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Tobacco Farmers

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Tobacco Farmers

Coop

Cushion under price

Supply

— Spread

→ Max. limit on growth

→ Timing

USDA – Crop insurance

USDA

U.S. DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

Telephone (202) 720-3631 Fax (202) 720-5437

Tobacco farmers! 5/22

FAX COVER SHEET

DATE: 21 May 98

NUMBER OF PAGES 3, INCLUDING COVER SHEET

PLEASE DELIVER TO: Tom Freedman, DPC

~~FAX~~ NUMBER: ( ) 456 5587 ~~PHONE~~ FAX NUMBER: ( ) 456 7431

FROM: OFFICE OF SCHEDULING

- ☐ MARY BETH SCHULTHEIS, DIRECTOR OF SCHEDULING
- ☐ JULIE EDDY, ASSISTANT SCHEDULER
- ☐ BILLY COX, BRIEFINGS COORDINATOR
- ☐ FRAN TROUT, TRAVEL ADVISOR

MESSAGE: Tom FYI Keith

Durbin + Lautenberg uncommitted, other calls just being made (5pm) OSEC will report to Carlin on conversations. My beeper # (202) 801-7069.

Keith

May 21, 1998

MEMORANDUM TO SECRETARY GLICKMAN

From: Keith Pitts

Through: Greg Frazier

Re: Phone Calls for the Ford Grower Provisions in the McCain Bill

Background

I spoke with Jim Lowe on Senator Wendell Ford's staff this morning. By early this afternoon, there will first be 1) a motion, by Lugar, to strike the Ford Amendment from the McCain Bill, followed by 2) a motion, by Ford, to strike the Lugar Amendment from the McCain Bill.

As you will recall, through a surprise procedural motion, Majority Leader Lott inserted the Lugar Amendment into the McCain Bill. As it stands now, the McCain Bill has two competing grower provisions.

The Ford Amendment, in general, provides for a gradual, voluntary buyout of tobacco quotas over 10 years; provides adequate transition funding for tobacco dependent communities; and retains the domestic tobacco program, thereby protecting small and minority-operated farms.

The Lugar amendment requires a short-term, mandatory buyout of tobacco quotas (within 3 years); provides inadequate transition payments to tobacco dependent communities; and eliminates the domestic tobacco program, which will have a disproportionate adverse impact on small and minority-operated farms.

The Administration has completed an analysis of the Lugar Amendment and determined that it will destabilize grower prices and will result in a more than $20 billion windfall to tobacco companies over the next 25 years. A windfall to companies that will be taken directly out of the farmers' pockets. Also, the Administration has determined that the huge expenditures required under Lugar's expedited buyout of the domestic tobacco program will require a 69% reduction in the McCain Bill's funding for public health and youth smoking prevention programs.

The White House is working with Ford to protect his grower provisions and to strike the Lugar Amendment from the McCain Bill. The retention of the Ford Amendment in the McCain Bill is critical to Administration's stated goal of a comprehensive tobacco settlement.

Actions Requested

Senator Ford has asked that you call Senator Richard Durbin ASAP (224-2152) to enlist his support for the Ford Amendment to the McCain Bill and to ask that Senator Durbin support striking the Lugar Amendment to the McCain Bill.

Tom Freedman, White House/DPC, has also asked that, in addition to Durbin, you call Senator Dorgan (224-2551), Senator Conrad (224-2043), Senator Feinstein (224-3841) and Senator Lautenberg (224-4744) to press for their support of the Ford Amendment to the McCain Bill and their opposition to the Lugar Amendment to the McCain Bill.

FYI

As you may remember, Senator Durbin's father died of smoking-related lung cancer, and he has often stated his moral opposition to any sort of government support in tobacco production. This may be difficult to overcome. Both Conrad and Dorgan have approached the White House about whether the McCain Bill could also be a vehicle to "help wheat." This has generally been viewed by the Administration as not being germane to the issue at hand.

Talking Points

1) The Administration supports the retention of the Ford Amendment in the McCain Bill and supports striking the Lugar Amendment from the McCain Bill.

2) The Lugar Amendment will result in a 69% reduction in public health and youth smoking prevention programs over the first three years of the McCain Bill.

3) The Lugar Amendment will slash farm prices and will result in a more than $20 billion windfall to tobacco companies over the next 25 years--a company windfall that comes at the expense of tobacco farmers. The Lugar Amendment will put small and minority-operated farms out of business.

