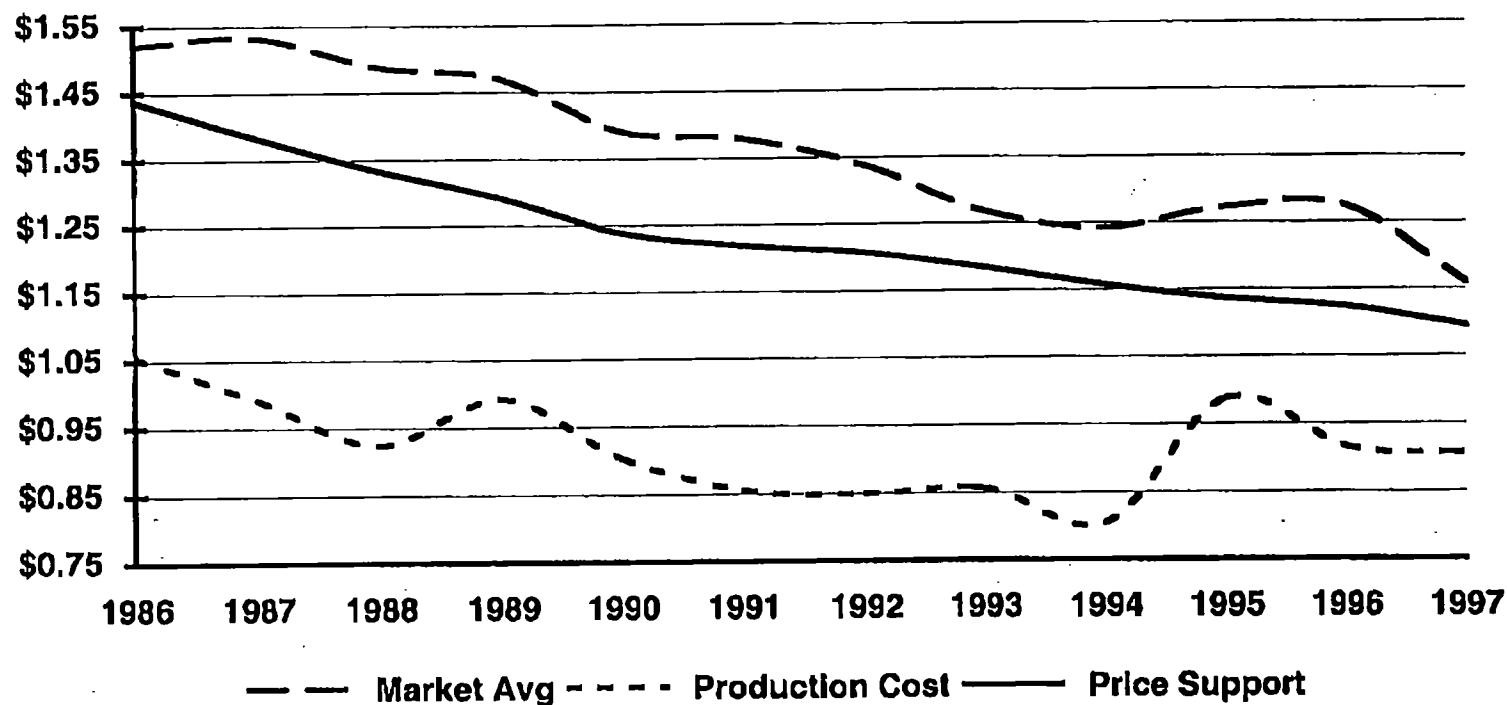
3. 1999 Tobacco Quota Scenarios and Possible Remedies

- slide 8. 1999 Flue-Cured Tobacco Quota Scenarios. Declining quotas threaten economic viability in general, threaten the viability of the tobacco program thus increasing economic hardship due to rising assessments.
- slide 9. US cigarette manufacturers average use of domestic flue-cured tobacco has averaged 545 million pounds annually over the past 4 years.

- slide 10. Domestic cigarette manufacturers could prevent an economic disaster in the Southeast by purchasing from the market and loan inventory approximately 550 million pounds before December 1, 1998 and slightly increasing 1999 purchase intentions.
- slide 11. We're not asking cigarette manufactures to buy more tobacco than they need, we're just asking that they buy more US tobacco.
- slide 12. Keeping the flue-cured tobacco quota from decreasing in 1999 is only a stop gap measure, the long term solution lies in compensating tobacco quota owners and tobacco farmers for their investment. Whether compensation is negotiated with State Attorneys General and cigarette manufacturers or legislated in Congress is unimportant - just as long as it is done. Otherwise the rural South may suffer an economic calamity not experienced since the 1930's.

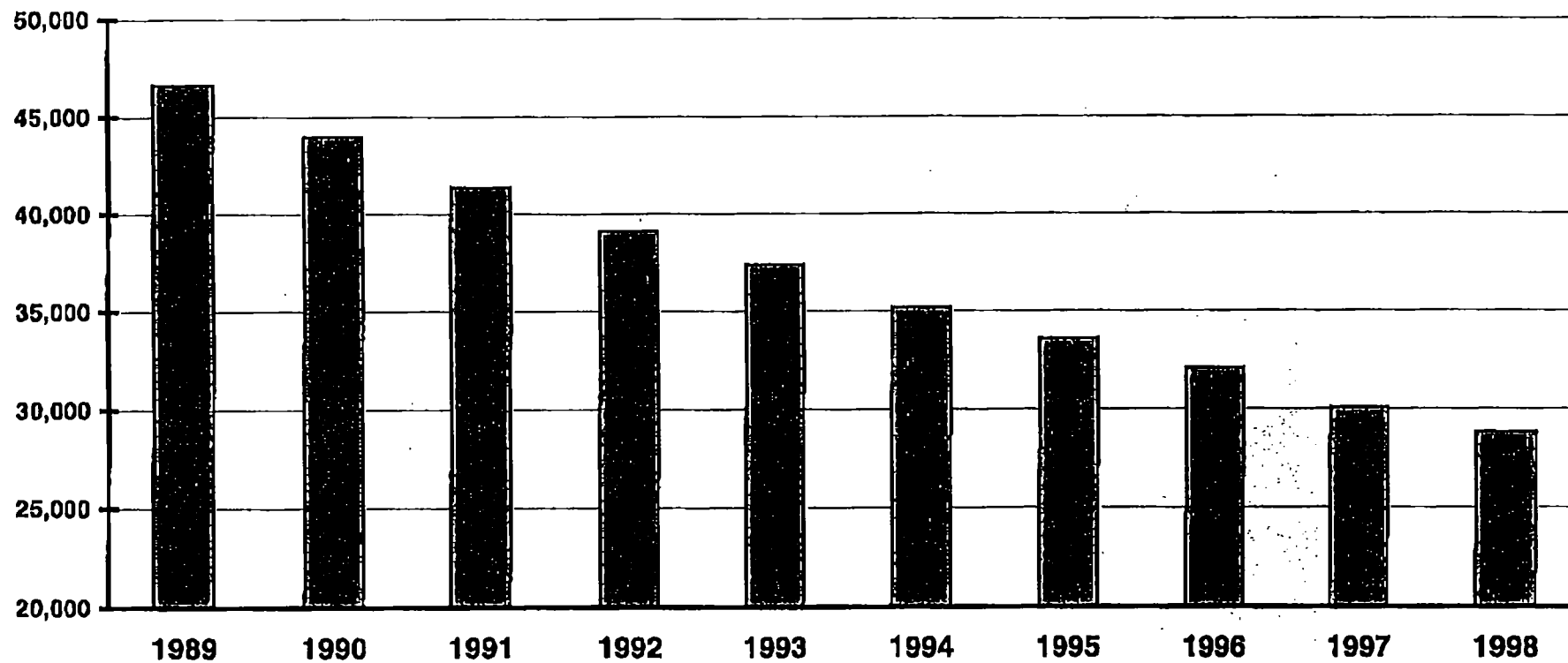
US Flue-Cured Tobacco Market Average, Production Costs And Price Support Average

(1986 Dollars)



Sources: Tobacco: Situation and Outlook Report, various editions and U.S. Labor Department Statistics

Total Flue-Cured Tobacco Quotas Designated



Source: USDA-FSA Flue-Cured Designation Data

Projected Flue-Cured Tobacco Farm Income Analysis 1997-1999

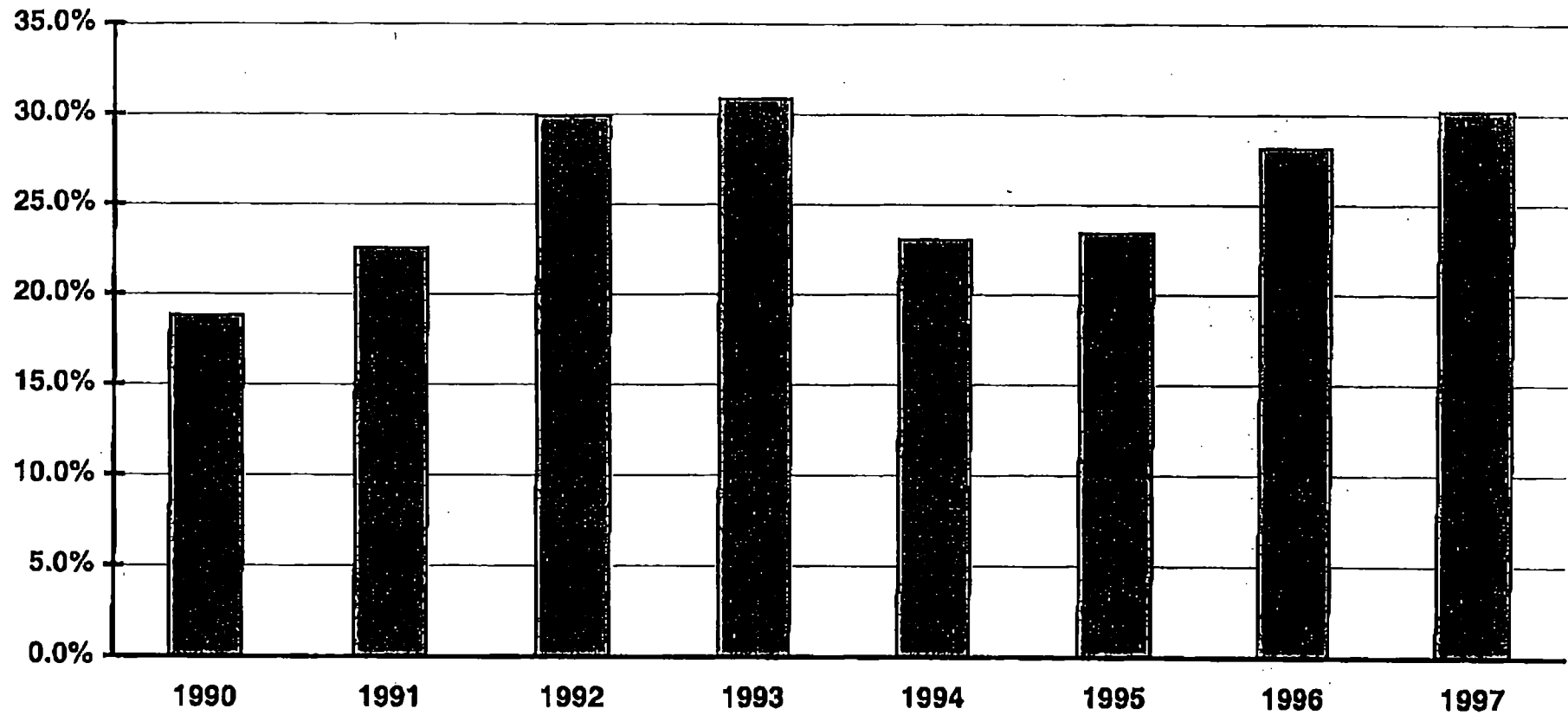
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Marketings (million lbs.)	1,014.3	791.2	632.9
Decrease of Marketings from 1997		-22.0%	-37.6%
Market Average (\$/lb.)	\$1.72	\$1.70	\$1.70
Gross Income (billion \$)	\$1.749	\$1.345	\$1.076
Decrease of Gross Income From 1997		-23.1%	-38.5%

Individuals At Risk

- **1997 Flue-Cured Tobacco Quotas = 42,049**
 - **In many cases, quotas are owned by multiple people, 1996 = 113,012**
 - **Many tobacco quotas are consolidated into one farm serial number**
- **Blacks and other minorities in the flue-cured region are more dependent on tobacco for income**
 - **Approximately 16% of all Black farm operators in the flue-cured region depend on tobacco**
 - **Approximately 28% of all American Indian farm operators depend on tobacco**
 - **The number of minority farm operators who are classified as limited-resource or socially disadvantage is disproportionate to total farm operators**

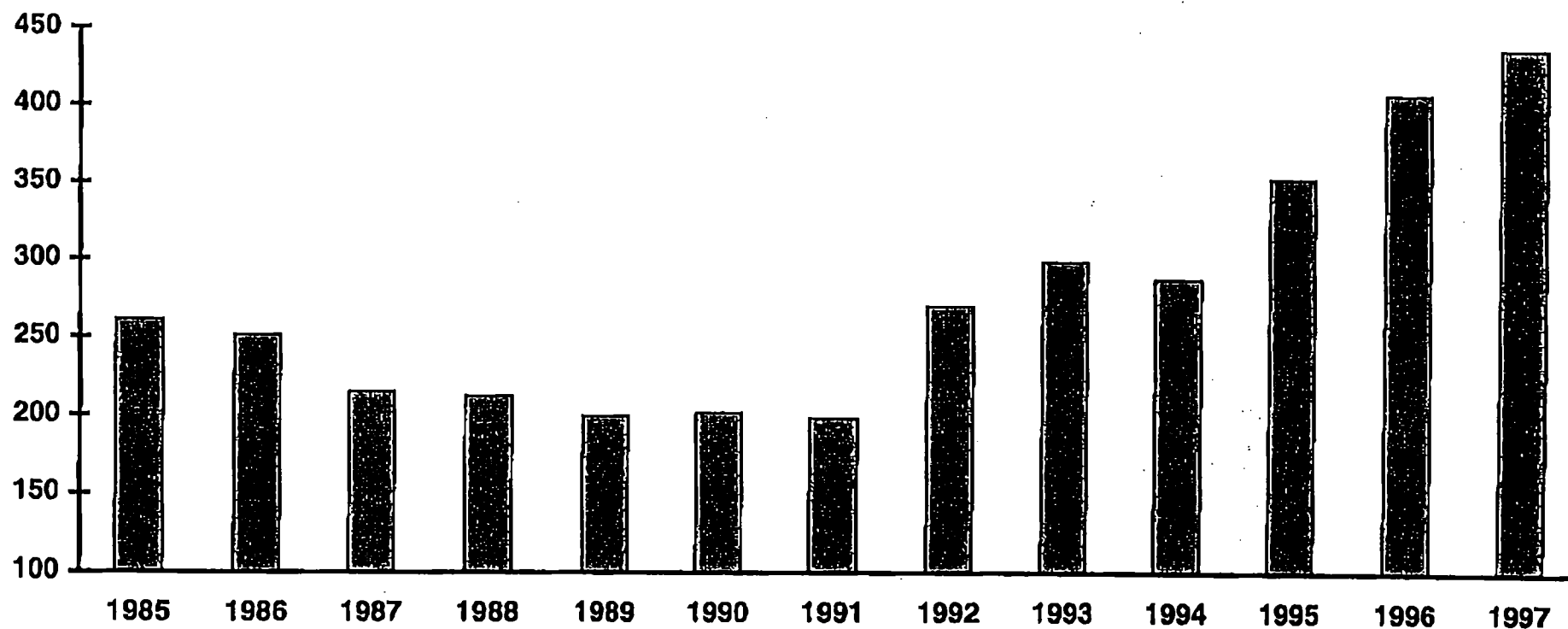
Source: Characteristics and Risk Management Needs of Limited-Resource and Socially Disadvantaged Farmers, R. Dismukes, J.L. Harwood, S. E. Bently. Commercial Agricultural Division, Economic Research Service and Risk Management Agency, USDA, Bulletin No. 733, Appendix D and USDA-FSA

Percent Foreign Flue-Cured In US Cigarette Blend



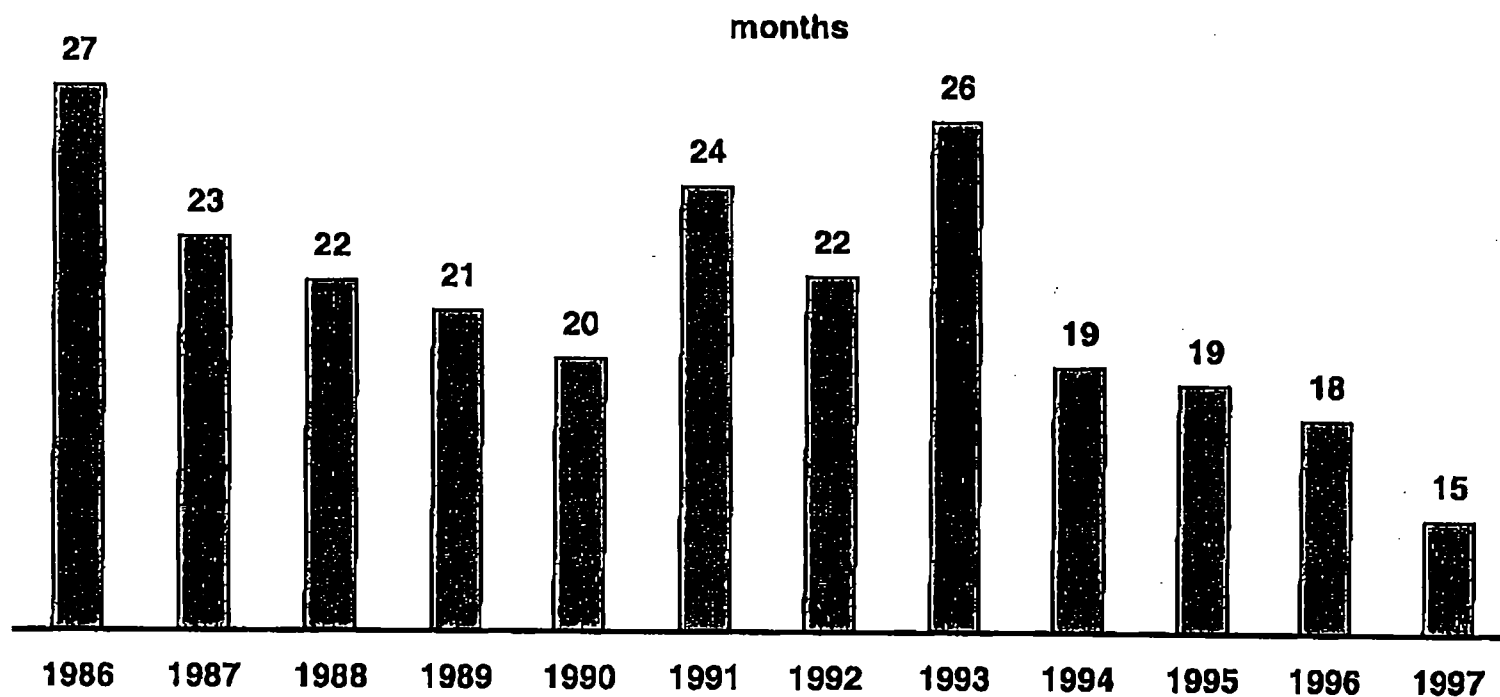
Sources: TOBACCO Situation and Outlook Report, TBS 239, table B1, page 35, September 1997 and estimates by Tom Capehart

Imported Foreign Grown Flue-Cured Cigarette Manufacturer Stocks
1985-1997
(million pounds)



Source: TOBACCO Situation and Outlook Report, TBS 241, table 14, page 14, April 1998

**US Cigarette Manufacturers' On Hand Supply Of
Domestic Flue-Cured Tobacco As Of July 1**



Source: TOBACCO Situation and Outlook Yearbook, TBS 240, Table 18, page 29, December 1997 (stocks-use ratio converted to months)