4) Key, competitive Senate races are in Kentucky, South Carolina and North Carolina this year. Democrats should be identified with attacking and solving the youth smoking crisis, but not with the elimination of the tobacco program.

cc: Dave Carlin, Tom Freedman

TOBACCO PROGRAM OPTION - #3

IMPACTS:

Production - Tobacco would continue to be grown in traditional growing areas. Overall production would decline about one-third over a 10 year period because of increased costs of cigarettes attrituable to the Tobacco Settlement.

Prices - Prices could decline slightly because of increased cigarette prices caused by the Tobacco Settlement.

Regional Impact - The distribution of production in growing areas would remain unchanged.

Rent/Lease Costs - Rental and lease costs might decline slightly because of lower prices. The estimated decline in the value of quota will reach about $250 million annually by the tenth year.

Operating Unit - Size of operating units would be unchanged.

Trade - Trade patterns would be unaltered. However, there might be WTO implications if income support was tied to production or used as a production incentive and could produce retaliation.

Government Involvement - Would remain the same; however, to further minimize Government involvement and help eliminate the subsidy issue, have USDA's program administrative costs paid by the Tobacco Settlement.

Total Cost of Option - USDA estimated cost related to tobacco activities for FY 1998 are projected at $43.4 million. Cost of an income support program could vary greatly depending on the nature of the programs and could be as high as $1 billion annually.

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TOBACCO PROGRAM OPTION - #4

TOBACCO QUOTA BUYOUT - NO REPLACEMENT PROGRAM - (similar to the Lugar Bill)

Background:

Because of an expected decline in demand associated with the proposed tobacco settlement, several government officials and other interested parties have discussed how to provide economic assistance to tobacco producers, quota owners and tobacco farming communities.

Ideas about economic assistance are broad-based. However, a key element has included buyout or retirement of quotas. A buyout of quota and payment to nonquota owning producers would serve dual purposes. First, it would provide retirement, retraining or reinvesting funds for current tobacco production stakeholders and second, it would remove the Federal government from its perceived role of supporting tobacco through its role in operating the tobacco price support-production control program.

A quota buyout could be all-at-once or spread over a number of years. A gradual phaseout is preferable because of the severe disruptions that would occur if the 60 year tobacco program were suddenly terminated. Uncertainty about production and prices would create severe problems for farmers in obtaining operating and capital investment loans.

Several questions are raised relative to a quota buyout. Among these are: 1) Who are the relevant stakeholders, i.e., quota owners, tenants, hired workers, tobacco warehouse operators and local businesses? Should all tobacco producers, including those producing non-supported tobacco, be included? Where do you draw the line? 2) What is a fair price for quota? Is it $8.00 per pound as proposed in several bills that have been introduced in Congress? Or is it closer to $2.00 per pound, the current selling price of tobacco quota? Perhaps it is somewhere in-between. The $8.00 reflects a 5 percent capitalization rate of an annual quota lease of 40 cents per pound for 20 years and reflects the value associated with essentially a lifetime commitment in human and financial resources to tobacco production. The lower figure - $2.00 per pound - reflects the discounted value associated with an expected 5-year life of the current tobacco program. 3) How much should tenants receive? Clearly, they also have human and capital investments in continuing tobacco production. But, on the whole, their investments are not as large as the quota owners. Some have suggested compensation for them at one-half the rate for the quota owners. 4) What would happen to existing loan stocks? Loan stocks would have to be repriced to move them into the trade. Making up losses on loan repayments for higher priced leaf would be a problem, and would need to be addressed in any buyout. and 5) If the program is phased out over 3, 5, 7 or some other time frame what happens to price supports? Perhaps price supports could be lowered by 25 percent the first year and progressively reduced further until the program is completely terminated.

IMPACTS:

Production - Total tobacco production would increase without a program. Flue-cured production might increase by one-half to two-thirds above the 1995-97 level and burley production might rise one-fourth to one-third. Production would move from less efficient to more efficient areas. Flue-cured production would shift from the North Carolina-Virginia piedmont to the coastal Carolinas and Georgia-Florida. Burley production would shift away from fringe areas such as North Carolina, West Virginia and eastern Kentucky to other areas of Kentucky. It is doubtful much production would occur outside traditional areas due to a lack of infrastructure for producing and selling the crop and a lack of expertise for growing the crop. Also, soil and climate may not be conducive to tobacco production in some areas.