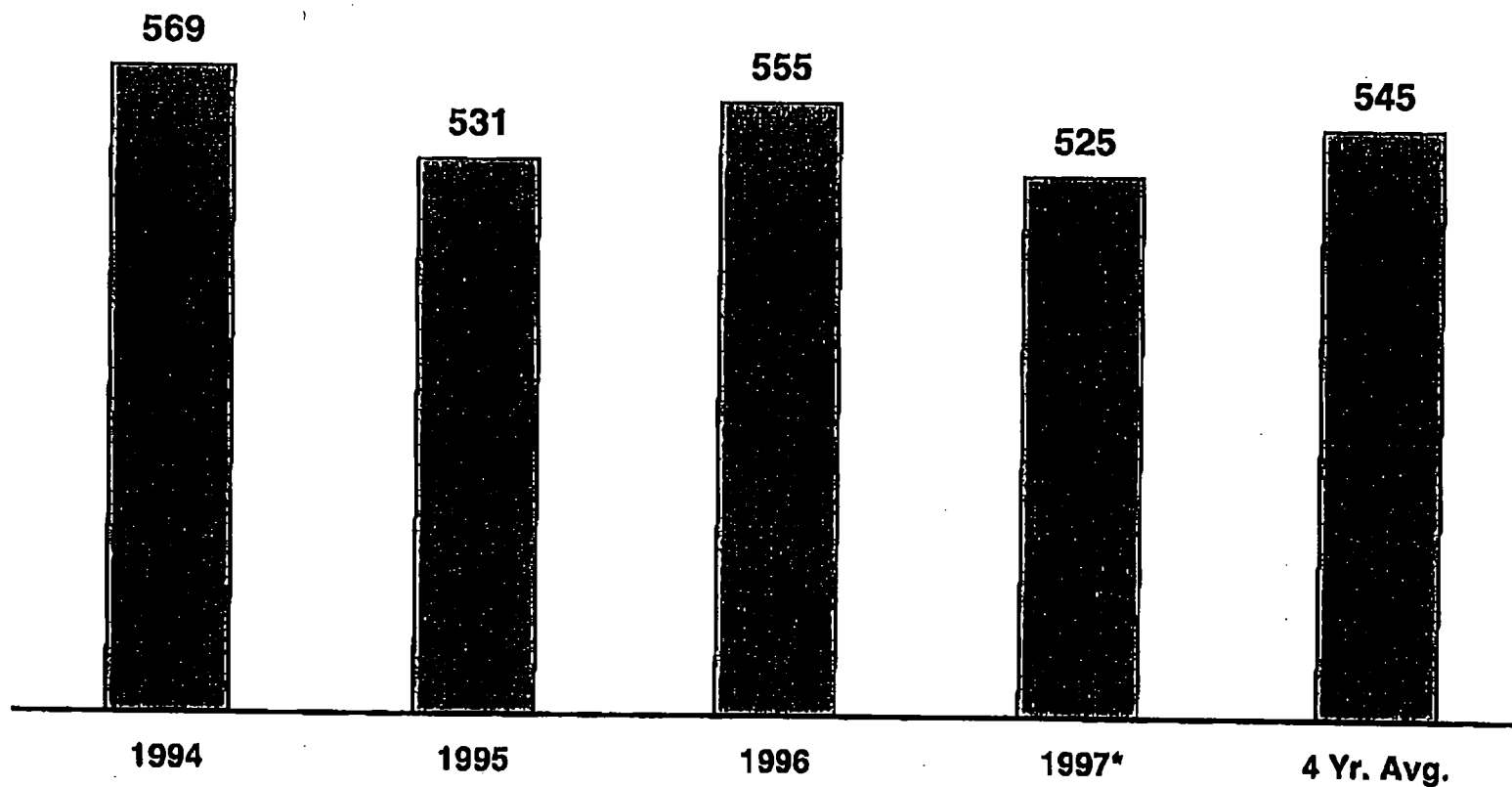
1999 Flue-Cured Basic Quota Based On Various 1998 Loan Receipts And Theoretical NNC Assessments

Domestic Purchase Intentions*	455	455	455	455
3 Year Export Average (est.)	360	360	360	360
Current Reserve Adjustment	-61	-61	-61	-61
Estimated 1998 Loan Receipts	<u>-70</u>	<u>-100</u>	<u>-150</u>	<u>-200</u>
1999 Basic Quota	684	654	604	554
Percent Change From 1998	-15.4%	-19.1%	-25.3%	-31.5%
Theoretical NNC Assessment**	(\$0.10)	(\$0.15)	(\$0.25)	(\$0.36)

* 1998 domestic purchase intentions used

** Theoretical 1999 NNC assessments are based on CCC's fear of tobacco program collapse

1994-1997* Domestic Flue-Cured Cigarette Manufacturing Disappearance
(million pounds)



Sources: TOBACCO Situation and Outlook Report, TBS 239, table B1, page 35, September 1997 and 1997* estimations by Tom Capehart

How US Cigarette Manufactures Can Prevent An Economic Disaster In The Flue-Cured Producing Area

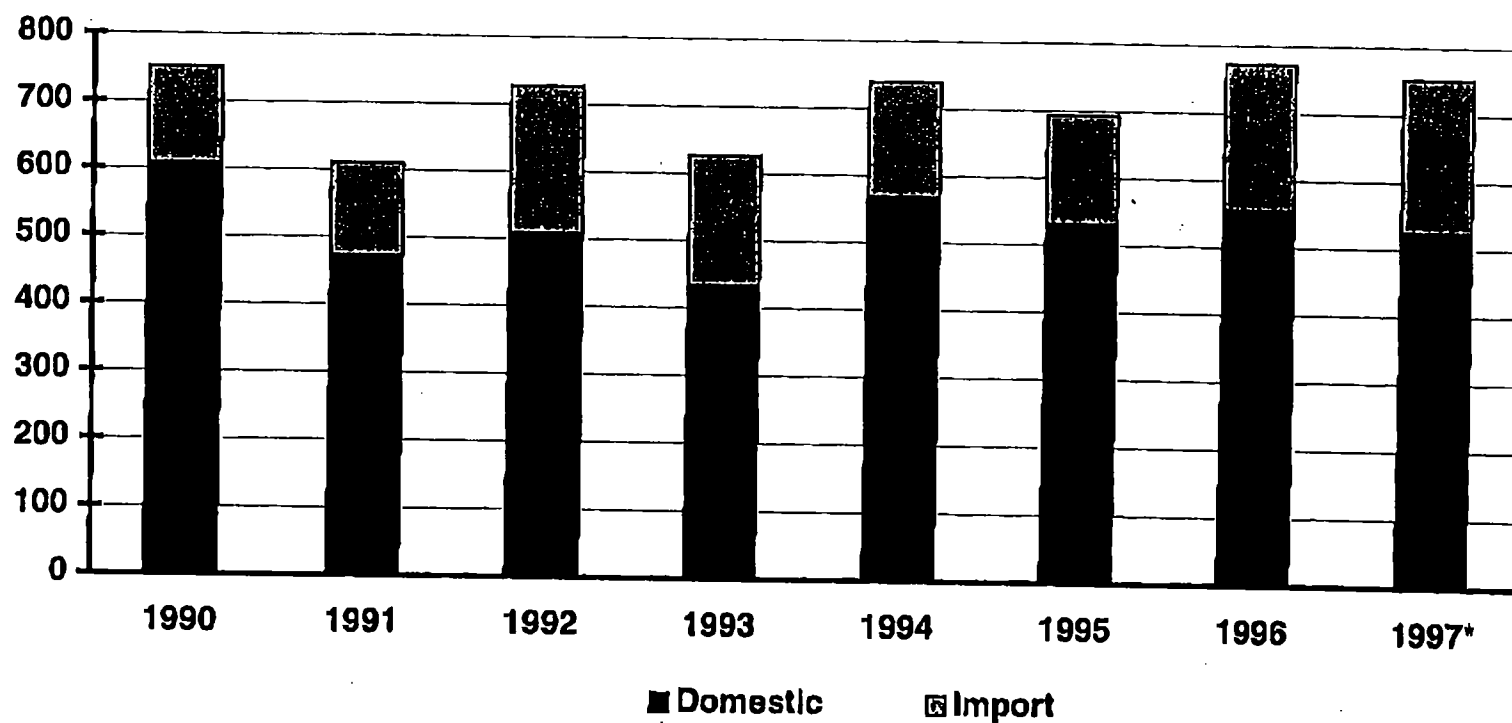
1998 Marketing Scenario

	mil. lbs.
1998 Basic Quota	807
Domestic Purchases	-500
Export Purchases	<u>-275</u>
Loan Receipts	32
Current Loan Inventory	181
Total Loan Inventory	213
Manufacturer Loan Purchases	-50
Ending Loan Inventory	163
1999 Reserve Level	-121
1999 Reserve Level Adjustment	-42

1999 Flue-Cured Quota Scenario

	mil. lbs.
1999 Domestic Purchase Intentions	485
3 Year Export Average	360
Reserve Adjustment	<u>-42</u>
1999 Basic Quota	803

US Manufacturing Use Of Foreign and Domestic Flue-Cured Tobacco (million pounds)



Source: TOBACCO Situation and Outlook Report, TBS 239, table B1, page 35, September 1997 and estimates by Tom Capehart

Immediate Action

Manufacturers Purchase 550 millions pounds US flue-cured by 12/1/97

Long Term Solutions

Compensation for assets (value of quota and capital investments)

Either legislated or negotiated

Tobacco is the only farm commodity that local, state and federal governments have tried to eradicate

Urge Comp. to buy
Indemnity payment
open check
daily drawdown

Wheeler
Job bill - 354

Ms. 6m

☐ Concur
☐ No Objection
☐ No Comment
☐ See proposed edits on pages _____
☐ Other: _____
☐ FAX RETURN of _____ pages, attached to this response sheet

SEC. XXX. TOBACCO ASSESSMENT.

Section 106(g) of the Agricultural Act of 1949 (7 U.S.C. 1445(g)) is amended-

(1) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4),
respectively; and

(2) by inserting after paragraph (1) the following:

"(2) TOBACCO MARKETING ASSESSMENT.-

"(A) IN GENERAL.-For each crop of tobacco beginning with the 1999 crop for which price support is made available under this Act, each producer and purchaser of such tobacco, and each importer of the same kind of tobacco, shall remit to the Commodity Credit Corporation a nonrefundable marketing assessment.

"(B) AMOUNT.-The assessment authorized in subparagraph (A) shall be in such amount to produce, to the maximum extent practicable, a total collection of \$60,000,000.

"(C) DETERMINATION OF ASSESSMENT.-

"(i) RATE OF ASSESSMENT.-The Secretary shall determine the amount per pound due by crop for each kind of tobacco subject to the assessment. The assessment, to the maximum extent practicable, shall be established so that the total assessment per pound on each kind of tobacco shall be a standard percentage of the respective national average support level for such kind of tobacco.

"(ii) ALLOCATION OF AMOUNT.-

"(I) DOMESTIC PRODUCERS.-In the case of domestically produced tobacco, the producer of the tobacco shall pay per pound of tobacco the lesser of-

"(aa) 50 percent of the total assessment amount as determined in clause (i); or

"(bb) .5 percent of the national support price for the tobacco.

"(II) PURCHASERS OF DOMESTICALLY PRODUCED TOBACCO.-Purchasers of domestically produced tobacco shall pay the portion of the total assessment per pound of tobacco which represents the difference between-

"(aa) the total assessment as determined in clause (i); and

"(bb) the amount of such assessment to be paid by the domestic producer as provided in subclause (I).

"(III) IMPORTED TOBACCO.-In the case of imported tobacco, the importer shall pay the full per pound amount of the assessment as determined in clause (i)."

SEC. XXX. TOBACCO ASSESSMENT.

Section 106(g) of the Agricultural Act of 1949 (7 U.S.C. 1445(g)) is amended-

(1) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4),
respectively; and

(2) by inserting after paragraph (1) the following:

"(2) TOBACCO MARKETING ASSESSMENT.-

"(A) IN GENERAL.-For each crop of tobacco beginning with the 1999 crop for which price support is made available under this Act, each producer and purchaser of such tobacco, and each importer of the same kind of tobacco, shall remit to the Commodity Credit Corporation a nonrefundable marketing assessment.

"(B) AMOUNT.-The assessment authorized in subparagraph (A) shall be in such amount to produce, to the maximum extent practicable, a total collection of \$60,000,000.

"(C) DETERMINATION OF ASSESSMENT.-

"(i) RATE OF ASSESSMENT.-The Secretary shall determine the amount per pound due by crop for each kind of tobacco subject to the assessment. The assessment, to the maximum extent practicable, shall be established so that the total assessment per pound on each kind of tobacco shall be a standard percentage of the respective national average support level for such kind of tobacco.

1 **"(ii) ALLOCATION OF AMOUNT.-**

2 **"(I) DOMESTIC PRODUCERS.-**In the case of
3 domestically produced tobacco, the producer of the tobacco shall
4 pay per pound of tobacco the lesser of-

5 **"(aa)** 50 percent of the total assessment amount as
6 determined in clause (i); or

7 **"(bb)** .5 percent of the national support price for
8 the tobacco.

9 **"(II) PURCHASERS OF DOMESTICALLY**
10 **PRODUCED TOBACCO.-**Purchasers of domestically produced
11 tobacco shall pay the portion of the total assessment per pound
12 of tobacco which represents the difference between-

13 **"(aa)** the total assessment as determined in clause
14 (i); and

15 **"(bb)** the amount of such assessment to be paid by
16 the domestic producer as provided in subclause (I).

17 **"(III) IMPORTED TOBACCO.-**In the case of imported
18 tobacco, the importer shall pay the full per pound amount of the
19 assessment as determined in clause (i)."

Total Pages: 4

LRM ID: EHF35

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001**

Thursday, March 11, 1999

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below
FROM: *John D. Burnim*
John D. Burnim (for) Assistant Director for Legislative Reference
OMB CONTACT: Michael L. Goad
PHONE: (202)395-3857 FAX: (202)395-5691
SUBJECT: AGRICULTURE Draft Bill on Tobacco Assessment

DEADLINE: 5:00 PM Friday, March 12, 1999

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS:

DISTRIBUTION LIST

AGENCIES:

118-TREASURY - Richard S. Carro - (202) 622-0650
128-US Trade Representative - Fred Montgomery - (202) 395-3475
25-COMMERCE - Michael A. Levitt - (202) 482-3151
61-JUSTICE - Dennis Burke - (202) 514-2141

EOP:

Mark A. Weatherly
Daniel D. Heath
Alicia K. Kolaian
Jennifer E. Brown
Thomas L. Freedman

Dr. Jones

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this response sheet

SEC. XXX. TOBACCO ASSESSMENT.

Section 106(g) of the Agricultural Act of 1949 (7 U.S.C. 1445(g)) is amended-

(1) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4),
respectively; and

(2) by inserting after paragraph (1) the following:

“(2) TOBACCO MARKETING ASSESSMENT.-

“(A) IN GENERAL.-For each crop of tobacco beginning with the 1999 crop for which price support is made available under this Act, each producer and purchaser of such tobacco, and each importer of the same kind of tobacco, shall remit to the Commodity Credit Corporation a nonrefundable marketing assessment.

“(B) AMOUNT.-The assessment authorized in subparagraph (A) shall be in such amount to produce, to the maximum extent practicable, a total collection of \$60,000,000.

“(C) DETERMINATION OF ASSESSMENT.-

“(i) RATE OF ASSESSMENT.-The Secretary shall determine the amount per pound due by crop for each kind of tobacco subject to the assessment. The assessment, to the maximum extent practicable, shall be established so that the total assessment per pound on each kind of tobacco shall be a standard percentage of the respective national average support level for such kind of tobacco.

"(ii) ALLOCATION OF AMOUNT.-

"(I) DOMESTIC PRODUCERS.-In the case of domestically produced tobacco, the producer of the tobacco shall pay per pound of tobacco the lesser of-

"(aa) 50 percent of the total assessment amount as determined in clause (i); or

"(bb) .5 percent of the national support price for the tobacco.

"(II) PURCHASERS OF DOMESTICALLY PRODUCED TOBACCO.-Purchasers of domestically produced tobacco shall pay the portion of the total assessment per pound of tobacco which represents the difference between-

"(aa) the total assessment as determined in clause (i); and

"(bb) the amount of such assessment to be paid by the domestic producer as provided in subclause (I).

"(III) IMPORTED TOBACCO.-In the case of imported tobacco, the importer shall pay the full per pound amount of the assessment as determined in clause (i)."

105TH CONGRESS
2D SESSION

for further
SWI

H. R. 3437

To provide market transition assistance for quota holders, active tobacco producers, and tobacco-growing counties, to authorize a private Tobacco Production Control Corporation and tobacco loan associations to control the production and marketing and ensure the quality of tobacco in the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 1998

Mr. GOODE (for himself, Mr. BOUCHER, and Mr. SISISKY) introduced the following bill; which was referred to the Committee on Agriculture, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To provide market transition assistance for quota holders, active tobacco producers, and tobacco-growing counties, to authorize a private Tobacco Production Control Corporation and tobacco loan associations to control the production and marketing and ensure the quality of tobacco in the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

2 (a) **SHORT TITLE.**—This Act may be cited as the
3 “Tobacco Market Transition Act”.

4 (b) **TABLE OF CONTENTS.**—The table of contents of
5 this Act is as follows:

Sec. 1. Short title; table of contents.

Sec. 2. Definitions.

Sec. 3. Purposes.

TITLE I—TOBACCO COMMUNITY REVITALIZATION TRUST FUND

Sec. 101. Tobacco Community Revitalization Trust Fund.

TITLE II—TOBACCO MARKET TRANSITION ASSISTANCE

Sec. 201. Compensation to quota holders for loss of tobacco quota asset value.

Sec. 202. Transition payments for active tobacco producers.

Sec. 203. Tobacco Loan associations.

Sec. 204. Tobacco community economic development grants.

Sec. 205. Transition payments for other persons involved in tobacco production
and marketing and cigarette manufacture and distribution.

Sec. 206. Tax treatment of compensation and transition payments.

**TITLE III—ESTABLISHMENT OF PRIVATE TOBACCO PRODUCTION
ADJUSTMENT AND QUALITY ASSURANCE PROGRAMS**

Sec. 301. Tobacco Production Control Corporation.

Sec. 302. Tobacco loan associations.

Sec. 303. Tobacco price support levels.

Sec. 304. Penalties.

Sec. 305. Referenda.

6 **SEC. 2. DEFINITIONS.**

7 In this Act:

8 (1) **ACTIVE TOBACCO PRODUCER.**—The term
9 “active tobacco producer” means a person that—

10 (A) is the actual producer, as determined
11 by the Secretary, of tobacco on a farm where
12 tobacco is produced pursuant to a tobacco from
13 marketing quota or farm acreage allotment es-
14 tablished under the Agricultural Adjustment

1 Act of 1938 (7 U.S.C. 1281 et seq.) for the
2 1997 crop year; and

3 (B) planted the crop, or is considered to
4 have planted the crop under that Act, in 1997.

5 (2) QUOTA HOLDER.—The term “quota holder”
6 means an owner of a farm on January 1, 1998 for
7 which a tobacco farm marketing quota or farm acre-
8 age allotment was established under the Agricultural
9 Adjustment Act of 1938 (7 U.S.C. 1281 et seq.)

10 (3) SECRETARY.—The term “Secretary” means
11 the Secretary of Agriculture.

12 (4) TOBACCO LOAN ASSOCIATION.—The term
13 “Association” means a producer-owned cooperative
14 marketing association.

15 (5) TOBACCO PRODUCTION CONTROL CORPORA-
16 TION.—The term “Corporation” means the Tobacco
17 Production Control Corporation established by sec-
18 tion 301.

19 (6) TRUST FUND.—The term “Trust Fund”
20 means the Tobacco Community Revitalization Trust
21 Fund established by section 101.

22 **SEC. 3. PURPOSES.**

23 It is the purpose of this Act to—

24 (1) dismantle the existing Federal tobacco pro-
25 gram and establish a private program to ensure the

1 stability of the price and supply of domestically pro-
2 duced tobacco;

3 (2) compensate quota holders for the value of
4 assets that may be diminished as a result of this leg-
5 islation;

6 (3) provide targeted economic development
7 funds to tobacco dependent communities for the cre-
8 ation of jobs, training of individuals, and long-term
9 economic development of the communities;

10 (4) reduce the operating costs of tobacco pro-
11 ducers by eliminating expenses associated with buy-
12 ing or leasing tobacco quota;

13 (5) make domestically produced tobacco more
14 competitive with tobacco produced in other coun-
15 tries; and

16 (6) provide funds for those persons who are ad-
17 versely and directly affected by the dismantling of
18 the Federal tobacco program and the implementa-
19 tion of national tobacco settlement legislation.

20 **TITLE I—TOBACCO COMMUNITY**
21 **REVITALIZATION TRUST FUND**

22 **SEC. 101. TOBACCO COMMUNITY REVITALIZATION TRUST**
23 **FUND.**

24 (a) IN GENERAL.—There is established in the Treas-
25 ury of the United States a trust fund to be known as the

1 “Tobacco Community Revitalization Trust Fund”, con-
2 sisting of such amounts as may be appropriated or cred-
3 ited to the Trust Fund. The Trust Fund shall be adminis-
4 tered by the Corporation.

5 (b) TRANSFERS TO TRUST FUND.—There are appro-
6 priated and transferred to the Trust Fund, from amounts
7 made available to the Trust Fund out of funds allocated
8 through national tobacco settlement legislation,
9 \$3,500,000,000 for each of fiscal years 1999 through
10 2003 and \$265,000,000 for each of fiscal years 2004
11 through 2023.

12 (c) REPAYABLE ADVANCES.—

13 (1) AUTHORIZATION.—There are authorized to
14 be appropriated to the Trust Fund, as repayable ad-
15 vances, such sums as may from time to time be nec-
16 essary to make expenditures under subsection (d).

17 (2) REPAYMENT WITH INTEREST.—Repayable
18 advances made to the Trust Fund shall be repaid,
19 and interest on the advances shall be paid, to the
20 general fund of the Treasury when the Secretary of
21 the Treasury determines that moneys are available
22 in the Trust Fund to make the payments.

23 (3) RATE OF INTEREST.—Interest on an ad-
24 vance made under this subsection shall be at a rate
25 determined by the Secretary of the Treasury (as of

1 the close of the calendar month preceding the month
2 in which the advance is made) that is equal to the
3 current average market yield on outstanding market-
4 able obligations of the United States with remaining
5 period to maturity comparable to the anticipated pe-
6 riod during which the advance will be outstanding.

7 (d) EXPENDITURES FROM TRUST FUND.—Amounts
8 in the Trust Fund shall be available for making expendi-
9 tures to defray—

10 (1) the costs of providing compensation to
11 quota holders for the loss of tobacco quota asset
12 value under section 201;

13 (2) the costs of making transition payments to
14 active tobacco producers under section 202;

15 (3) the costs of forgiving loans and transferring
16 title to inventories of tobacco and funds to Associa-
17 tions under section 203;

18 (4) the costs of making tobacco community eco-
19 nomic development grants under section 204, but
20 not to exceed \$250,000,000 for each of fiscal years
21 1999 through 2003 and an amount determined by
22 the Corporation to be appropriate for each of fiscal
23 years 2004 through 2023;

24 (5) the costs of making transition payments to
25 tobacco warehousemen and other persons directly in-

1 volved in tobacco production and marketing and cig-
2 arette manufacture and distribution under section
3 205.

4 (6) the costs of carrying out the duties of the
5 Corporation and the Associations, including assuring
6 the quality and controlling the production and mar-
7 keting of domestic tobacco and otherwise carrying
8 out title III;

9 (7) the costs to the Secretary of enforcing title
10 III;

11 (8) the costs of providing crop insurance to to-
12 bacco producers; and

13 (9) any other costs incurred by the Department
14 of Agriculture associated with tobacco.

15 **TITLE II—TOBACCO MARKET** 16 **TRANSITION ASSISTANCE**

17 **SEC. 201. COMPENSATION TO QUOTA HOLDERS FOR LOSS** 18 **OF TOBACCO QUOTA ASSET VALUE.**

19 (a) IN GENERAL.—The Corporation shall make pay-
20 ments for tobacco quota to eligible quota holders.

21 (b) ELIGIBILITY.—To be eligible to receive payments
22 under this section, a quota holder shall prepare and sub-
23 mit to the Corporation an application at such time, in such
24 manner, and containing such information as the Corpora-
25 tion may require, including information sufficient to dem-

1 onstrate to the satisfaction of the Corporation that the
2 person was a quota holder on January 1, 1998.

3 (c) BASE QUOTA LEVEL.—

4 (1) IN GENERAL.—The Secretary shall deter-
5 mine, for each quota holder, the base quota level for
6 the 1995 through 1997 marketing years.

7 (2) LEVEL.—The base quota level for a quota
8 holder shall be equal to the average tobacco farm
9 marketing quota established for the 1995 through
10 1997 marketing years for the farm owned by the
11 quota holder on January 1, 1998.

12 (3) MARKETING QUOTAS OTHER THAN POUND-
13 AGE QUOTAS.—For each kind of tobacco for which
14 there is a marketing quota or allotment (on an acre-
15 age basis), the base quota level for each quota holder
16 shall be determined in accordance with this sub-
17 section (based on a poundage conversion) in an
18 amount equal to the product obtained by multiply-
19 ing—

20 (A) the average tobacco farm marketing
21 quota or allotment for the 1995 through 1997
22 marketing years; by

23 (B) the average yield per acre for the
24 quota holder's farm for the kind of tobacco for
25 the marketing years.

1 (d) PAYMENTS.—The Corporation shall make pay-
 2 ments to each quota holder that is eligible under sub-
 3 section (b) in 5 equal installments, 1 for each of the 1999
 4 through 2003 crops of tobacco, in an aggregate amount
 5 that is equal to the product obtained by multiplying—

6 (1) \$8 per pound; by

7 (2) the base quota level established for the
 8 quota holder under subsection (c).

9 **SEC. 202. TRANSITION PAYMENTS FOR ACTIVE TOBACCO**
 10 **PRODUCERS.**

11 (a) IN GENERAL.—The Corporation shall make tran-
 12 sition payments to eligible active tobacco producers.

13 (b) ELIGIBILITY.—To be eligible to receive payments
 14 under this section, an active tobacco producer shall—

15 (1) prepare and submit to the Corporation an
 16 application at such time, in such manner, and con-
 17 taining such information as the Corporation may re-
 18 quire, including information sufficient to make the
 19 demonstration required under paragraph (2); and

20 (2) demonstrate to the satisfaction of the Cor-
 21 poration that, the person planted, or is considered to
 22 have planted, a 1997 crop of tobacco.

23 (c) PAYMENT QUANTITY.—

24 (1) IN GENERAL.—The Secretary shall deter-
 25 mine and provide to the Corporation, for each active

1 tobacco producer, the production quantity eligible for
2 payment for the 1995 through 1997 marketing
3 years.

4 (2) ELIGIBLE PRODUCTION QUANTITY.—The
5 production quantity eligible for payment for an ac-
6 tive tobacco producer shall be equal to the average
7 number of pounds of tobacco quota established for
8 a farm for the 1995 through 1997 marketing years
9 for which the producer was the actual producer of
10 the tobacco on the farm.

11 (3) MARKETING QUOTAS OTHER THAN POUND-
12 AGE QUOTAS.—For each kind of tobacco for which
13 there is a marketing quota or allotment (on an acre-
14 age basis), the production quantity eligible for pay-
15 ment for each active tobacco producer shall be deter-
16 mined in accordance with this subsection (based on
17 a poundage conversion) in an amount equal to the
18 product obtained by multiplying—

19 (A) the average tobacco farm marketing
20 quota or allotment for the 1995 through 1997
21 marketing years; by

22 (B) the average yield per acre for the ac-
23 tive tobacco producer for the kind of tobacco for
24 the marketing years.

1 (d) PAYMENTS.—The Corporation shall make pay-
2 ments for each of the 1999 through 2003 crops of tobacco
3 to each active tobacco producer that is eligible under sub-
4 section (b) in an amount that is equal to the product ob-
5 tained by multiplying—

6 (1) \$0.80 per pound; by

7 (2) the payment quantity established for the
8 producer under subsection (c).

9 (e) DEATH OF ACTIVE TOBACCO PRODUCER.—If an
10 active tobacco producer who is entitled to payments under
11 this section dies and is survived by a spouse or 1 or more
12 dependents, the right to receive the payments shall trans-
13 fer to the surviving spouse or, if there is no surviving
14 spouse, to the estate of the producer.

15 **SEC. 203. TOBACCO LOAN ASSOCIATIONS.**

16 (a) PRIOR LOANS.—The Secretary shall forgive each
17 loan made to an Association under section 106A or 106B
18 of the Agricultural Act of 1949 (7 U.S.C. 1445 1, 1445
19 2) that is outstanding on the date of enactment of this
20 Act.

21 (b) TRANSFER OF TITLE FOR LOAN INVENTORIES.—
22 The Secretary shall transfer to each Association described
23 in subsection (a) the title to all inventories of tobacco held
24 by the Secretary to secure loans made to the Association

1 under section 106A or 106B of the Agricultural Act of
2 1949 (7 U.S.C. 1445 1, 1445 2).

3 (c) NO NET COST TOBACCO FUNDS.—Notwithstand-
4 ing sections 106A(f) and 106B(g) of the Agricultural Act
5 of 1949 (7 U.S.C. 1445–1(f) and 1445–2(g)), all funds
6 held in a No Net Cost Tobacco Fund or No Net Cost To-
7 bacco Account on behalf of an Association under section
8 106A or 106B of that Act (7 U.S.C. 1445–1, 1445–2)
9 on the date of enactment of this Act shall be the property
10 of the Association.

11 **SEC. 204. TOBACCO COMMUNITY ECONOMIC DEVELOP-**
12 **MENT GRANTS.**

13 (a) AUTHORITY.—The Corporation shall make grants
14 to eligible tobacco-growing political subdivisions in accord-
15 ance with this section to enable the political subdivisions
16 to carry out economic development activities.

17 (b) ELIGIBILITY.—To be eligible to receive payments
18 under this section, a political subdivisions in a State
19 shall—

20 (1) have in excess of \$100,000 in gross income
21 from sales of tobacco produced within the political
22 subdivision during 1 or more of the 1995 through
23 1997 marketing years, as determined by the Cor-
24 poration;

1 (2) prepare and submit to the Corporation an
2 application at such time, in such manner, and con-
3 taining such information as the Corporation may re-
4 quire, including—

5 (A) a description of the activities that the
6 political subdivision will carry out using
7 amounts received under the grant;

8 (B) a designation of an appropriate politi-
9 cal subdivision agency to administer amounts
10 received under the grant;

11 (C) a description of the steps to be taken
12 to ensure that the funds are distributed in ac-
13 cordance with subsection (e); and

14 (D) an economic development plan, ap-
15 proved by a regional authority authorized to co-
16 ordinate economic development efforts in the re-
17 gion where the political subdivision is located,
18 or approved by the State if no such regional au-
19 thority exists, that describes the activities that
20 the political subdivision will carry out using
21 amounts received under the grant. Where a po-
22 litical subdivision ineligible to receive payments
23 under subsection (b)(1) is surrounded within
24 the State by a political subdivision eligible to
25 receive payments under subsection (b)(1), an

1 economic development plan shall not be ap-
2 proved unless submitted jointly by both jurisdic-
3 tions.

4 (c) AMOUNT OF GRANT.—

5 (1) IN GENERAL.—From the amounts available
6 to carry out this section for a fiscal year, the Cor-
7 poration shall allot to each eligible tobacco-growing
8 political subdivision an amount that bears the same
9 ratio to the total funds available as the total income
10 of the tobacco-growing political subdivision derived
11 from the production of tobacco within the political
12 subdivision during the 1995 and through 1997 mar-
13 keting years (as determined under paragraph (2))
14 bears to the total income of all tobacco-growing po-
15 litical subdivisions derived from the production of to-
16 bacco during the 1995 through 1997 marketing
17 years.

18 (2) TOBACCO INCOME.—For the 1995 through
19 1997 marketing years, the Secretary shall determine
20 and provide to the Corporation the amount of in-
21 come derived from the production of tobacco in each
22 tobacco-growing political subdivision and in all to-
23 bacco-growing political subdivisions.

24 (d) PAYMENTS.—

1 (1) IN GENERAL.—A tobacco-growing political
2 subdivision that has an application approved by the
3 Corporation under subsection (b) shall be entitled to
4 a payment under this section in an amount that is
5 equal to its allotment under subsection (c).

6 (2) FORM OF PAYMENTS.—The Corporation
7 may make payments under this section to a tobacco-
8 growing political subdivision in installments, and in
9 advance or by way of reimbursement, with necessary
10 adjustments on account of overpayments or under-
11 payments, as the Corporation may determine.

12 (3) REALLOTMENTS.—Any portion of the allot-
13 ment of a political subdivision under subsection (c)
14 that the Corporation determines will not be used to
15 carry out this section in accordance with an ap-
16 proved political subdivision application required
17 under subsection (b), shall be reallocated by the Cor-
18 poration to other tobacco-growing political subdivi-
19 sions in proportion to the original allotments to the
20 other tobacco-growing political subdivisions.

21 (e) USE AND DISTRIBUTION OF FUNDS.—

22 (1) IN GENERAL.—Amounts received by a to-
23 bacco-growing political subdivision under this section
24 shall be used to carry out economic development ac-
25 tivities, including—

1 (A) activities designed to help create pro-
2 ductive farm or off-farm employment in rural
3 areas to provide a more viable economic base
4 and enhance opportunities for improved in-
5 comes, living standards, and contributions by
6 rural individuals to the economic and social de-
7 velopment of tobacco communities;

8 (B) activities designed to provide training
9 and transition assistance to quota holders and
10 active tobacco producers to enable the holders
11 and producers to produce alternative agricul-
12 tural commodities or obtain alternative employ-
13 ment;

14 (C) activities to improve the quality of edu-
15 cation in tobacco communities;

16 (D) activities to promote tourism in to-
17 bacco communities through natural resource
18 protection;

19 (E) activities to construct advanced manu-
20 facturing centers, industrial parks, water and
21 sewer facilities, and transportation improve-
22 ments in tobacco communities;

23 (F) activities to establish small business
24 incubators in tobacco communities;

1 (G) activities to install high technology in-
2 frastructure improvements in tobacco commu-
3 nities;

4 (H) rural business enterprise activities de-
5 scribed in subsections (c) and (e) of section
6 310B of the Consolidated Farm and Rural De-
7 velopment Act (7 U.S.C 1932);

8 (I) downpayment loan assistance programs
9 that are similar to the program described in
10 section 310E of the Consolidated Farm and
11 Rural Development Act (7 U.S.C 1935);

12 (J) activities that expand existing infra-
13 structure, facilities, and services to capitalize on
14 opportunities to diversify economies in tobacco
15 communities and that support the development
16 of new industries or commercial ventures;

17 (K) activities by agricultural organizations
18 that provide assistance directly to quota holders
19 and active tobacco producers to assist in devel-
20 oping other agricultural activities that supple-
21 ment tobacco-producing activities;

22 (L) initiatives designed to create or expand
23 locally owned value-added processing and mar-
24 keting operations in tobacco communities; and

1 (M) technical assistance activities by per-
2 sons to support farmer-owned enterprises, or
3 agriculture-based rural development enterprises,
4 of the type described in section 252 or 253 of
5 the Trade Act of 1974 (19 U.S.C 2342, 2343).

6 (2) MAINTENANCE OF EFFORT.—The political
7 subdivision and the State shall provide assurances to
8 the Corporation that funds provided to the political
9 subdivision under this section will be used only to
10 supplement, not to supplant, the amount of Federal,
11 State, and local funds otherwise expended for eco-
12 nomic development activities in the political subdivi-
13 sion.

14 **SEC. 205. TRANSITION PAYMENTS FOR OTHER PERSONS IN-**
15 **VOLED IN TOBACCO PRODUCTION AND**
16 **MARKETING AND CIGARETTE MANUFACTURE**
17 **AND DISTRIBUTION.**

18 (a) PAYMENTS FOR WAREHOUSEMEN.—

19 (1) PAYMENTS REQUIRED.—The Corporation
20 shall make transition payments to tobacco ware-
21 housemen as reimbursement for the reduced quan-
22 tities of tobacco to be marketed by producers
23 through warehousemen as a result of the decrease in
24 demand for domestically produced tobacco.

1 (2) PAYMENT BASIS.—The Corporation shall
2 establish the amount of the payments to be made to
3 a tobacco warehouseman on the basis of the average
4 tobacco volume and commissions of the warehouse-
5 man for the 1995 through 1997 marketing years.
6 The average volume level for a tobacco warehouse-
7 man shall be equal to the average volume of sales of
8 a particular type of tobacco handled by the tobacco
9 warehouseman on behalf of active tobacco producers
10 for the 1995 through 1997 marketing years, as de-
11 termined using data collected by the Agricultural
12 Marketing Service of the Department of Agriculture.
13 The average commission level for a tobacco ware-
14 houseman shall be equal to the average amount of
15 commission and fees imposed by the tobacco ware-
16 houseman for marketing tobacco on behalf of active
17 tobacco producers for the 1995 through 1997 mar-
18 keting years, as determined using data collected by
19 the Agricultural Marketing Service.

20 (b) PAYMENTS FOR OTHER PERSONS.—The Cor-
21 poration shall consider the feasibility of making transition
22 payments to tobacco graders, inspectors, checkers, auc-
23 tioneers, equipment dealers, cigarette vending machine
24 owners or operators, employees of tobacco manufacturing
25 and leaf dealer firms, and other persons who are adversely

1 and directly affected by the dismantling of the Federal to-
2 bacco program or any national tobacco settlement legisla-
3 tion.

4 (c) RULES.—Payment amounts under this section
5 shall be established by and made according to the rules
6 issued by the Corporation.

7 (d) AVAILABLE FUNDS.—From amounts in the Trust
8 Fund, the Corporation may expend \$300,000,000 per year
9 for five years for payments under this section.

10 **SEC. 206. TAX TREATMENT OF TOBACCO QUOTA HOLDER**
11 **COMPENSATION AND TRANSITION PAY-**
12 **MENTS.**

13 (a) IN GENERAL.—Part II of subchapter B of chap-
14 ter 1 of the Internal Revenue Code of 1986 (relating to
15 items specifically included in gross income) is amended by
16 adding at the end the following:

17 **“SEC. 91. CERTAIN TOBACCO PROGRAM PAYMENTS.**

18 “(a) GENERAL RULE.—Gross income includes
19 amounts received under section 201 or 202 of the Tobacco
20 Market Transition Act.

21 “(b) EXCEPTION FOR AMOUNTS TRANSFERRED
22 DURING REINVESTMENT PERIOD.—

23 “(1) IN GENERAL.—Subsection (a) shall not
24 apply to any amount if during reinvestment period
25 such amount is—

1 “(A) used to make a qualified debt repay-
2 ment, or

3 “(B) transferred to a tobacco farmer indi-
4 vidual retirement account established under sec-
5 tion 522.

6 “(2) QUALIFIED DEBT REPAYMENT.—For pur-
7 poses of paragraph (1), the term ‘qualified debt re-
8 payment’ means the payment of debt incurred di-
9 rectly by the taxpayer to produce tobacco prior to
10 January 1, 1998.

11 “(c) CHARACTER OF INCOME.—For purposes of this
12 subtitle—

13 “(1) any amount received under section 201 of
14 the Tobacco Market Assistance Act and included in
15 gross income under this section shall be treated as
16 long-term capital gain or may be used to reduce the
17 basis in real estate to which the tobacco quota is at-
18 tached, and

19 “(2) any amount received under section 202 of
20 such Act and so included in gross income shall be
21 treated as ordinary income.”.

22 (b) TOBACCO FARMER INDIVIDUAL RETIREMENT AC-
23 COUNTS.—Part IV of subchapter F of chapter 1 of the
24 Internal Revenue Code of 1986 (relating to farmers’ co-
25 operatives) is amended by adding at the end the following:

1 **"SEC. 522. TOBACCO FARMER INDIVIDUAL RETIREMENT**
2 **ACCOUNTS.**

3 “(a) GENERAL RULE.—Except as provided in this
4 section, a tobacco farmer individual retirement account
5 shall be treated for purposes of this title in the same man-
6 ner as an individual retirement plan.