Prices - Prices would decline. Prices might decline by 40 cents to 50 cents per pound reflecting the elimination of marketing privilege costs (rent, lease, purchase of quota) and the greater efficiencies associated with movement of production to larger lower-cost operations.

Regional Impact - The distribution of production could change markedly with some higher cost regions such as the Virginia-North Carolina piedmont, Eastern Kentucky and Western North Carolina losing considerable economic base. Furthermore, minimum resource farms (many operated by minority farmers) in these and other tobacco growing areas would be especially hard hit.

Rent/Lease Costs - Rental and lease costs for the rights to market tobacco would be eliminated or phased out (only the cost of using the land itself would continue). Quota owners incomes would be eliminated or phased out.

Operating Unit - Size of operating units would increase significantly and number of producers would decline sharply.

Trade - U.S. leaf exports would increase and imports would decline as manufacturers switched back to U.S. leaf. The magnitude of the trade changes would be significant and U.S. exports could increase as much as 25 percent based on a 50 cent farm level price decline. There would be an impact on other producing countries as U.S. leaf became more competitive in the world market. Canada, Zimbabwe, Malawi, and Brazil are some of the countries affected. There should be no WTO implications, as long as the buyout payments were not conditioned on continued production but were based on something else such as participation in the industry during some base period. Repriced loan stocks moved into trade could be subject to WTO challenge under the Agreement on Subsidies and Countervailing Measures, including countervailing duties.

Government Involvement - Price supports and production controls would be phased out. Domestic grading, import grading and pesticide testing, market news services and export certification services provided by the Agricultural Marketing Service, USDA, could continue.

TOBACCO PROGRAM OPTION - #4

Total Cost of Option - USDA costs would decline and eventually approach or reach zero. Total costs of buying out quota would likely be absorbed by tobacco product manufacturers and could vary widely depending on who was compensated and how much they receive. For example, the cost of paying $8.00 per pound to quota holders would total $13 to $14 billion. Other stake holder costs could more than double this figure.

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TOBACCO PROGRAM OPTION - #5

PRIVATIZED TOBACCO PROGRAM - (similar to the Robb Bill)

Background:

The U.S. Government has operated a price support-production control program for tobacco since the 1930s. This program has caused the farm's assigned marketing quota to have a capitalized value which is incorporated in land valuations, loan debts and related business transactions. Most tobacco producers favor a tobacco program much like the program described in Option #1, the current tobacco program. However, with the continued controversy over the dangers of smoking and health related concerns, many people feel that it is time to "get the Government out of tobacco production".

Under a privatized tobacco program, Congressional approval for the establishment of a Tobacco Corporation to oversee and administer the tobacco program would be needed. This Tobacco Corporation's Board of Directors, composed of all segments of the tobacco industry, would operate the tobacco program much like the oversight currently provided by USDA in its tobacco program administration. The Corporation, with funds received from any Tobacco Settlement legislation would:

- Reimburse quota owners at $8.00 per pound for the equity value of their tobacco marketing quotas. Payments could be spread over a certain number of years as funds become available to the Corporation.
- Provide income support payments to tobacco producers to help in the transition to a world market price for U.S. produced tobacco.
- Provide community development grants to tobacco communities adversely affected by loss of tobacco economies.

The Tobacco Corporation would issue licenses (the equivalent of quotas) to current tobacco producers. These licenses would be nontransferable and adjusted annually by the Corporation based on the anticipated purchases of current crop tobacco. Price support would be provided but gradually reduced from current levels until U.S. tobacco is priced competitively with world tobacco prices. The price support levels would be established by the Tobacco Corporation and funds for administering the program would be borrowed from funds acquired from the Tobacco Settlement.

Tobacco producers would continue to vote in triennial referenda to determine if the Corporation's tobacco program would continue. The USDA would provide information necessary to the Tobacco Corporation to initially establish the licenses for tobacco producers. The Tobacco Corporation could contract with traditional tobacco loan associations to help administer the privatized tobacco program to producers or with any other group of producers as deemed appropriate by the Board of Directors.

IMPACTS:

Production - Tobacco would continue to be grown in traditional growing regions. However, as price supports were lowered, production would increase.

Prices - Prices to producers would decline over a set number of years until the U.S. market price for tobacco is comparable to world tobacco market prices. Market transition payments would be made to producers over a set number of years during the period necessary to meet world market prices as determined by the Corporation.