7 “(b) DEFINITIONS AND SPECIAL RULES.—For pur-
8 poses of this title—

9 “(1) TOBACCO FARMER INDIVIDUAL RETIRE-
10 MENT ACCOUNT.—The term ‘tobacco farmer individ-
11 ual retirement account’ means an individual retire-
12 ment plan (as defined in section 7701(a)(37)) other
13 than a Roth IRA which is designated (in such man-
14 ner as the Corporation may prescribe) at the time
15 of establishment of the plan as a tobacco farmer in-
16 dividual retirement account.

17 “(2) TREATMENT OF CONTRIBUTIONS.—

18 “(A) CASH ONLY.—No contribution will be
19 accepted unless it is in cash.

20 “(B) SOURCE OF CONTRIBUTIONS.—The
21 only contributions which will be accepted are—

22 “(i) payments under section 201 or
23 202 of the Tobacco Market Transition Act,
24 and

25 “(ii) trustee-to-trustee transfers to
26 such trust from another tobacco farmer in-

1 dividual retirement account of the account
2 beneficiary.

3 “(C) NO DEDUCTION ALLOWED.—No de-
4 duction shall be allowed under section 219 for
5 a contribution to a tobacco farmer individual
6 retirement account.

7 “(D) NO ROLLOVER CONTRIBUTIONS AL-
8 LOWED.—No rollover contribution may be made
9 to or from a tobacco farmer individual retire-
10 ment account.

11 “(3) TAX TREATMENT OF DISTRIBUTIONS.—
12 Any amount distributed from a tobacco farmer indi-
13 vidual retirement account attributable to payments
14 made under section 201 or 202 of the Tobacco Mar-
15 ket Transition Act (including earnings thereon) shall
16 be includible in the gross income of the distributee
17 under the rules described in section 91(c). Any such
18 distribution shall be made first from amounts in
19 such account (if any) attributable to payments under
20 such section 202 (and earnings thereon).

21 “(4) COORDINATION WITH INDIVIDUAL RETIRE-
22 MENT ACCOUNTS.—Section 408(d)(2) shall be ap-
23 plied separately with respect to tobacco farmer indi-
24 vidual retirement accounts and other individual re-
25 tirement plans.”.

1 (c) CONFORMING AMENDMENTS.—

2 (1) The table of sections for part II of sub-
3 chapter B of chapter 1 of the Internal Revenue Code
4 of 1986 is amended by adding at the end the follow-
5 ing:

“Sec. 91. Certain tobacco program payments.”.

6 (2) The table of sections for part IV of sub-
7 chapter F of chapter 1 of such Code is amended by
8 adding at the end the following:

“Sec. 522. Tobacco farmer individual retirement accounts.”.

9 (3) The heading for part IV of subchapter F of
10 chapter 1 of such code is amended by striking
11 **“FARMERS’ COOPERATIVES”** and inserting
12 **“CERTAIN FARMER ENTITIES”**.

13 (4) The table of parts for subchapter F of
14 chapter 1 of such Code is amended by striking
15 **“FARMERS’ COOPERATIVES”** and inserting **“CERTAIN**
16 **FARMER ENTITIES”**.

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 1997.

1 **TITLE III—ESTABLISHMENT OF**
2 **PRIVATE TOBACCO PRODUC-**
3 **TION ADJUSTMENT AND**
4 **QUALITY ASSURANCE PRO-**
5 **GRAM**

6 **SEC. 301. TOBACCO PRODUCTION CONTROL CORPORATION.**

7 (a) **ESTABLISHMENT.**—There is established a cor-
8 poration to be known as the “Tobacco Production Control
9 Corporation”, which shall be a federally chartered instru-
10 mentality of the United States.

11 (b) **DUTIES.**—Effective for the 1999 and each subse-
12 quent crop of each kind of tobacco, on at least a two-thirds
13 vote of the Board of Directors of the Corporation, the Cor-
14 poration shall—

15 (1) promulgate rules that govern the produc-
16 tion, marketing, importation, exportation, and con-
17 sumer quality assurances for each kind of tobacco;

18 (2) establish a licensing system that provides
19 for the orderly production and marketing of tobacco
20 in the United States under which—

21 (A) the Corporation shall issue a license to
22 each active tobacco producer, or other person
23 that meets requirements established by the Cor-
24 poration, initially based upon the eligible pro-

1 duction quantity determined for each producer
2 under section 202(c)(1);

3 (B) the licensee shall surrender the license
4 to the Corporation if the licensee fails to ac-
5 tively engage in the production of tobacco;

6 (C) the sale or marketing of a type of to-
7 bacco which prior to the date of enactment was
8 produced pursuant to a tobacco farm marketing
9 quota or farm acreage allotment issued under
10 the Agricultural Act of 1938 is prohibited with-
11 out a license;

12 (D) the sale, lease, or other transfer of a
13 license shall be prohibited except pursuant to
14 subsection (c); and

15 (E) the Corporation shall issue marketing
16 licenses to tobacco marketing facilities and to-
17 bacco purchasing entities;

18 (3) ensure compliance, through whatever means
19 is available, of all persons with any license, regula-
20 tion, rule, limitation, or guideline issued under, or in
21 order to carry out, this Act;

22 (4) offer crop insurance for tobacco producers;

23 (5) establish a system that will provide assur-
24 ance to consumers of the quality of all tobacco mar-

1 keted in the United States and that, at a mini-
2 mum—

3 (A) provides for the inspection and grading
4 of domestically produced tobacco and imported
5 tobacco;

6 (B) determines and describes the physical
7 characteristics of domestically produced tobacco
8 and imported tobacco;

9 (C) ensures the physical and chemical in-
10 tegrity of domestically produced tobacco and
11 imported tobacco;

12 (6) carry out its duties, functions, and deter-
13 minations through loan associations and local com-
14 mittees, to the extent practicable and appropriate;
15 and

16 (7) continue to maintain and carry out a to-
17 bacco program in accordance with the rules and reg-
18 ulations contained in chapter 7 of the Code of Fed-
19 eral Regulations unless and until rules are promul-
20 gated under subsection (c).

21 (c) TRANSFER OF LICENSE.—

22 (1) RIGHT OF SURVIVORSHIP.—

23 (A) IN GENERAL.—In the case of the
24 death of a person to whom a license has been
25 issued under this section, the license shall

1 transfer to the surviving spouse of the person
2 or, if there is no surviving spouse, to surviving
3 direct descendants of the persons.

4 (B) HARDSHIP.—In the case of the death
5 of a person to whom a license has been issued
6 under this section and whose descendants are
7 temporarily unable to produce a crop of to-
8 bacco, the Corporation may hold the license in
9 the name of the descendants for a period of not
10 more than 18 months, at the discretion of the
11 Corporation.

12 (2) LIFETIME TRANSFER.—A person that is eli-
13 gible to obtain a license under this section may at
14 any time transfer all or part of the license to the
15 person's spouse or direct descendants that are ac-
16 tively engaged in the production of tobacco.

17 (d) BOARD OF DIRECTORS.—

18 (1) IN GENERAL.—The powers of the Corpora-
19 tion shall be vested in a Board of Directors.

20 (2) MEMBERS.—The Board of Directors shall
21 consist of 25 members as follows:

22 (A) The Secretary of Agriculture.

23 (B) The Secretary of Health and Human
24 Services.

1 (C) The Administrator of the Environ-
2 mental Protection Agency.

3 (D) The United States Trade Representa-
4 tive.

5 (E) 1 member from each state that pro-
6 duces more than 50,000,000 pounds of tobacco.
7 All members appointed under this subpara-
8 graph shall be actively engaged in the produc-
9 tion of tobacco and shall be elected by the to-
10 bacco producers from each respective state.

11 (F) 3 members appointed by the flue-cured
12 tobacco association and 2 members appointed
13 by the burley tobacco associations, all such
14 members to be licensees under this Act.

15 (G) 1 member appointed by tobacco asso-
16 ciations other than those specified in subpara-
17 graph (F), on a rotating basis.

18 (H) 3 members representing public health
19 interests, appointed by the Secretary of Health
20 and Human Services.

21 (I) 1 member representing domestic ciga-
22 rette manufacturers.

23 (J) 1 member representing domestic export
24 leaf dealers, appointed by the Leaf Tobacco Ex-
25 porters Association (LTEA).

1 (K) 2 members representing tobacco mar-
2 keting facilities, 1 each appointed by the Bright
3 Belt Warehouse Association (BBWA) and the
4 Burley Auction Warehouse Association
5 (BAWA).

6 (L) 1 member that is the person respon-
7 sible for operating the quality assurance system
8 of the Corporation described in subsection
9 (b)(4).

10 (M) 1 member who is a Dean of Agri-
11 culture of a Land Grant University from a to-
12 bacco producing state.

13 (3) MEMBERSHIP QUALIFICATIONS.—A member
14 of the Board shall not hold any Federal, State, or
15 local elected office.

16 (4) CHAIRPERSONS.—The Secretary of Agri-
17 culture shall serve as chairperson of the Board.

18 (5) EXECUTIVE DIRECTOR.—

19 (A) APPOINTMENT.—The Board shall ap-
20 point an Executive Director.

21 (B) DUTIES.—The Executive Director
22 shall be the chief executive officer of the Cor-
23 poration, with such power and authority as may
24 be conferred by the Board.

1 (C) COMPENSATION.—The Executive Di-
2 rector shall receive basic pay at the rate pro-
3 vided for level IV of the Executive Schedule
4 under section 5315 of title 5, United States
5 Code.

6 (6) OFFICERS.—The Board shall establish the
7 offices and appoint the officers of the Corporation,
8 including a Secretary, and define the duties of the
9 officers in a manner consistent with this section.

10 (7) MEETINGS.—

11 (A) IN GENERAL.—The Board shall meet
12 at least 3 times each fiscal year at the call of
13 a Chairperson or at the request of the Execu-
14 tive Director.

15 (B) LOCATION.—The location of a meeting
16 shall be subject to approval of the Executive Di-
17 rector.

18 (C) QUORUM.—A quorum of the Board
19 shall consist of a majority of the members.

20 (8) TERM; VACANCIES.—

21 (A) TERM.—The term of office of a mem-
22 ber of the Board appointed under any of sub-
23 paragraphs (E) through (K) of paragraph (2)
24 shall be 4 years.

1 (B) VACANCIES.—A vacancy on the Board
2 shall be filled in the same manner as the origi-
3 nal appointment was made.

4 (9) COMPENSATION.—

5 (A) FEDERAL MEMBERS.—A member of
6 the Board who is an officer or employee of the
7 United States shall not receive any additional
8 compensation by reason of service on the
9 Board.

10 (B) NON-FEDERAL MEMBERS.—Any other
11 member shall receive compensation, for each
12 day (including travel time) that the member is
13 engaged in the performance of the functions of
14 the Board, at a rate determined appropriate by
15 the Board.

16 (C) EXPENSES.—A member of the Board
17 shall be reimbursed for travel, subsistence, and
18 other necessary expenses incurred by the mem-
19 ber in the performance of the duties of the
20 member.

21 (10) CONFLICT OF INTEREST; FINANCIAL DIS-
22 CLOSURE.—

23 (A) CONFLICT OF INTEREST.—Except as
24 provided in subparagraph (C), a member of the
25 Board shall not vote on any matter concerning

1 any application, contract, or claim, or other
2 particular matter pending before the Corpora-
3 tion, in which, to the knowledge of the member,
4 spouse, or child of the member, partner of the
5 member, or organization in which the member
6 is serving as officer, director, trustee, partner,
7 or employee, or any person or organization with
8 which the member is negotiating or has any ar-
9 rangement concerning prospective employment,
10 has a financial interest.

11 (B) VIOLATIONS.—Violation of subpara-
12 graph (A) by a member of the Board shall be
13 cause for removal of the member, but shall not
14 impair or otherwise affect the validity of any
15 otherwise lawful action by the Corporation in
16 which the member participated.

17 (C) EXCEPTIONS.—The prohibitions con-
18 tained in subparagraph (A) shall not apply to
19 a member of the Board that is a tobacco pro-
20 ducer if the member advises the Board of the
21 nature of the particular matter in which the
22 member proposes to participate, and if the
23 member makes a full disclosure of the financial
24 interest, prior to any participation.

1 (D) FINANCIAL DISCLOSURE.—A Board
2 member shall be subject to the financial disclo-
3 sure requirements of subchapter B of chapter
4 XVI of title 5, Code of Federal Regulations (or
5 any corresponding or similar regulation or rul-
6 ing), applicable to a special Government em-
7 ployee (as defined in section 202(a) of title 18,
8 United States Code).

9 (E) REPRESENTATION.—No member of
10 the Board shall receive compensation from more
11 than one interest represented on the Board.

12 (11) BYLAWS.—The Board shall adopt, and
13 may from time to time amend, any bylaw that is
14 necessary for the proper management and function-
15 ing of the Corporation.

16 (12) PERSONNEL.—The Corporation may select
17 and appoint officers, attorneys, employees, and
18 agents, who shall be vested with such powers and
19 duties as the Corporation may determine.

20 (e) GENERAL POWERS.—In addition to any other
21 powers granted to the Corporation under this title, the
22 Corporation—

23 (1) shall have succession in its corporate name;

1 (2) may adopt, alter, and rescind any bylaw and
2 adopt and alter a corporate seal, which shall be judi-
3 cially noticed;

4 (3) may enter into any agreement or contract
5 with a person or private or governmental agency;

6 (4) may lease, purchase, accept a gift or dona-
7 tion of, or otherwise acquire, use, own, hold, im-
8 prove, or otherwise deal in or with, and sell, convey,
9 mortgage, pledge, lease, exchange, or otherwise dis-
10 pose of, any property or interest in property, as the
11 Corporation considers necessary in the transaction
12 of the business of the Corporation;

13 (5) may sue and be sued in the corporate name
14 of the Corporation, except that—

15 (A) no attachment, injunction, garnish-
16 ment, or similar process shall be issued against
17 the Corporation or property of the Corporation;
18 and

19 (B) exclusive original jurisdiction shall re-
20 side in the district courts of the United States,
21 and the Corporation may intervene in any court
22 in any suit, action, or proceeding in which the
23 Corporation has an interest;

24 (6) may independently retain legal representa-
25 tion;

1 (7) may provide for and designate such commit-
2 tees, and the functions of the committees, as the
3 Board considers necessary or desirable;

4 (8) may indemnify officers of the Corporation,
5 as the Board considers necessary and desirable, ex-
6 cept that the officers shall not be indemnified for an
7 act outside the scope of employment;

8 (9) may, with the consent of any board, com-
9 mission, independent establishment, or executive de-
10 partment of the Federal Government, including any
11 field service, use information, services, facilities, offi-
12 cials, and employees in carrying out this section, and
13 pay for the use, which payments shall be transferred
14 to the applicable appropriation account that incurred
15 the expense;

16 (10) may obtain the services and fix the com-
17 pensation of any consultant and otherwise procure
18 temporary and intermittent services under section
19 3109(b) of title 5, United States Code;

20 (11) shall have the rights, privileges, and immu-
21 nities of the United States with respect to the right
22 to priority of payment with respect to debts due
23 from bankrupt, insolvent, or deceased creditors;

24 (12) may collect or compromise any obligations
25 assigned to or held by the Corporation, including

1 any legal or equitable rights accruing to the Cor-
2 poration;

3 (13) shall determine the character of, and ne-
4 cessity for, obligations and expenditures of the Cor-
5 poration and the manner in which the obligations
6 and expenditures shall be incurred, allowed, and
7 paid, subject to provisions of law specifically applica-
8 ble to Government corporations;

9 (14) may make final and conclusive settlement
10 and adjustment of any claim by or against the Cor-
11 poration or a fiscal officer of the Corporation;

12 (15) may sell assets, loans, and equity interests
13 acquired in connection with the financing of projects
14 funded by the Corporation; and

15 (16) may exercise all other lawful powers nec-
16 essarily or reasonably related to the establishment of
17 the Corporation to carry out this title and the pow-
18 ers, purposes, functions, duties, and authorized ac-
19 tivities of the Corporation.

20 **SEC. 302. TOBACCO LOAN ASSOCIATIONS.**

21 The Corporation shall enter into an agreement with
22 producer-owned cooperative marketing loan associations
23 for each kind of tobacco to—

24 (1) make price support available to producers of
25 the kind of tobacco;

1 (2) carry out the licensing system established
2 under subsection (b)(2);

3 (3) arrange for financing and the administra-
4 tion of price supports for the kind of tobacco; and

5 (4) receive, process, store, and sell any domesti-
6 cally produced tobacco received as collateral for a
7 price support loan.

8 **SEC. 303. TOBACCO PRICE SUPPORT LEVELS.**

9 (a) INITIAL LEVEL.—Effective for the 1999 crop of
10 each kind of tobacco, the support level in cents per pound
11 established under this title shall be equal to—

12 (1) the simple average price received by produc-
13 ers of the kind of tobacco, as determined by the Cor-
14 poration, during the marketing years for the imme-
15 diately preceding 5 crops of the kind of tobacco; less

16 (2) the average return to quota for 1994
17 through 1998 crops of the kind of tobacco, as deter-
18 mined by the Corporation.

19 (b) SUBSEQUENT ADJUSTMENT.—The Corporation,
20 in consultation with the Associations, shall adjust and es-
21 tablish the support level for each kind of tobacco at an
22 appropriate level for each year after 1999.

23 **SEC. 304. PENALTIES.**

24 (a) IN GENERAL.—The violation of any provision of
25 this Act, or any rule or regulation issued to carry out this

1 Act, or the terms of any license issued under this Act,
2 by a person (including the marketing of any kind of to-
3 bacco without a license issued under this title or in excess
4 of the quantity permitted under such a license) shall sub-
5 ject the person to revocation or suspension of the person's
6 license, a penalty of 75 percent of the average market
7 price (calculated to the nearest whole cent) for the kind
8 of tobacco for the immediately preceding marketing year,
9 or both, in the discretion of the Secretary.

10 (b) PAYER.—

11 (1) IN GENERAL.—Except as otherwise pro-
12 vided in this subsection, the penalty shall be paid by
13 the person who acquired the tobacco from the pro-
14 ducer.

15 (2) DEDUCTION FROM PRICE.—An amount
16 equivalent to the penalty may be deducted by the
17 buyer from the price paid to the producer in any
18 case in which the tobacco is marketed by sale.

19 (3) WAREHOUSEMAN OR AGENT.—If the to-
20 bacco is marketed by the producer through a ware-
21 houseman or other agent, the penalty shall be paid
22 by the warehouseman or agent who may deduct an
23 amount equivalent to the penalty from the price paid
24 to the producer.

1 (4) DIRECT MARKETING OUTSIDE UNITED
2 STATES.—In any case in which tobacco is marketed
3 directly to any person outside the United States, the
4 penalty shall be paid and remitted by the producer.

5 (c) FALSE STATEMENT OR OMISSION.—If any pro-
6 ducer falsely identifies or fails to account for the disposi-
7 tion of any tobacco—

8 (1) an amount of tobacco equal to the normal
9 yield of the number of acres harvested in excess of
10 the quantity permitted under a license issued under
11 this title shall be considered to have been marketed
12 in excess of the license for the farm; and

13 (2) the penalty for the excess marketing shall
14 be paid and remitted by the producer.

15 (d) CARRYOVER.—Tobacco carried over by the pro-
16 ducer of the tobacco from 1 marketing year to another
17 marketing year may be marketed without payment of the
18 penalty imposed by this section if—

19 (1) the total quantity of tobacco available for
20 marketing from the farm in the marketing year from
21 which the tobacco is carried over does not exceed the
22 quantity that may be marketed under a license
23 issued for the farm for the marketing year; or

24 (2) the quantity of tobacco carried over does
25 not exceed the normal production of that number of

1 acres by which the harvested acreage of tobacco in
2 the calendar year in which the marketing year be-
3 gins is less than the quantity that may be marketed
4 under the license.

5 (e) TOBACCO MARKETING PRIOR TO MARKETING
6 YEAR.—Tobacco produced in a calendar year for the mar-
7 keting year beginning during the calendar year shall be
8 subject to licenses issued for the marketing year even
9 though the tobacco is marketed prior to the date on which
10 the marketing year begins.

11 (f) PROPORTIONAL PAYMENTS.—The Secretary shall
12 require collection of the penalty on a proportion of each
13 lot of tobacco marketed from the farm equal to the propor-
14 tion that the tobacco available for marketing from the
15 farm in excess of the quantity that may be marketed under
16 a license is of the total quantity of tobacco available for
17 marketing from the farm if satisfactory proof is not fur-
18 nished as to the disposition to be made of the excess to-
19 bacco prior to the marketing of any tobacco from the farm.

20 (g) LIEN.—Until the amount of the penalty provided
21 by this section is paid, a lien on the tobacco with respect
22 to which the penalty is incurred, and on any subsequent
23 tobacco subject to licenses issued under this title in which
24 the person liable for payment of the penalty has an inter-

1 est, shall be in effect in favor of the Corporation for the
2 amount of the penalty.

3 **SEC. 305. PROGRAM REFERENDA.**

4 (a) INITIAL REFERENDUM.—Not later than 3 years
5 after the date of enactment of this Act, the Corporation
6 shall conduct a referendum among licensees engaged in
7 the production of each kind of tobacco to determine wheth-
8 er such producers are in favor of continuing the operation
9 of the program established under this Act with respect to
10 that kind of tobacco. If more than one half of the licensees
11 voting oppose the continuation of the program, the Cor-
12 poration shall announce the result and shall conduct a sec-
13 ond referendum one year later. If more than one half of
14 the licensees voting in the second referendum also oppose
15 the continuation of the program, the Corporation shall an-
16 nounce the result and the program shall cease to be in
17 effect for that kind of tobacco.

18 (b) SUBSEQUENT REFERENDA.—The Corporation
19 may conduct subsequent referenda from time to time as
20 the Corporation deems appropriate to determine whether
21 producers are in favor of continuing the program estab-
22 lished under this Act, the use of marketing allotments and
23 quotas, limitations on transfer of quota, or any other as-
24 pect of the program.

- 1 (c) EFFECTIVE DATE.—This section shall be effective
- 2 1 year after the date of enactment of this Act.

○

SPECIAL

Total Pages: 5for
famous
HR
3437

LRM ID: MLG194

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Wednesday, August 26, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: E. Holly Fitter (for) Assistant Director for Legislative Reference
E. Holly Fitter

OMB CONTACT: Michael L. Goad
PHONE: (202)395-3857 FAX: (202)395-5691

SUBJECT: AGRICULTURE Report on HR3437 Tobacco Market Transition Act

DEADLINE: 10:00 AM, Wednesday, September 2, 1998

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The proposed report does not specifically address the provisions of the bill, some of which could impact your agency. We therefore request your agency's views on both the report and the bill. If additional time is needed to prepare your agency's views on the bill, please contact this office. If you do not respond by the deadline, we may assume that you have no comment on either the proposed report or the bill.

DISTRIBUTION LIST

AGENCIES:

33-Environmental Protection Agency - John Reeder - (202) 260-5414
61-JUSTICE - L. Anthony Sutin - (202) 514-2141
62-HHS - Sondra S. Wallace - (202) 690-7760
88-Office of Government Ethics - Jane Ley - (202) 208-8022
92-Office of Personnel Management - Harry Wolf - (202) 606-1424
107-Small Business Administration - Mary Kristine Swedin - (202) 205-6700
114-STATE - Paul Rademacher - (202) 647-4463
118-TREASURY - Richard S. Carro - (202) 622-0650
128-US Trade Representative - Fred Montgomery - (202) 395-3475

EOP:

Daniel D. Heath
Mark A. Weatherly
Robert S. Fairweather
Richard J. Turman
Mark E. Miller
Wendy A. Taylor
Cynthia A. Rice

Elena Kagan
Gene B. Sperling
Sally Katzen
Thomas L. Freedman
Jerold R. Mande
Christopher C. Jennings
Sarah A. Bianchi
Joshua Gotbaum
Sherman G. Boone
Rosalyn J. Rettman
Peter G. Jacoby
Cynthia Dillard
Robert J. Pellicci
Alicia K. Kolaian
Pamula L. Simms

Act

_____ FAX RETURN of _____ pages, attached to this response sheet



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

Honorable Robert F. Smith
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Bob:

This is in response to your request for the Department of Agriculture's (USDA) views on H.R. 3437, a bill "To provide market transition assistance for quota holders, active tobacco producers, and tobacco growing counties, to authorize a private Tobacco Production Control Corporation and tobacco loan associations to control the production and marketing and ensure the quality of tobacco in the United States, and for other purposes."

Like several Senate and House bills, this bill provides payments to tobacco marketing quota holders and tobacco farmers and provides for a long-term community revitalization program to support communities in tobacco production areas. These provisions would add needed funds to traditional tobacco producing areas to assist in the transition from a long standing Federal tobacco program to a Federally-chartered corporation. However, by abolishing the current program, many uncertainties would exist during this transition period while the corporation adjusts to controlling tobacco marketings, implementing quality assurances, and establishing tobacco price support levels.

While USDA shares the bill sponsors' concerns about long-term transition for tobacco quota holders and tobacco farmers as demand for U.S. - grown tobacco declines, the Administration does not support abolition of the current program or establishment of a private tobacco production control corporation. Rather, the Administration supports a continuation of the current program with transition payments and buyouts similar to those set forth in S. 1415.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

DAN GLICKMAN
Secretary

SUN, 22-98 03:48 FROM

plans
power

CAMPAIGN For TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

Facsimile Transmission

Number of pages: 5

TO:

Tom Friedman

FROM:

Sam Bill

DATE:

SUBJECT:

2 ab
5/16

BTF :
McConnell is really attacking Kugel.

SA

Front page

Kentucky Connect
is a service of the
Lexington
Herald-Leader

KENTUCKY CONNECT

- [Home Page](#)

NEWS

- [Herald-Leader](#)

- [Online](#)

- [Front](#)

- [Business](#)

- [Technology](#)

- [Motley Fool](#)

- [Editorial](#)

- [Opinions & Ideas](#)

- [Other Editorial](#)

- [Cartoons](#)

- [Features](#)

- [Books](#)

- [Comics](#)

- [Daily Crossword](#)

- [Faith and Values](#)

- [Food](#)

- [Sports](#)

- [Obituaries](#)

- [News Library](#)

- [Weather](#)

- [Classified Ads](#)

- [Subscribe Online](#)

- [Newspaper](#)

- [in Education](#)

- [AP Wire Service](#)

- [WKYT-TV](#)

- [Kentucky Kernel](#)

SPORTS EXTRA

- [Kentucky Hoops](#)

- [Kentucky Football](#)

- [Kentucky Hoofs](#)

- [Kentucky Blades](#)

- [Sports Extra](#)

- [Sports Fan Ticker](#)

SERVICES

- [JustGo](#)

- [Kentucky](#)

- [Career Path](#)

- [KY Auto Connect](#)

- [Kentucky Connect](#)

- [Forums](#)

- [Fun & Games](#)

- [Real Books](#)

- [Lexington](#)

- [Traffic Reports](#)

- [Headbone Zone](#)

- [The Meeting](#)

- [Place](#)

- [TV Listings](#)

- [Ticketmaster](#)

- [Kentucky Connect](#)

- [Media Kit](#)

- [Herald-Leader](#)

- [Advertising Guide](#)

KENTUCKY CONNECTA service of the **LEXINGTON HERALD-LEADER****Farmers, back in limbo**

Yet they're better prepared for the battles that lie ahead

By Gail Gibson

HERALD-LEADER WASHINGTON BUREAU

WASHINGTON — The most burning question Kentucky farmers have faced in years went up in smoke last week as the U.S. Senate shelved an effort to pass comprehensive anti-smoking legislation.

In burley country, the move by Senate Republicans to kill the far-reaching tobacco bill was met with a blend of relief and frustration. There also was the nagging question of whether all the work of the past year to build in some protection for growers' futures was in vain.

It was not, say observers such as Karen Armstrong Cummings, who heads the Commodity Growers Cooperative in Lexington.

"No matter what happened ... there have been more people talking about what tobacco farmers do, learning more about what's happening with small-scale agriculture, than ever before," she said.

Indeed, the tobacco talks of the past year have put the situation of tobacco farmers in the spotlight.

And in Kentucky, there has been a renewed awareness of the changing way of life for tobacco farmers and their communities, say those close to the issue.

"I think we're at a different place," said Hal Hamilton, who heads the Center for Sustainable Systems in Berea and who has been closely involved in the past year's talks about how to wean rural economies from tobacco.

Vying for the money

For years, there have been scattered efforts to help growers reduce their dependency on the golden leaf.

But the announcement a year ago this weekend that 40 state attorneys general had struck a \$368 billion deal that promised to bring Big Tobacco to its knees gave that work new urgency.



Cecil Bell farms Elmwood Stock Farm in Georgetown with his children John and Ann. Uncertainty over tobacco's future has led them to raise cattle and crops such as peppers, pumpkins, herbs and salad greens. (David Stephenson)

Advertising Guide
● Kentucky Connect
Yellow Pages

EXTRA! EXTRA!

- Buddy Holly
- Primary '98
- Gardening '98
- IPIX Gallery
- Olympics '98
- Real Beanies
- Street Skills

SHOPPING

- Derby Package
- Out of the Blue Book
- Real Books
- Ticketmaster

As much as anything, the work was spurred by the money. Billions were on the table, and farm leaders were confident a slice of it would go to tobacco farmers. What had to be worked out was how much -- and where should it go?

"The big pot of money obviously stimulates a lot of this conversation," said Hamilton, who works on rural economic development issues across Eastern Kentucky. "People thought if they were part of the circle, they might get some."

The money helped enliven the debate in Kentucky. But it also made last week's turn tough to take.

For some growers, planning for the future went only as far as calculating what their tobacco allotment would be worth if Congress approved a proposed \$8-per-pound quota buyout.

"I think any time you make out a deposit slip without the money, you're in trouble," said Rod Kuegel, president of the Lexington-based Burley Tobacco Growers Cooperative Association.

For the past 12 months, Kuegel was at the forefront of the grower talks. In a suit and cowboy boots, he testified before agriculture committees in Washington and met with White House advisers hashing out the details of tobacco-control legislation.

Last week, Kuegel was at home, surveying this year's burley crop on his Daviess County farm.

"I've got blue mold in every field of tobacco I've got."

With a tired laugh he added, "I've got time to spray now."

Some progress was made

Kuegel said the past year was notable for the progress some farm groups made in forging new alliances with public health groups -- helping each side better understand the other's position.

Scott Ballin, an anti-smoking lobbyist who has worked closely for more than a year with farm groups, said the progress was important far beyond the context of national tobacco legislation.

"The problem doesn't go away with the death of this legislation," Ballin said. "We can say, 'The (tobacco) program's safe -- we don't have to worry about it.' And the health groups can go back to beating up on the industry and see where that gets us. But that's not going to solve the problem long-term."

Ballin praised tobacco's farm leadership, saying the leaders had become far more politically astute and far less likely to rely on the cigarette companies for guidance.

"What has happened in the last year has really moved the line," Ballin said.

Though the prospects of tough tobacco legislation forced new evaluation and new discussions among Kentucky's farm community,

evaluation and new discussions among Kentucky's farm community, the process wasn't always painless.

The issue of farm groups working with public health groups remains a sore one in some camps.

"Where did that get us?" said Tim Cansler, national affairs director for the Kentucky Farm Bureau Federation.

'Keep on keeping on'

And as the debate came down to the wire in the Senate, questions over whether the Depression-era price-support program for tobacco should, or could, be maintained split not only Kentucky's two senators -- a first -- but also many rank-and-file farmers.

Cansler predicted that those repercussions are not over. In a controversial move, Kentucky Sen. Mitch McConnell, a Louisville Republican, decided to back a farmer protection plan that would have ended tobacco's price supports.

McConnell has repeatedly said he backed ending the program, and getting farmers cash buyouts quickly, only in the context of the broader bill, which he said would devastate the tobacco industry.

But Cansler said McConnell's move could haunt the program if anti-smoking activists move again to end it soon.

"Opponents now have a tobacco-state senator on record saying the program won't be around in five years," Cansler said.

Farm leaders know well that last week's Senate action did not end the tobacco wars. But they said the past year may have prepared them to move ahead in the fight.

"We just have to plan on keep on keeping on," Kuegel said. "That's the way it's always been in tobacco."

All Contents © Copyright 1998 Lexington Herald-Leader. All Rights Reserved

McConnell responds

Bickering doesn't help tobacco growers

Rod Kuegel's flair for melodrama rivals his penchant for untruths. He likens me to Moses, but parting the Red Sea may have been a breeze compared to cutting through Kuegel's rhetoric in search of facts. Kuegel's self-indulgent diatribe bears the hallmark of a hack more interested in dabbling in politics than in helping Kentucky's tobacco growers.



By Sen. Mitch
McConnell (R-KY)

President Clinton's relentless war on tobacco has Kentucky growers in the cross-hairs. Clinton has succeeded in persuading the American people that tobacco is akin to child abuse (conveniently ignoring the truth that only 2 percent of smokers are teenagers). It was in this context that the McCain anti-tobacco bill—including a \$1.10 per pack cigarette tax increase—passed out of the Senate Commerce Committee with Sen. Wendell Ford's support. It was the most serious blow yet in a year that already had witnessed a near-death experience for tobacco crop insurance. With retiring Sen. Ford forfeiting his seat this year, the already dwindling support for all things tobacco will evaporate further, and fast.

Programs for non-controversial crops

like corn, wheat and soybeans are being rapidly phased out. Faced with this dire threat, I am fighting to get the best possible deal for Kentucky growers and that means support for the accelerated buyout in the proposal put forth by Senate Agriculture Committee Chairman Dick Lugar. Under Lugar's plan, quota owners receive an average

\$80,000 over three years—a sizable sum for savings, reinvestment, or debt retirement. Farmers would also be forever free to grow tobacco. Sen. Ford's LEAF Act, which Kuegel is pushing, presumes the tobacco program can survive another quarter-century—a rosy assumption since its Democrat defender, Wendell, is retiring this year. The LEAF Act's buyout is comparatively stingy as it is sprinkled over a longer period (10 years) and bars growers from raising tobacco for 25 years.

Kuegel should give the poison pen a rest and get out in the fields with growers, 63 percent of whom in Kentucky and Tennessee favor a front-loaded, \$8 a pound buyout, like the Lugar plan. Kuegel's incessant, self-serving bickering does not help Kentucky tobacco growers.

The Farmer's Pride 6-17-98

August 4, 1998

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: BRUCE REED
LARRY STEIN

SUBJECT: MEETING WITH TOBACCO FARMERS AND REPRESENTATIVES

On Thursday, August 6th, you will meet with Democratic members of the North Carolina delegation and tobacco farmers from several states to discuss the unusually small amount of flue-cured tobacco the companies have been purchasing. We expect participants in the meeting to describe the magnitude of the flue-cured problem and urge the Administration to put pressure on the companies to purchase more flue-cured tobacco. The attached memo provides background on who will attend the meeting, describes their areas of concern, and suggests talking points.

In addition, Secretary Glickman's office has prepared a very useful status report on projected tobacco sales this year and next, which we have attached.

Who Will Attend (All Democratic members from North Carolina)

Rep. Eva Clayton
Rep. Bob Etheridge
Rep. David Price
Rep. Mike McIntyre
Rep. Bill Hefner
Rep. Melvin Watt

- * Rep. Clayton's office has not finalized a list of farmers who will attend. We expect farmers from each member's district in North Carolina, as well as farmers from Florida, Virginia, and South Carolina. In addition, Bruce Flye, President of the Flue-Cured Stabilization Cooperative Association, will attend.

We also have invited Dallas Smith of USDA who is an expert on tobacco programs; Flye specifically requested that Smith be present.

Background on Current Market Conditions

As you may know, when the five tobacco companies decline to purchase

tobacco at the set price, the farmers' cooperatives buy the tobacco and release it for sale at a later time when the market is more hospitable. Flue-cured tobacco markets opened in Florida on July 21 and opened in places further north in the two weeks since then. Initial sales have been very poor, with the cooperatives forced to buy 19 percent of the tobacco on sale, up from the normal levels of 5-10 percent. Markets in the "Old Belt" of Northern North Carolina and Virginia opened today, (August 4th), and we plan to update you on sales reports from there shortly before the Thursday meeting.

Last week, Flye and other farmer representatives met with Senator Faircloth in an unsuccessful effort to persuade him to pressure the tobacco companies to increase their purchases. The farmers say they hope to get a commitment by the companies to purchase 550 million pounds of flue-cured tobacco. The companies' publicly stated purchase intention is only 457 million pounds. Although the companies are required to buy only 90 percent of their formal purchase intention, they have indicated that they will buy the full amount this season.

The AGs' Settlement Agreement and Continuing Talks

As you know, the settlement agreement with the Attorneys General did not outline a plan to compensate farmers for the diminished domestic tobacco sales that might result from comprehensive legislation. The current negotiations, according to our best information, have barely touched on the issue of protecting farmers.

Legislative Background

In the event that a so-called skinny bill is introduced by Republicans in the House, we have worked with Democrats to make sure that their substitute bill contains provisions acceptable to farmers. It seems increasingly unlikely, however, that House Republicans will decide to introduce tobacco legislation.

Talking Points

- * **Discuss the scope and implications of the problem (the groups say they mostly want you to be aware of the problem):**

The markets have opened very poorly for tobacco farmers.

And the future is not good. When there are declines in purchases as USDA expects this year and next, USDA reduces the amount a farmer is allowed to market under the quota program. I know that USDA projects a possible 22 percent reduction in quota from the

1998 level for next year.

I also know that declining purchases mean a significant increase in costs to farmers. The more tobacco the cooperatives have to purchase, the greater the assessment on farmers.

All this hits farmers very hard, and reaches whole communities. It also hits minority farmers very hard (15 percent of flue-cured quota owners are African-Americans.)

* **Farmers have done nothing wrong.**

The President has repeatedly said tobacco farmers should not suffer in this process.

The tobacco farming community worked closely with us in trying to put together legislation that reduced youth smoking and protected tobacco farmers and their communities.

* **Ask what steps they suggest**

We will use whatever leverage we have to urge the companies to purchase 550 million pounds of tobacco this year. It should not be a partisan issue.

I know that Secretary Glickman is scheduled to go to North Carolina and meet with tobacco farmers on August 27, 1998 and will visit with Reps. Etheridge and Clayton and whatever the Administration can do, we will.

We will continue to urge the AGs' to include compensation for farmers in any agreement they formulate.

Recommendation for a Presidential Commission on Tobacco

We recommend that a Presidential Commission be established to study, evaluate, and make recommendations concerning the transition of traditional tobacco farming communities to communities with increasingly less dependence on tobacco income. The Commission should consist of tobacco farm and other locally based organizations with representation of minority and limited resource farmers, tobacco quota owners, tobacco producers, farm workers, businesses supplying services for farm families and community development leaders.

The Commission would be charged with identifying alternative and supplemental income sources for tobacco. Although not ruled out for a few individuals, studies and experiments during the last decade or so have shown that alternative crops are not the solution. Other U.S. farming regions have a competitive advantage in producing most high-value crops that might be substituted for tobacco. Consequently, the efforts of the Commission should be focused on supplemental crops or alternative uses for tobacco in the short-term (up to 10 years). For the long-term (more than 10 years), the Commission's emphasis should be on developing the infrastructure and sufficient manufacturing, technology, or service industries for younger local residents. This approach should maintain the viability of our local tobacco farming communities and enhance the continued existence of minority and limited resource farmers.

The Commission should have the authority to make recommendations based on currently available information or to request specific studies or experiments in relevant program areas. For

example, studies of how well a specific farm population, such as limited resource farmers, adapts to more diversified agricultural production or an experiment in cooperative ventures to accomplish diversification might be in order. The Commission should ensure that any study is conducted in an unbiased manner by obtaining input from all Commission members together with reviews and recommendations from experts at appropriate Universities and other Institutions. Additionally, the Commission should seek review and input on recommendations from other stakeholders ranging from health organizations to tobacco product manufacturers. Ultimately, the Commission would be charged with recommending specific actions that might be taken by the President to ease the transition from communities heavily dependent on tobacco income to a more diversified income base.

For Fiscal Year (FY) 2000, \$3 to \$5 million should be provided for travel, fact finding, and for establishing some initial experiments or research studies. A somewhat larger amount might be needed in FY 2001.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

*TPD's
copy*

December 9, 1994

MEMORANDUM FOR RICHARD ROMINGER
ACTING ADMINISTRATOR
CONSOLIDATED FARM SERVICE
AGENCY

FROM: Ralph A. Linden *Ralph A. Linden*
Assistant General Counsel
International Affairs and Commodity
Programs Division

SUBJECT: Buy-Out of the 1990 Through 1993 Crop Tobacco
Inventories of the Flue Cured and Burley Marketing
Cooperatives

We have reviewed the attached agreements for the buy-out of the 1990 through 1993 tobacco inventories of the flue cured and burley marketing cooperatives (co-ops). We do not see any legal impediment to the Secretary approving the contracts. We would suggest that a cover letter be sent to the co-ops, if the contracts are approved, reflecting that the approval is based upon representations made by the co-ops below and reflecting the limited nature of the Secretary's function in these matters. We discuss these matters briefly below.

1. The Contracts are a Series of Identical Contracts. The contracts are actually a series of contracts between the co-ops and the major cigarette manufacturers. Thus, there are a number of identical flue-cured and burley contracts. One of the contracts for burley is exceptional -- the one for Philip Morris -- but that one in essence takes the basic burley contract and divides it into two contracts. There does not appear to be any material difference in the effect or meaning of the Philip Morris contract as compared to the others. We have read the RJR flue-cured and burley contracts, and the Philip Morris burley contract. As indicated above we understand from the tobacco division in the Consolidated Farm Service Agency (CSFA) that the other contracts are identical. If this is not the case we would be happy to review any exceptional provisions in the other contracts.
2. The Secretary's function in this exercise. These are not the Department of Agriculture (USDA) contracts. They were negotiated by the parties alone. The language in that of the parties alone. USDA makes no

Tom Freedman
at the White
House.

EQ

2

commitments. Rather, the Commodity Credit Corporation (CCC) has a collateral interest in the inventory and must act to insure that the tobacco price support program is a no-net cost program. CFSA's position paper indicates that the agreed upon arrangement is good business and the package contains representations by the co-ops that the agreements are effective to accomplish their intended purpose. We have no reason to believe otherwise.

3. Controversial provisions. The following aspects of the tobacco buy-out arrangement are the most controversial:

- (a) Termination. The contracts allow the manufacturers to back out if there are material changes in the administration of the program. However, nothing prohibits CCC from making such changes that are needed in the program. Again, CCC and USDA are not parties to the agreement. This escape clause does not seem particularly unreasonable given the commitment involved.
- (b) The General Agreement on Tariffs and Trade (GATT) Arguments. We recently had a GATT panel argument about tobacco and when certain parts of the "Ford Amendment" were overruled we have been, and are still engaged in, "Article 28" negotiations to resolve that issue. Some of the trading parties may argue that this agreement is a Government-sponsored agreement compelling the sale of domestic tobacco in frustration of the GATT. USDA did not negotiate the agreement; rather, the agreement is a privately-negotiated sale. It is not a "rebate" of no-net cost monies to anyone. It is a sale of the inventory at, we understand, the best price possible and because it reduces the likelihood of losses on the inventory it should reduce the no-net cost assessments for imported and domestic tobacco alike and equally.

4. Returning the contracts. In order to: (1) make clear the limited nature of the Secretary's involvement in this process; (2) make clear whose agreement this is; and (3) clarify who is responsible for the accuracy and sufficiency of the documents that memorialize the agreement; we would recommend if the agreements are approved that they be returned with a cover letter that states as follows:

Attached are executed copies of the tobacco buy-out agreements which you negotiated and which you have submitted to us for our

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
--------------------------	---------------	------	-------------

001. list	re: Tobacco Farmers White House meeting [Personally Identifiable Information] [partial] (1 page)	08/08/1998	b(6)
-----------	--	------------	------

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Tom Freedman
OA/Box Number: 17553

FOLDER TITLE:

Tobacco Farmer [Folder 1]

2015-0274-S

rc1892

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

**TOBACCO FARMERS WHITE HOUSE MEETING
with Erskine Bowles
Thursday, August 8, 1998**

Name	Social Security #	DOB
1) Bruce Flye		
2) Andrew Q. Shepard		
3) Albert M. Johnson		
4) Kenneth D. Dasher		
5) James C. Pate		
6) L. Arnold Hamm		
7) Larry Sampson		
8) Jackie E. Thompson, Sr.		
9) Earl Brown Henderix		
10) John Edward Ashe, Jr		
11) Keith Parrish		
Staff:		
12) Susan E. Kelly		
13) Wilson Bradly Woodhouse		
14) William B. Bondshu		
15) Darek Lane Newby		
16) Julie Ananne Parks		

(b)(6)

COO 17

MEMBERS

The Honorable Eva Clayton	- Susan Kelly
The Honorable Bob Etheridge	- Brad Woodhouse
The Honorable David Price	- Darek Newby
The Honorable Mike McIntyre	- Bill Bondshu
The Honorable Bill Hefner	- Julie Parks

CAMPAIGN For TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

FACSIMILE TRANSMISSION

NUMBER OF PAGES, INCLUDING FAX COVER PAGE:

2

TO:

Tom F

FROM:

Scott B

DATE:

for review

SUBJECT:

Tom-

FVT-

The National Tobacco Agriculture and Health Alliance

An Informal Alliance Dedicated to Promoting Health and Protecting Tobacco Farming Communities

July 31, 1998

**The Honorable Dick Armey
House Majority Leader
U.S. Capitol, H-327A
Washington, D.C. 20510**

Dear Representative Armey:

This past year the Congress has spent a great deal of time and effort discussing national tobacco policy. Whether legislation is to be enacted this year or carried into the next Congress remains unclear.

There is little debate or opposing views that a national tobacco policy is needed. The question remains what that policy will look like.

For more than a year since the June 20th tobacco settlement was first announced, tobacco growers and health groups have been meeting and talking about what national policy on tobacco producers should be. It is clear that tobacco producing and public health communities need to work more closely to ensure that we have the strongest and most effective national public health policy -- while at the same time ensuring that tobacco farmers, their families and communities, facing an unstable, uncertain future, be allowed to thrive in a less tobacco-dependent environment well into the 21st Century.

Earlier this year more than forty (40) national and state farm and health organizations joined together to release a set of Core Principles which we believe should be guide to the enactment of minimum requirements for national tobacco policy. Those Core Principles along with the signatories are attached.

We are committed to continue our working relationships on these important issues and we would encourage you as leaders of the United States Congress to join us in those efforts.

We are available to meet on these issues and would encourage you to call on any of us to further discuss these principles.

Sincerely,

**Rod Kuegel, Burley Tobacco Growers Cooperative (606-252-3561)
Richard Hamburg, American Heart Association (202-785-7907)
J.T. Davis, Concerned Friends for Tobacco (804-376-5480)
Scott Ballin, National Center for Tobacco Free Kids (202-296-5469)**

The goals of the Alliance are based upon a set of Core Principles issued by more than 40 tobacco farm organizations and public health organizations on March 16, 1998. (see reverse)

To: Charley Rauls

720-8666

— take a look

Tom

Johnello
(Carmen)

→ does the work
→ GATT offensive
→ no other quick fix
w/ money.

26

1 TITLE V—PROTECTION OF 2 TOBACCO FARMERS

3 SEC. 501. DOMESTIC TOBACCO PURCHASE REQUIREMENTS.

4 Any manufacturer which is a domestic concern which
5 purchases (or which controls a person who purchases) to-
6 bacco grown in a foreign country in any year may not re-
7 duce in such year its purchases of tobacco grown in the
8 United States below the level of such purchases in 1997.

1 SEC. 504. TOBACCO GROWERS.

2 The Secretary, under the Food, Drug, and Cosmetic
3 Act, may not establish any requirement applicable to the
4 growing of tobacco that is enforceable against persons that
5 grow tobacco. The Secretary, under such Act, may not
6 enter on a farm owned by a grower of tobacco without

7 written consent.

COUPONS

Coupon Savings

KENTUCKY CONNECT

• Home Page

NEWS

Herald-Leader
Online

• Business

Financial News

Technology

Kentucky

Connect

Tech Wire

Motley Fool

• Editorial

• Features

Books

Comics

Daily Crossword

Faith and Values

Food

Gene Siskel

• Sports

• Obituaries

• News Library

• Job Center

• Weather

• Lottery Results

• Classified Ads

• Subscribe Online

• Newspaper

In Education

• AP Wire Service

• WKYT-TV

• Kentucky Kernel

SPORTS EXTRA

KENTUCKY CONNECT

A service of the **HERALD-LEADER**

Published Wednesday, January 20, 1999, in the Herald-Leader

Not a pretty hindsight

Farmers beg because McConnell helped kill tobacco bill

Looking back over the last seven months, Kentucky's tobacco farmers find that most of the bad things they expected have come true. But none of the good.

Cigarette prices have gone up. Demand for the farmer's tobacco has gone down, by almost a third.

But farmers, once in line for up to \$28.5 billion in transition aid, now find themselves begging the cigarette companies for scraps.

It's sadly evident that farmers lost big last June when the tobacco bill died in the U.S. Senate. Kentuckians should remember that one of the bill's proudest assassins was Sen. Mitch McConnell.

As you may recall, the bill sponsored by Republican Sen. John McCain contained two competing provisions for farmers. But the Senate never picked one because McConnell & Co. killed the whole thing.

The cigarette makers then settled with the states for \$206 billion and added 45 cents to the price of a pack of smokes.

(more)

for
Farmers

FDA Warns Against Supplement

Recall Requested of Dietary Products With Chemical Suspected in Death

By JOHN SCHWARTZ
Washington Post Staff Writer

The Food and Drug Administration asked dietary supplement manufacturers yesterday to recall products containing a chemical that the agency has linked to one death and serious side effects in at least 54 people.

The FDA warned consumers to avoid products containing gamma butyrolactone (GBL), which is used in a number of dietary supplements sold via the Internet, in health food stores and in gymnasiums. GBL is found in products marketed under such brand names as Renewtrient, Revivariant or Revivariant G, Blue Nitro or Blue Nitro Vitality, GH Revitalizer, Gamma G, and RemForce.

"These are dangerous products that consumers need to know they should not be using," said Joseph Levitt, director of the FDA's Center for Food Safety and Applied Nutrition, which regulates dietary supplements.

Companies have claimed that GBL products build muscles, reduce weight, improve athletic and sexual performance, reduce stress and improve sleep. In fact, the chemical—which is also used as a date-rape drug and as a commercial floor stripper—affects the central nervous system and can slow breathing and heart rate to dangerous levels. That can lead to seizures, unconsciousness, coma and vomiting.

Several people who used supplements containing GBL and suffered adverse reactions had to have tubes run down their windpipes to aid their

breathing. Five of the victims were under the age of 18; one was 11.

"We had people who were driving their car and became incoherent," said Janet Woodcock, head of the FDA's Center for Drug Evaluation and Research. "These are concerning kinds of reports."

The one death involved a young man who had been taking one of the products and was found dead in March by friends who had thought he was sleeping.

"We started seeing a pattern of reports in the fall and winter" of other effects, Levitt said.

The maker of one such product, RemForce, charges \$49.95 for 32 ounces. Its Web site states: "As long as REMFORCE is used according to the label directions, there are no side effects. Because the ingredients in REMFORCE are all natural and non-toxic, users who properly use the product will always have a pleasurable experience. REMFORCE is completely metabolized into carbon dioxide and water within 3 to 5 hours after ingestion."

At least six companies market GBL in pill and liquid form as a dietary supplement, a classification that brings it under far less stringent FDA regulatory requirements than drugs under the Dietary Supplement and Health Education Act, passed by Congress in 1994. But FDA officials said the drug is transformed by the body into gamma hydroxybutyrate (GHB), which the agency called "a very potent unapproved drug" that is being studied as a possible treatment for narcolepsy.

Bruce Silverglade of the Center for Science in the Public Interest, a Washington consumer group, said the FDA should have the authority to yank problem supplements from the market when problems arise. "Sending out public warnings in these kinds of cases is insufficient to protect public health." Since Congress "tied the agency's hands and made that process more difficult," Silverglade said, "the agency is relegated to simply warning the public of hazards."

A spokeswoman for the supplements industry, Annette Dickinson of the Council for Responsible Nutrition, said she did not think the more than 100 companies that make up her organization sell GBL-bearing products. She suggested that it could be distributed by the hundreds of more evanescent companies in the booming supplements market. "I just think it's a shame to see companies focusing on these undesirable, unsafe and marginal ingredients that I think damage the industry as a whole," Dickinson said.

The FDA said one company, Trimfast Group Inc., already had agreed to withdraw its product, Revivariant, from the market. A receptionist at Trimfast said she could not comment for the company.

The agency urged consumers who have used the products and suffered side effects to contact their doctors and the FDA MedWatch program at 1-800-332-1088.

The Washington Post

FRIDAY, JANUARY 22, 1999

for farmers

Tobacco Firms to Aid Farmers

\$5 Billion Fund to Help Compensate for Declining Markets

By MARTHA M. HAMILTON
Washington Post Staff Writer

The nation's major tobacco companies agreed yesterday to set up a \$5.15 billion trust fund to help compensate tobacco farmers whose markets have shrunk as a result of the tobacco industry's \$206 billion settlement with state officials.

Last year's settlement between the industry and 46 states over the health-related costs of smoking didn't address the financial needs of the farmers, who were not a party to lawsuits that led to the settlement. The settlement did, however, require tobacco companies to work with the governors of tobacco-growing states on plans for compensating farmers, said Phil Carlton, an attorney for the tobacco industry who represented the companies during the negotiations on the fund.

The companies are Philip Morris Cos., which initially proposed the fund; Brown & Williamson Tobacco Corp.; Lorillard Tobacco

Co.; and R.J. Reynolds Tobacco Co., which had supported an alternative plan but ultimately agreed to the fund.

Since the agreement with the states was reached in November, cigarette prices have been increased by 45 cents a pack to help pay for it—a move that is expected to result in lower sales and therefore lower income for farmers.

The money "will go directly to farmers who are losing income . . . to prevent the farmers from having to bear the burden and brunt of this settlement," said North Carolina Gov. James B. Hunt Jr. (D). The settlement resulted from "hard, hard, hard negotiations with the companies," he said.

Approximately 40 percent of the tobacco produced by the nation's estimated 124,000 tobacco farmers is grown in North Carolina. About 30 percent is grown in Tennessee, and about 10 percent is produced in Kentucky, said Carlton.

The funds from the trust will be paid out over 12 years. In addition to a national board of trustees to

oversee the operations of the fund, tobacco-growing states will have their own boards to work out the details of distribution.

The share of the total that each state receives will be based on its percentage of the national tobacco allotment. Virginia's share of the allotment is about 6.65 percent. Maryland tobacco growers voted several years ago to opt out of the tobacco quota program, but some other means will be used to determine what their share of the funds should be, Carlton said.

John Boyd, president of the National Black Farmers Association, which includes 4,000 tobacco growers in eight states, said the settlement will help black tobacco farmers because it provides some payment to farmers who lease out their quota to other growers. "Most of the black farmers lease out their allotment because they don't have the money to plant it," he said. "This doesn't do the whole job, but we were looking at getting nothing."

"There wasn't anything carved out



Tobacco industry lawyer Phil Carlton listens to a question at a news conference in Durham, N.C. Behind him, from left, are Govs. Paul Patton (D) of Kentucky, James B. Hunt Jr. (D) of North Carolina, and Roy E. Barnes (D) of Georgia.

of the settlement with the states for farmers," said John F. Kasprzak, an analyst with Scott & Stringfellow Financial Inc. in Richmond. "They seem to have been left in the lurch. It's good to see the cigarette manu-

facturers trying to look out for their raw-material suppliers."

Kasprzak said that creation of the fund probably wouldn't have any impact on tobacco company stock prices. "The big issue on the stocks"

is Clinton's announcement in his State of the Union address that he would ask the Justice Department to pursue litigation against the tobacco companies, he said. "That is preempting fear of anything else."

The Washington Post

FRIDAY, JANUARY 22, 1999

To: Charley Rauls

720-8666

— take a look

Tom

Johnnie
Cameron

→ does the work
→ GATT offensive
→ no other quick fix
w/ money.

26

TITLE V—PROTECTION OF TOBACCO FARMERS

SEC. 501. DOMESTIC TOBACCO PURCHASE REQUIREMENTS.

Any manufacturer which is a domestic concern which purchases (or which controls a person who purchases) tobacco grown in a foreign country in any year may not reduce in such year its purchases of tobacco grown in the United States below the level of such purchases in 1997.

SEC. 504. TOBACCO GROWERS.

The Secretary, under the Food, Drug, and Cosmetic Act, may not establish any requirement applicable to the growing of tobacco that is enforceable against persons that grow tobacco. The Secretary, under such Act, may not enter on a farm owned by a grower of tobacco without

written consent.

COUPONS

Coupon Savings

KENTUCKY CONNECT

• Home Page

NEWS

Herald-Leader
 Online

• Business

Financial News

Technology

Kentucky

Connect

Tech Wire

Motley Fool

• Editorial

• Features

Books

Comics

Daily Crossword

Faith and Values

Food

Gene Siskel

• Sports

• Obituaries

• News Library

• Job Center

• Weather

• Lottery Results

• Classified Ads

• Subscribe Online

• Newspaper

In Education

• AP Wire Service

• WKYT-TV

• Kentucky Kernel

SPORTS EXTRA

KENTUCKY CONNECT

A service of the **HERALD-LEADER**

Published Wednesday, January 20, 1999, in the Herald-Leader

Not a pretty hindsight

Farmers beg because McConnell helped kill tobacco bill

Looking back over the last seven months, Kentucky's tobacco farmers find that most of the bad things they expected have come true. But none of the good.

Cigarette prices have gone up. Demand for the farmer's tobacco has gone down, by almost a third.

But farmers, once in line for up to \$28.5 billion in transition aid, now find themselves begging the cigarette companies for scraps.

It's sadly evident that farmers lost big last June when the tobacco bill died in the U.S. Senate. Kentuckians should remember that one of the bill's proudest assassins was Sen. Mitch McConnell.

As you may recall, the bill sponsored by Republican Sen. John McCain contained two competing provisions for farmers. But the Senate never picked one because McConnell & Co. killed the whole thing.

The cigarette makers then settled with the states for \$206 billion and added 45 cents to the price of a pack of smokes.

(more)

for
 Farmers

FDA Warns Against Supplement

Recall Requested of Dietary Products With Chemical Suspected in Death

By JOHN SCHWARTZ
Washington Post Staff Writer

The Food and Drug Administration asked dietary supplement manufacturers yesterday to recall products containing a chemical that the agency has linked to one death and serious side effects in at least 54 people.

The FDA warned consumers to avoid products containing gamma butyrolactone (GBL), which is used in a number of dietary supplements sold via the Internet, in health food stores and in gymnasiums. GBL is found in products marketed under such brand names as Renewtrent, Revivarent or Revivarent G, Blue Nitro or Blue Nitro Vitality, GH Revitalizer, Gamma G, and RemForce.

"These are dangerous products that consumers need to know they should not be using," said Joseph Levitt, director of the FDA's Center for Food Safety and Applied Nutrition, which regulates dietary supplements.

Companies have claimed that GBL products build muscles, reduce weight, improve athletic and sexual performance, reduce stress and improve sleep. In fact, the chemical—which is also used as a date-rape drug and as a commercial floor stripper—affects the central nervous system and can slow breathing and heart rate to dangerous levels. That can lead to seizures, unconsciousness, coma and vomiting.

Several people who used supplements containing GBL and suffered adverse reactions had to have tubes run down their windpipes to aid their

breathing. Five of the victims were under the age of 18; one was 11.

"We had people who were driving their car and became incoherent," said Janet Woodcock, head of the FDA's Center for Drug Evaluation and Research. "These are concerning kinds of reports."

The one death involved a young man who had been taking one of the products and was found dead in March by friends who had thought he was sleeping.

"We started seeing a pattern of reports in the fall and winter" of other effects, Levitt said.

The maker of one such product, RemForce, charges \$49.95 for 32 ounces. Its Web site states: "As long as REMFORCE is used according to the label directions, there are no side effects. Because the ingredients in REMFORCE are all natural and non-toxic, users who properly use the product will always have a pleasurable experience. REMFORCE is completely metabolized into carbon dioxide and water within 3 to 5 hours after ingestion."

At least six companies market GBL in pill and liquid form as a dietary supplement, a classification that brings it under far less stringent FDA regulatory requirements than drugs under the Dietary Supplement and Health Education Act, passed by Congress in 1994. But FDA officials said the drug is transformed by the body into gamma hydroxybutyrate (GHB), which the agency called "a very potent unapproved drug" that is being studied as a possible treatment for narcolepsy.

Bruce Silverglade of the Center for Science in the Public Interest, a Washington consumer group, said the FDA should have the authority to yank problem supplements from the market when problems arise. "Sending out public warnings in these kinds of cases is insufficient to protect public health." Since Congress "tied the agency's hands and made that process more difficult," Silverglade said, "the agency is relegated to simply warning the public of hazards."

A spokeswoman for the supplements industry, Annette Dickinson of the Council for Responsible Nutrition, said she did not think the more than 100 companies that make up her organization sell GBL-bearing products. She suggested that it could be distributed by the hundreds of more evanescent companies in the booming supplements market. "I just think it's a shame to see companies focusing on these undesirable, unsafe and marginal ingredients that I think damage the industry as a whole," Dickinson said.

The FDA said one company, Trimfast Group Inc., already had agreed to withdraw its product, Revivarent, from the market. A receptionist at Trimfast said she could not comment for the company.

The agency urged consumers who have used the products and suffered side effects to contact its doctors and the FDA MedWatch program at 1-800-332-1088.

The Washington Post

FRIDAY, JANUARY 22, 1999

Tobacco Firms to Aid Farmers

\$5 Billion Fund to Help Compensate for Declining Markets

By MARTHA M. HAMILTON
Washington Post Staff Writer

The nation's major tobacco companies agreed yesterday to set up a \$5.15 billion trust fund to help compensate tobacco farmers whose markets have shrunk as a result of the tobacco industry's \$206 billion settlement with state officials.

Last year's settlement between the industry and 46 states over the health-related costs of smoking didn't address the financial needs of the farmers, who were not a party to lawsuits that led to the settlement. The settlement did, however, require tobacco companies to work with the governors of tobacco-growing states on plans for compensating farmers, said Phil Carlton, an attorney for the tobacco industry who represented the companies during the negotiations on the fund.

The companies are Philip Morris Cos., which initially proposed the fund; Brown & Williamson Tobacco Corp.; Lorillard Tobacco

Co.; and R.J. Reynolds Tobacco Co., which had supported an alternative plan but ultimately agreed to the fund.

Since the agreement with the states was reached in November, cigarette prices have been increased by 45 cents a pack to help pay for it—a move that is expected to result in lower sales and therefore lower income for farmers.

The money "will go directly to farmers who are losing income . . . to prevent the farmers from having to bear the burden and brunt of this settlement," said North Carolina Gov. James B. Hunt Jr. (D). The settlement resulted from "hard, hard, hard negotiations with the companies," he said.

Approximately 40 percent of the tobacco produced by the nation's estimated 124,000 tobacco farmers is grown in North Carolina. About 30 percent is grown in Tennessee, and about 10 percent is produced in Kentucky, said Carlton.

The funds from the trust will be paid out over 12 years. In addition to a national board of trustees to

oversee the operations of the fund, tobacco-growing states will have their own boards to work out the details of distribution.

The share of the total that each state receives will be based on its percentage of the national tobacco allotment. Virginia's share of the allotment is about 6.65 percent. Maryland tobacco growers voted several years ago to opt out of the tobacco quota program, but some other means will be used to determine what their share of the funds should be, Carlton said.

John Boyd, president of the National Black Farmers Association, which includes 4,000 tobacco growers in eight states, said the settlement will help black tobacco farmers because it provides some payment to farmers who lease out their quota to other growers. "Most of the black farmers lease out their allotment because they don't have the money to plant it," he said. "This doesn't do the whole job, but we were looking at getting nothing."

"There wasn't anything carved out



Tobacco industry lawyer Phil Carlton listens to a question at a news conference in Durham, N.C. Behind him, from left, are Govs. Paul Patton (D) of Kentucky, James B. Hunt Jr. (D) of North Carolina, and Roy E. Barnes (D) of Georgia.

of the settlement with the states for farmers," said John F. Kasprzak, an analyst with Scott & Stringfellow Financial Inc. in Richmond. "They seem to have been left in the lurch. It's good to see the cigarette manu-

facturers trying to look out for their raw-material suppliers."

Kasprzak said that creation of the fund probably wouldn't have any impact on tobacco company stock prices. "The big issue on the stocks

is Clinton's announcement in his State of the Union address that he would ask the Justice Department to pursue litigation against the tobacco companies, he said. "That is preempting fear of anything else."

The Washington Post

FRIDAY, JANUARY 22, 1999

to b. farmer's news

CAMPAIGN For TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

FACSIMILE TRANSMISSION

NUMBER OF PAGES: *5*

TO:

FROM:

DATE:

SUBJECT:

As promised

[Signature]

[12/1/98] Tobacco firms quickly rebuff growers...

Page 1 of 3



NORTH CAROLINA

RETURN TO SECTION

NEXT STORY

SEARCH

12/1/98

Tobacco firms quickly rebuff growers' plan

By BOB WILLIAMS, Staff Writer

Cigarette makers have no interest in funding a \$12 billion proposal floated by a tobacco growers group to compensate farmers and allotment holders for damages they expect to suffer from the landmark national smoking settlement.

"Their plan is absolutely unacceptable," Pinetops attorney Phil Carlton, lead negotiator for the country's major tobacco companies, said Monday. "The companies want to work out a reasonable plan that makes the growers whole for their losses, but we have no desire to fund a welfare program like the one they're talking about."

In the meantime, tobacco allotment holders are to get their first solid indication today of how much tobacco the federal government will allow to be grown next year.

Cigarette makers must submit estimates to the U.S. Department of Agriculture today on how much tobacco they expect to purchase next year. USDA uses those estimates, along with the amounts of anticipated exports and of surplus tobacco left over from previous seasons to calculate allotments for the coming season.

Carlton reacted angrily to the \$12 billion plan disclosed Sunday by the National Tobacco Growers Association.

The association's proposal calls for the owners of tobacco allotments, a government license to grow a certain amount of tobacco each year, to be paid 80 cents a pound for the next 10 years. It also calls for growers who don't own allotments, also called quotas, to be paid 20 cents a pound for the next 10 years.

In exchange, growers and allotment holders would agree to ask the USDA to cut the government support price for tobacco by 30 to 40 cents a pound, making tobacco cheaper for the cigarette companies to buy. The average support price for flue-cured tobacco -- the variety grown on most North Carolina farms -- was about \$1.63 a pound this year.

Cigarette makers have yet to offer a formal proposal to help growers and allotment holders, but there have been private discussions on a plan for the companies to pay up to a total of \$5 billion into foundations established in tobacco-growing states. Each foundation would then dole out the money as it sees fit, presumably through some sort of payments to growers and quota owners.

Carlton was quick to point out Monday that growers are at the mercy of cigarette makers, even though growers have recently gained some support from public health groups and the White House. President Clinton, in particular, has made protection of tobacco growers central to any settlement involving the federal government.

12/2/98

9:47:59 AM

[12/1/98] Tobacco firms quickly rebuff grower...

Page 2 of 3

growers central to any settlement involving the federal government.

"The last time I checked, [former Surgeon General] C. Everett Koop had never bought a single pound of tobacco, and neither had Bill Clinton," Carlton said. "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."

Carlton also hinted Monday that growers and allotment holders could end up with nothing if they persist in demanding more money.

"When we float \$5 billion and they come back and say they want \$12 billion, it makes me wonder if we should offer anything at all," he said.

"The companies are under no legal obligation to do anything for the growers and allotment holders."

Unlike with most other crops, the government imposes stiff penalties on tobacco growers unless they participate in the federal price support program. For all practical purposes, that means the only people who grow tobacco at a profit are those who participate in the program.

To qualify, a farmer must hold an allotment or rent one from someone who does. Only a small fraction of the 82,000 individuals and corporations that own quotas actually grow tobacco; most choose instead to rent out their allotments each year to growers.

Flue-cured quotas were cut more than 17 percent this year, and growers and quota owners could get more bad news today if cigarette makers decide to buy less U.S.-grown tobacco next season.

The two other figures USDA uses to determine quotas -- anticipated exports and surplus leaf from previous seasons -- could drive down next year's allotments.

Exports of flue-cured tobacco have fallen to their lowest levels since 1942, according to USDA.

At the same time, more than 182 million pounds of surplus leaf has piled up at price support cooperatives.

"We're hopeful the companies will announce large purchase intentions and will also agree to buy up a significant amount of the surplus leaf," said Lionel Edwards, executive director of the Flue-Cured Tobacco Cooperative Stabilization Corp. in Raleigh. "If we can't work something out with the companies, we could be looking at some serious problems."

Edwards said private talks between the price support co-op and cigarette makers have taken place over the last few weeks, but he would not disclose details of those discussions.

There were rumors circulating Monday that the cooperative has offered to sell all or part of the surplus leaf to cigarette makers at an 18 percent discount.

There also were rumors that Philip Morris, the country's largest cigarette maker, was holding out for a 25 percent discount on the surplus leaf.

"The companies have shown an interest in buying some of our tobacco, but it's highly unlikely they will take it all," Edwards said. "At this point we aren't sure if they will take any of it."

Philip Morris officials did not return phone calls on Monday.

Bob Williams can be reached at 829-4656 or bobw@nando.com

12/2/98

9:48:00 AM

[12/2/98] But for leaf growers, outlook is grim

Page 2 of 3



NORTH CAROLINA

RETURN TO SECTION

NEXT STORY



SEARCH

12/2/98

But for leaf growers, outlook is grim

By BOB WILLIAMS, Staff Writer

RELATED STORIES

- [Cigarette makers rise from the ashes, once again](#)
- [But for leaf growers, outlook is grim](#)
- [Tobacco's recent wins](#)

The country's major cigarette makers announced Tuesday that they plan to buy 28 percent less tobacco next year, setting the stage for the smallest North Carolina leaf crop since the government began keeping records in 1938.

The companies' buying plans, combined with a large surplus of leaf from previous crops and lagging exports, mean the amount of flue-cured tobacco U.S. farmers will be allowed to grow next year could be as little as 622 million pounds, down from 813 million pounds this year.

In the best case, next year's crop will be 8 percent smaller than this year's. In the worst case, the cut would be 23.5 percent.

Next year's quota cut will come on top of a cut this year of 17 percent.

Randall Douglas, a Lee County tobacco farmer, said another cut will probably force some farmers out of business.

"We were getting pretty good prices during the auctions this year, so that got our hopes up a little bit that the quotas wouldn't be cut that much for next year," he said. "I guess we shouldn't have done that."

Lionel Edwards, executive director of the Flue-Cured Tobacco Cooperative Stabilization Corp. in Raleigh, said farmers are extremely disappointed.

"I think everyone was expecting the purchase intentions to come in a lot higher than they did," Edwards said.

The U.S. Department of Agriculture annually calculates the anticipated demand for tobacco for the upcoming season and doles out that demand to farms that have grown tobacco in the past. Those allotments are called quotas.

USDA calculates the quotas using the purchase intentions of cigarette makers, anticipated exports and the amount of surplus tobacco left from previous seasons.

Unlike with most other crops, the government imposes stiff penalties on tobacco growers unless they participate in a price support program administered by USDA. For all practical purposes, that means the only people who can grow tobacco at a profit are those who participate in the program. Growers who don't own quotas must rent or buy them to participate in the program.

Bad indicators

Two parts of the USDA formula are now known, and neither is very good for growers and quota holders. The purchase intentions are 28 percent lower than this year, and exports are expected to be down

12/2/98

9:48:31 AM

[12/2/98] But for leaf growers, outlook is grim

Page 3 of 3

percent lower than this year, and exports are expected to be down about 5 percent.

The size of the cut next year now depends primarily on how much tobacco left from previous seasons the cigarette companies are willing to buy between now and Dec. 15, when USDA officially announces the 1999 quotas.

As it stands now, price support warehouses hold about 182 million pounds of surplus leaf ready for sale, some of which will probably have to be subtracted from next year's quotas.

Secretary of Agriculture Dan Glickman also has discretion to raise or lower quotas by as much as 3 percent. He is expected to increase the quotas the full 3 percent.

'Shocked and dismayed'

U.S. Rep. Bob Etheridge, a Lillington Democrat who owns several thousand pounds of quota, said he will push hard on cigarette companies to buy up the surplus leaf before the 1999 quotas are set. He said he was "shocked and dismayed" that the purchase intentions had come in so low.

"Tobacco farmers and their families have stood by the manufacturers in every major battle on Capitol Hill," Etheridge said. "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."

There are about 32,000 flue-cured quotas assigned to farms in North Carolina, which are owned by more than 82,000 individuals and corporations. Most of the state's 11,000 tobacco growers rent all or part of their quotas.

The Flue-Cured Tobacco Cooperative Stabilization Corp. has been talking with the nation's four largest cigarette makers in recent days, asking them to buy all or part of the surplus leaf, Edwards said. The companies include Philip Morris, Brown & Williamson, R.J. Reynolds and Lorillard.

The co-op has offered to discount the surplus leaf as much as 18 percent, according to sources involved in the negotiations, but one of the companies is demanding a 25 percent discount.

"We've been going back and forth with them, but we really aren't sure what they are going to do," Edwards said. "We really need them to step in and buy this surplus leaf."

Etheridge agreed.

"These hard-working people should be rewarded, not punished by yet another cut in quota and another year of hard times," he said. "It's just not right."

Bob Williams can be reached at 829-4656 or bobw@nando.com



[TOP | NEXT STORY >> | NC | HOME PAGE]

NEWS: BUSINESS | EDITORIAL | N.C. | SPORTS | TRIANGLE 24HR NEWS: TOP | BIZ | INFOTECH | NATION | CEINION | POLITICS | SPORTS | WORLD
 FEATURES: A&E | DAY | FAITH | FOOD | HOME | MOVIES | O | TRAVEL | TRIANGLE GUIDE | 24HR ENTERTAINMENT | 24HR HEALTH
 MARKETPLACE: YELLOW PAGES | CLASSIFIED | AUTO | REAL ESTATE | EMPLOYMENT | MERCHANDISE | SUBSCRIBE | BOOKSTORE | TRIANGLE
 MARKETPLACE

12/2/98

9:48:32 AM

Tobacco farmer → fund

Draft Consensus Document: Tobacco Community Development Meeting 3/3/98

Tobacco Community Investment Fund

Preamble

The purpose of these investments is to revitalize and sustain family farms and farming communities in the tobacco regions of the United States.

A significant amount of money should be allocated so that tobacco growing states and communities have options and opportunities to ensure their economic viability into the 21st century. **Funds for these community development/agricultural development activities shall not jeopardize or compete with funds intended to directly compensate farmers for loss of income due to changes in the tobacco program.** Farmers, as a majority, with meaningful local community input, must govern decision-making. Agricultural-based development shall guide as a priority. Delivery structures shall be designed to most directly deliver the funds to the farming communities, and there shall be a limit on funds for administration.

Contents

I. Operation and Delivery of Services

- A. Farming Community Councils
- B. Regional Farming Community Foundations
- C. Federal oversight and administration
- D. USDA Rural Development Administration

II. Purposes

- A. Loans and grants for agricultural development
- B. Community economic development

III. Implementation Schedule

I. Operation and Delivery of Services

A. Farming Community Councils

Tobacco counties, or networks among counties, shall have the opportunity to develop Farming Community Councils to develop initiatives for funding by Regional Farming Community Foundations. The Farming Community Councils shall include a minimum of 51% farmers, with additional stakeholder interests represented, including: public health; consumers; government; research and

Draft Consensus Document: Tobacco Community Development Meeting 3/3/98

education; financial; labor; farm organizations; and community service. Councils shall have a minimum membership of eleven persons, and Council members shall be selected at open annual meetings involving diverse stakeholders

Community Councils shall develop plans for agricultural and complementary development and submit these plans for funding to the Regional Foundations.

B. Regional Farming Community Foundations

Two Regional Farming Community Foundations shall allocate funds and coordinate services in order to fulfill the purposes of this Act. Each Regional Foundation shall be governed by a board that is composed of the following:

- Representatives from each tobacco state governor;
- A sufficient number of delegates from Community Councils to include representatives from each tobacco state while also balancing representation in relation to tobacco dependence;
- Representatives from the public health community, business and financial institutions, and other appropriate agencies.

All board members must have demonstrable experience with community development and/or agricultural enterprise development. The composition of this board is intended to include a majority of Community Council delegates and farmers.

Regional Foundations shall make policy for the distribution of grants, loans, and/or cost-share support of development initiatives.

Regional Foundations shall hire and/or contract for services to Community Councils, as requested. Such services might include needs assessment, feasibility studies for new enterprises, training, and facilitation.

Each Regional Foundation shall endow a Trust Fund with five percent of total funding in years 1-10 and ten percent of funds in years 11-25. This Trust Fund will fund programs in years 26 and beyond.

C. Federal oversight and administration

A Federal Commission shall provide coordination, monitor and evaluate program performance, and report to Congress. The Federal Commission shall include 3 delegates from each Regional Foundation and designees of the Secretary of Agriculture, the Secretary of Commerce, the White House, and the National Governors' Association.

Draft Consensus Document: Tobacco Community Development Meeting 3/3/98

D. USDA Rural Development Administration

Up to fifteen percent of total allocated Fund revenues may be allocated, on a fifty percent match basis, to USDA programs that serve the purposes of the Fund.

II. Purposes of the Tobacco Community Investment Fund

A. Loans and grants for agricultural development

1. Grants for the development of value-added enterprises

Grants would support the development of value-added enterprises, including the support of feasibility studies, market analysis, and business plan development.

2. Cost-share grants for new enterprises

Matching grants would assist the start-up phase of value-added enterprises, including hiring, facilities, research and development.

3. Reduced interest loans for value-added enterprises

Revolving linked-deposit and guaranteed loan programs would provide capital for value-added and supplementary enterprises.

4. Research and education programs

Expansion of Cooperative Extension programs: grants would be available for special projects that serve the purposes of this Fund, provided that producers significantly participate in the design and implementation of these projects.

Leadership development: grants to public and private agencies would support the development of leadership that is entrepreneurial, community based, and capable of developing collaborative teams to implement the purposes of the Fund.

Cooperatives, networks and alliances: grants would be available to assist farmers in creating and building business relationships that give them market advantage and economies of scale.

Draft Consensus Document: Tobacco Community Development Meeting 3/3/98

B. Community economic development

Agriculture-related enterprises are the priority for these programs, with complementary enterprises receiving the second priority.

1. Integrated Enterprise Incubation Systems

Regional Foundations and/or Community Councils will establish integrated incubation systems for enterprise development to provide a single point of contact for entrepreneurs for a wide range of enterprise development assistance. Services will be available to agriculture-related and other locally owned businesses. This integrated incubation system will link public and private agencies and will include the following elements:

- State and/or regional coordinators and a network of enterprise development mentors;
- Classification of entrepreneurs according to their level of skill and preparedness to build a business;
- Linking entrepreneurs to the appropriate resource or specialist for problem definition and solution delivery;
- A comprehensive toolkit of practices to address the needs of entrepreneurs, including training, information dissemination, coaching or mentoring, and peer group interaction;
- "Co-learning teams" of entrepreneurs and agency professionals to ensure coordinated support of enterprises and shared learning among resource providers;
- Analysis of the gaps in the provision of services in order to make recommendations about future allocations of public resources to enterprise incubation.

2. Revolving loan funds

Grants to community development corporations and other eligible entities would establish revolving loan funds and technical assistance for business creation and expansion.

3. Enhancing community capacity

Grants to community development corporations and other eligible entities would support the enhancement of capacity for entrepreneurship and sustainable development.

Draft Consensus Document: Tobacco Community Development Meeting 3/3/98

III. Implementation Schedule

The intent of the Tobacco Community Investment Fund is for funds to be allocated by Regional Foundations that are governed by a majority of farmer and Community Council representatives. During the early phases of Fund implementation, however, funding will be needed to support the following:

1. Organizing broad tobacco county participation in Community Councils and subsequent planning and feasibility analysis; and
2. Locally owned value-added enterprises already at the take-off stage.

Therefore, Regional Foundations will need to begin with interim governance and interim staff. Nevertheless, the intent of this Fund is for major funding and long-term staffing decisions to await the installation of sufficient farmer and Community Council representatives on Foundation boards to constitute a majority.

Tobacco

USDA TOBACCO USER FEE

Question:

Explain the USDA tobacco user fee new tobacco "tax", and what does the Budget do for tobacco farmers?

Answer:

The FY 2000 Budget proposes to cover ⁽²⁾ ~~the taxpayers' costs~~ incurred by USDA for activities ~~related to the growing and marketing of tobacco~~ by expanding the expiring assessment on marketings of tobacco. This "user fee" would increase from 1 percent of tobacco marketings (including imports) to two percent. The portion levied on farmers (0.5 percent) would remain the same as at present, while the charge to cigarette manufacturers would increase from 0.5 percent to 1.5 percent. The fee would raise about \$60 million in FY 2000.

The Budget does not propose direct assistance for tobacco growers, pending other proposals such as the recent industry agreement to provide a \$5 billion fund for tobacco growers. The Administration remains committed to protecting tobacco farmers and those communities dependant on tobacco.

States, farmer, and industry representatives recently produced a \$5 billion agreement to provide financial assistance to tobacco farmers and their communities. The Administration supports this agreement, and remains committed to taking further steps to protecting tobacco farmers and their communities. The Administration will work with all parties, as needed, to ensure the financial well-being of tobacco farmers, their families, and their communities.

Background:

USDA incurs about \$60 million in costs for programs that assist tobacco growers, including administering price support loans to tobacco grower cooperatives, crop insurance, and marketing oversight. The 1993 OBRA imposed a marketing assessment for deficit reduction on the tobacco program, which is required to operate at "no net cost" to the taxpayer anyway (ensured through a different assessment on cooperatives to cover any losses on their price-support loans). The deficit reduction fee is set to expire with the 1998 crop (with the final collection in FY 1999). The Budget proposal would extend and expand the fee, on a fiscal year basis, and provide discretionary savings. These savings helped to offset higher funding for USDA count-based office staff.

Prepared by:

Daniel Heath (x53645)

(2) The administrative cost of supplying the federal activities related to programs in 54

insurance

no net cost assessment levels

grower while insurance

new changed



no/mtr

Tobacco Farmer

USDA TOBACCO USER FEE

Question: Explain the USDA tobacco user fee new tobacco "tax", and what does the Budget do for tobacco farmers?

Answer: The FY 2000 Budget proposes to cover the ⁽²⁾taxpayers' costs incurred by USDA for ~~activities related to the growing and marketing of tobacco~~ by expanding the expiring assessment on marketings of tobacco. This "user fee" would increase from 1 percent of tobacco marketings (including imports) to two percent. The portion levied on farmers (0.5 percent) would remain the same as at present, while the charge to cigarette manufacturers would increase from 0.5 percent to 1.5 percent. The fee would raise about \$60 million in FY 2000.

) The administrative cost of ~~the~~ federal ~~activity~~ tobacco ~~program~~ ~~costs~~ ~~in~~ ~~the~~ ~~USDA~~

no net loss assessment covers grower while

The Budget does not propose direct assistance for tobacco growers, pending other proposals such as the recent industry agreement to provide a \$5 billion fund for tobacco growers. The Administration remains committed to protecting tobacco farmers and those communities dependant on tobacco.

States, farmer, and industry representatives recently produced a \$5 billion agreement to provide financial assistance to tobacco farmers and their communities. The Administration supports this agreement, and remains committed to taking further steps to protecting tobacco farmers and their communities. The Administration will work with all parties, as needed, to ensure the financial well-being of tobacco farmers, their families, and their communities.

insurance

new changed

Background: USDA incurs about \$60 million in costs for programs that assist tobacco growers, including administering price support loans to tobacco grower cooperatives, crop insurance, and marketing oversight. The 1993 OBRA imposed a marketing assessment for deficit reduction on the tobacco program, which is required to operate at "no net cost" to the taxpayer anyway (ensured through a different assessment on cooperatives to cover any losses on their price-support loans). The deficit reduction fee is set to expire with the 1998 crop (with the final collection in FY 1999). The Budget proposal would extend and expand the fee, on a fiscal year basis, and provide discretionary savings. These savings helped to offset higher funding for USDA count-based office staff.

Prepared by: Daniel Heath (x53645)

105. f... 4 EW - copies to CR BR Edie Galt MS
C/N to me
J

CAMPAIGN FOR TOBACCO-FREE KIDS

NATIONAL CENTER FOR TOBACCO-FREE KIDS

FACSIMILE TRANSMISSION

NUMBER OF PAGES:

TO:

FROM:

DATE:

SUBJECT:

Van

Here's the Executive Summary as
promised. Didn't pass you
e-mail.

[Signature]

EALSE ERIENDS

The U.S. Cigarette Companies' Betrayal of American Tobacco Growers

EXECUTIVE SUMMARY

Decades ago, when the U.S. companies relied almost exclusively on U.S. tobacco leaf and primarily served the U.S. market, shared interests may have created some foundation for mutual loyalty and reciprocated support between the cigarette companies and U.S. tobacco growers. But now that the U.S. companies have turned into U.S.-based multinationals that use more foreign tobacco leaf than domestic and sell more cigarettes overseas than at home, the growers' and the companies' interests have sharply diverged and frequently conflict. U.S. tobacco growers and their communities have suffered enormous harm and face both immediate difficulties and an uncertain and precarious future, all caused largely by the decisions and actions of the major U.S. cigarette companies.

The U.S. Cigarette Companies' Move Overseas

Starting in the 1980s, Philip Morris and the other major U.S. cigarette companies dramatically increased their total sales, revenues, and profits by expanding the foreign markets for their cigarettes. This increased global demand for "American-blend" cigarettes -- which use more American-style tobacco than cigarettes traditionally smoked in other countries -- could have significantly increased the overall demand for tobacco grown in the United States. Instead, the U.S. cigarette companies' have moved overseas in ways that have reduced the overall demand for U.S. tobacco leaf and caused many of the major problems currently facing U.S. tobacco growers.

While the U.S. cigarette companies present themselves as loyal friends, allies, and business partners of U.S. growers, they have reduced their own use of U.S. tobacco leaf and undermined the competitive position of U.S. tobacco growers in the global tobacco markets.

- Rather than relying primarily on exporting American-made cigarettes to supply their new foreign markets, the U.S. cigarette companies decided to shift to foreign manufacturing, which uses less U.S. tobacco leaf.
- To increase the amount and quality of American-style cigarette tobacco leaf available from foreign sources, the U.S. cigarette companies decided to provide direct financial, technical, and material assistance to foreign tobacco growers, both on their own and with the U.S.-based international leaf dealers.
- Here in the United States, the cigarette companies decided to increase the amount of foreign tobacco they use in their American-made cigarettes, with parallel reductions in the amount of U.S. tobacco leaf they buy.

The Reduced Demand For U.S. Tobacco Leaf

As a direct consequence of these U.S. cigarette company decisions, U.S. cigarette exports account for significantly less than one fourth of all U.S. company brands sold overseas, and have dropped

about 30 percent since 1996. By itself, this drop in American-made cigarette exports has reduced the annual amount of U.S. tobacco leaf used in U.S. cigarette manufacturing by at least 70 million pounds (farm-sales weight), or about 10 percent, in just three years.

Close to ninety percent of all American-style cigarette tobacco (flue-cured and burley) is now grown by foreign farmers in at least 78 different countries; and in the last twenty years the U.S. share of global leaf exports has been cut in half to less than 11 percent. Without this decline in the U.S. share of global tobacco exports, annual U.S. tobacco exports would be 480 million pounds (farm-sales weight) larger – or roughly three times higher than current U.S. tobacco leaf export levels.

Since the U.S. cigarette companies began switching to foreign cigarette tobacco the amount of U.S. tobacco leaf in each American-made cigarette has declined by more than forty percent. If the cigarette companies had used as much U.S. leaf in each of their American-made cigarettes in the past few years as they did twenty years earlier, the amount of U.S. tobacco used in U.S. cigarette manufacturing would be more than 310 million pounds larger, or approximately 45 percent higher than actual levels. In fact, the U.S. cigarette companies currently manufacture more cigarettes per year in the United States than they did in the early 1970s but use more than a third less U.S. tobacco leaf in the process.

Cigarette Company Profits & U.S. Tobacco Grower Losses

Thanks to increased foreign sales and domestic price hikes, the U.S. cigarette companies' profits and revenues have soared since the 1980s. For example, Philip Morris's annual cigarette revenues have more than quadrupled since then, totaling \$42.7 billion in 1998, and its cigarette profits have roughly tripled to \$6.5 billion (even after deducting \$3.4 billion to cover costs associated with the state tobacco settlements).

At the same time, U.S. tobacco growers sales, revenues, and profits have stagnated or declined. Since 1980 the prices charged by the U.S. cigarette companies have increased by more than 270 percent, or roughly three times the rate of inflation. But despite the U.S. tobacco price support program, U.S. flue-cured and burley prices have only increased by 19 and 14 percent, respectively, and have not come close to keeping up with inflation. While U.S. growers used to receive roughly seven cents out of every dollar spent on cigarettes in the United States, they now receive only about two cents. At the same time, the U.S. growers' inflation-adjusted farming costs have gone up by nearly 200 percent.

Not surprisingly, many of the small, family-run tobacco farms that have been backbone of tobacco farming in the United States since colonial days have been finding it increasingly difficult, if not impossible, to make ends meet. Since 1980, at least 100,000 small U.S. tobacco farms have disappeared, leaving fewer than 85,000 still operating. In their place are an increasing number of larger, more mechanized tobacco farms that have absorbed the abandoned farms' tobacco-growing quota rights.

* U.S. tobacco growers, and their families and communities, are not the only victims of the cigarette companies' moves overseas and related business decisions. Since 1980, the number of people directly employed by tobacco manufacturing in the United States has been cut in half, with fewer than 30,000 remaining today.

Recent Trends and New Problems Threatening U.S. Growers

From 1996 to 1999, the U.S. Cigarette companies domestic purchases of U.S. cigarette tobacco have declined by about 35 percent, and tobacco industry analysts expect the cigarette companies to reduce their purchases even further in the year 2000.

Because of the cigarette companies' declining purchases, their reduced purchase intentions for the future, and stagnant tobacco leaf export levels, the maximum amount of tobacco U.S. growers are allowed to produce under the industry and grower-financed U.S. tobacco price support program has also dropped considerably. From 1997 to 1999, the basic quota for U.S. flue-cured tobacco growers dropped by 307 million pounds or more than 31 percent, including the largest one-year decline in history from 1998 to 1999. At the same time, the basic quota for U.S. burley tobacco growers declined by 251 million pounds or more than 35 percent, with the 1998 to 1999 drop in quota the largest ever. The expected reductions in the U.S. cigarette companies purchase intentions for both flue-cured and burley tobacco in 2000 would further reduce the quotas for both.

The cigarette companies often try to blame U.S. smoking declines for their reduced purchases of U.S. tobacco leaf (and for their decisions to close U.S. cigarette factories or lay off workers). From 1997 to 1998, however, cigarette consumption by U.S. smokers dropped by only about three percent, and tobacco industry analysts expect that because of the cigarette companies' recent price hikes totaling more than 80 cents per pack U.S. consumption will decline by about six to ten percent from 1998 to 1999. Because U.S. cigarette tobacco is also used in cigarettes smoked outside of the United States, these declines in U.S. smoking levels will only reduce the overall demand for U.S. cigarette tobacco by about four to five percent -- only a small fraction of the more than 30 percent reductions in U.S. cigarette company leaf purchases and U.S. tobacco production quotas over the same time period.

These disparities are not surprising given that declines in U.S. cigarette consumption have absolutely no impact on the amount of cigarettes the U.S. companies decide to make in the United States for export overseas; the amount of U.S. tobacco the companies decide to put in their American-made cigarettes, whether sold in the United States or exported; or the amount of export sales U.S. growers lose to foreign tobacco farmers that have received U.S. company support. After 1999, these other factors will continue to play a major role in the overall demand for U.S. tobacco leaf, but U.S. smoking levels are expected to decline by only one or two percent per year, which will have only a gradual and relatively small impact.

At the same time, a number of other factors are also coming into play.

- In 1999, R.J. Reynolds sold all of its international cigarette factories and operations to Japan Tobacco, including all rights to sell RJR brands overseas. While RJR will still sell some American-made RJR brands to Japan Tobacco for international sales, it is not clear whether Japan Tobacco will rely on RJR's U.S. production or begin manufacturing more of the cigarettes in its own factories overseas. It is also unclear whether Japan Tobacco will use as much U.S. tobacco leaf in the foreign-based factories it has purchased from RJR. Given that Japan Tobacco has much weaker and less direct ties to U.S. tobacco growers and U.S. cigarette factory workers than RJR, it is possible that its takeover of RJR's foreign manufacturing and sales will reduce U.S. exports of both cigarettes and leaf.

- The North American Free Trade Agreement (NAFTA) will soon eliminate all tariffs and fees placed on cigarettes or tobacco crossing the border from Mexico into the United States. Some growers fear that the U.S. cigarette companies will take advantage of NAFTA by importing more Mexican tobacco to substitute for U.S. leaf, and might even begin producing cigarettes in Mexico (with less U.S. leaf than American-made cigarettes) for sale in the United States.
- China has the capacity to produce massive amounts of cheap, high quality cigarette tobacco and could largely take over the global export markets. U.S. cigarette companies and leaf dealers have already been helping Chinese tobacco growers to improve the quality of their crops, and China's possible admission into the World Trade Organization could accelerate that process. India, which is already a member of the WTO and a significant exporter of cigarette tobacco's, poses a similar threat. The U.S. companies are already active there and are proposing new leaf-improvement initiatives. A recent study found that given modest government incentives and investments India could quickly increase its production of high-quality flue-cured and burley tobaccos by 600 percent.
- The U.S. cigarette companies and U.S.-based international leaf dealers, among others, are calling for major changes to the U.S. price support program in order to reduce U.S. tobacco prices. Such significant price reductions would increase the global demand for U.S. tobacco leaf (and save the cigarette companies billions of dollars), but they would also put many small tobacco growers out of business. They would be able to sell more tobacco, but their increased sales would not make up for the revenue losses from the price reductions.
- Philip Morris, the largest buyer of U.S. tobacco leaf, is trying to persuade some U.S. growers to abandon the current tobacco auction system and enter into direct contracts with the company. Growers fear that such direct contracting would favor larger tobacco farms over small, make the growers much less independent, put even more power and control into the hands of Philip Morris, and ultimately lead to the elimination of the U.S. tobacco price support program. Ending the tobacco program would dramatically reduce leaf prices, thereby forcing the vast majority of all existing tobacco growers out of business and devastating existing tobacco-dependent communities. It would also provide a billion dollar windfall to the U.S. cigarette companies, and dramatically increase U.S. tobacco leaf production. The end result would most likely be a much larger and centralized tobacco-growing industry in the United States that is largely controlled by the major cigarette companies.

Preparing For An Uncertain Future

In 1998, the U.S. Senate considered the McCain comprehensive tobacco legislation. Largely because of the efforts of a broad coalition of tobacco growers, public health organizations and others, that bill would have directed more than \$28 billion to help U.S. tobacco growers and cigarette factory workers, and their families and communities to adjust to the ongoing decline of U.S. cigarette manufacturing and the reduced demand for U.S. tobacco. The U.S. cigarette companies vigorously opposed the McCain bill, and the Senate failed to pass it.

That McCain bill's failure prompted the cigarette companies to settle the lawsuits brought against them by the states' attorneys general. But the state tobacco settlement did not include any

DRAFT

payments to help growers or their communities or any other transitional assistance of any kind. Nevertheless, some states are directing substantial portions of the settlement payments they are receiving from the cigarette companies to provide various forms of assistance to U.S. tobacco growers. In addition, the cigarette companies have agreed to provide \$5.1 billion in Phase II payments to a state-based fund to assist tobacco growers and quota holders adjust to declining tobacco production quotas over the next twelve years.

While helpful, these efforts fall far short of the broadly based transitional assistance, quota and grower buy-outs, and other support that would have been provided by the McCain bill. Equally important, they fail to address the fundamental problems facing U.S. tobacco growers. They serve more as a financial band-aid rather than offer any effective strategy to help U.S. growers and their communities move to a more independent, secure, and successful future.

Accordingly, many U.S. growers and their allies have begun to explore new options and strategies. Some of the possibilities that have been raised include:

- Developing state and regional marketing plans to encourage and assist growers to make successful transitions to alternative and supplementary crops.
- Establishing a fund to buy out growers and quota holders who want to leave tobacco farming.
- Creating economic development plans to ensure that tobacco growing states and communities have options and opportunities to ensure their future economic viability.
- Developing alternative, non-harmful uses for tobacco plants, such as using them as host plants for developing bio-engineered medical products.
- Encouraging the use of U.S. over foreign tobacco by requiring that manufacturers list the percentages of U.S. versus foreign tobacco in cigarettes and other tobacco products that are made or sold in the United States.
- Developing and enforcing more stringent and equitable rules concerning the presence and disclosure of pesticides and other harmful chemicals and additives in tobacco leaf, cigarettes, and other tobacco products imported into the United States which match the standards placed on domestically grown tobacco.
- Developing and enforcing equitable environmental, labor, and health and safety requirements for tobacco grown for import into the United States which match the standards placed on domestically grown tobacco.

This report does not mean to evaluate or endorse any of these options, but it does recognize that many U.S. tobacco growers and tobacco-dependent communities have little chance for a successful future unless there is a broad debate over these and other possibilities directed at developing effective transitional strategies.

It is also critical to note that there are no simple solutions nor any single magic bullet. In addition, implementing many of the proposals to assist U.S. growers and their communities would face considerable opposition from the cigarette companies.

The Growing Alliance Between U.S. Growers And The Public Health Community

Recognizing the sharp conflicts between their own long-term interests and those of the U.S. cigarette companies, many U.S. growers have been seeking out new allies, including public health organizations and advocates.

As early as 1985, the Carter Center in Atlanta, Georgia began to bring some growers and public health representatives together to start identifying their mutual interests and explore the possibility of working together toward shared goals.

In March 1998 a coalition of more than forty agricultural, grower, religious, and public health organizations (including the major sponsors of this report) released the "Core Principles," which outlined their shared goals pertaining to both reducing smoking among kids and assisting U.S. growers and their communities. Among other things, these Core Principles expressed support for tobacco products disclosing their domestic leaf content, FDA authority over *manufactured* tobacco products, the continuance of a U.S. tobacco price support program, and the allocation of new tobacco tax revenues both to advance public health goals and assist tobacco growers and their communities. [See Appendix II for a full copy of the Core Principles, along with a list of endorsing organizations and individuals.]

Since the Core Principles' initial release, the number of formal supporters has doubled. Growers and public health organizations worked together on the U.S. Senate's McCain bill to support both its grower-assistance provisions and its overall passage. And growers and public health groups are now actively working together in the tobacco states to direct tobacco settlement funds both to prevent youth smoking and to provide transitional aid to growers and tobacco-dependent communities.

Faced with a U.S. cigarette industry that is working directly against their best interests, increasing numbers of U.S. tobacco growers see that the existing partnerships between growers and public health organizations and other non-traditional allies must be expanded and intensified. By working together, new strategies can be developed to implement effective measures that will help growers and their communities avoid further hardship and move to a more independent and secure future. As many growers have already recognized, working with the public health community may offer growers their best chance growers to influence the ongoing changes in the domestic and foreign markets for cigarettes and tobacco leaf and successfully adapt to them.