Regional Impact - The distribution of production in growing areas would likely change. As prices fall it is likely that less efficient producers would be forced out of business. Flue-cured production would move out of the piedmont to coastal areas and burley production would become more concentrated in central Kentucky.

Rent/Lease Costs - Rental and lease costs would be eliminated.

Operating Unit - Size of operating units would initially remain relatively stable since licenses would be issued to current producers who have been renting or leasing quota from various quota owners. Then, as exports grow, the average size of operating units would increase.

Trade - U.S. leaf exports would increase and imports would decline as manufacturers switched back to U.S. leaf. The magnitude of the trade changes would depend on the amount farm level prices dropped. However, production in Canada, Zimbabwe, Malawi, Argentina, and Brazil would be affected. The Corporation could be considered a State Trading Enterprise such as those which the U.S. is trying to dismantle under the WTO. Also price support and income support (depending on how they are constructed) could be subject to WTO challenge.

Government Involvement - None from USDA after the initial transition, except to the extent of government involvement in administration of the program by the Corporation. This option has many potential legal problems as it would appear to involve delegating governmental functions to a private group and possible violation of the U.S. Constitution. It is difficult to perceive how the private Corporation would, without an infrastructure or police force, monitor nationwide tobacco production. Furthermore, the system would appear to necessarily involve some continued government oversight which would seem to lead to the conclusion that the option would simply continue the current program in a new, but less effective manner.

Total Cost of Option - Estimated at $20 billion over a several year period.

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2/4/98

VARIOUS TOBACCO BILLS

TOPIC	S. 1310 (Ford) S. 1414, Title IX (McCain)	S. 1313 (Lugar)
Short Title	Long-Term Economic Assistance for Farmers (LEAF) Act	Tobacco Transition Act
Funding	Tobacco Community Revitalization Trust Fund of $28.5 billion. Monies come from settlement funds collected from tobacco manufacturers and importers. [Sec 101-102, Sec 911-912]	Tobacco Transition Account, within the National Tobacco Settlement Trust Fund, funded at $15 billion. [Sec 101, 301]
Farmer compensation	Payments to quota owners (up to $8/lb) and tenants for production losses from baseline levels (totaling about $15.8 billion). Quota and no-net-cost price support loan programs maintained with some technical changes. [Sec 201, Sec 921]	Quota owner buyout ($8/lb) and tenant compensation ($1.20/lb) (totaling about $14.7 billion with 100% participation). Mandatory end to quota program and 3-year phase out of price support loan program. [Sec 102-105, 201-202, 211]
Other USDA tobacco activities	All costs for extension services, crop insurance, loan program administration, leaf grading and inspection, and other activities associated with tobacco production will be paid from Trust Fund (totaling about $2.5 billion). [Sec 202, Sec 922]	No provision
Community & Worker Economic Assistance	•Annual economic development grants of $300-350 million for 25 years (totaling $8.3 billion). [Sec 203, Sec 923] •Assistance for displaced industry workers (not more than $500 million). [Sec 301, Sec 931] •Higher education grants for tobacco farm families ($1.4 billion). [Sec 302, Sec 932]	Annual community economic development grants for 3 years (totaling $300 million). [Sec. 111]
Immunity Provisions	Agriculture sector immune to lack of manufacturer compliance with national settlement legislation. [Sec 401, Sec 941]	No provision

VARIOUS TOBACCO BILLS

TOPIC	S. 1492, Title IV (Kennedy) H.R. 3028, Title IV (DeLauro)	S. 1530, Title VIII (Hatch)
Short Title	Tobacco Market Transition Assistance	Tobacco Transition Act
Funding	Trust Fund (with monies from higher excise taxes) expected to spend $13 billion on farmers and rural development. [Sec 101, subsection 2815]	Tobacco Transition Account of $16 billion. [Sec 101, 811, 841-842]
Farmer compensation	Quota buyout offer to owners ($4/lb), and lessee compensation offer ($4/lb) ($9.2 billion exposure with 100% participation). [Sec 411-414]	Quota owner buyout ($8/lb) and tenant compensation ($1.20/lb) (totaling about $14.7 billion with 100% participation). Mandatory end to quota program and 3-year phase out of price support loan program. [Sec 812-814]
Other USDA tobacco activities	No provision	No provision
Community & Worker Economic Assistance	Annual community economic development grants for 3 years (totaling $3.8 billion). [Sec 431]	•Annual community economic development grants for 3 years (totaling $300 million). [Sec. 821] •Assistance for displaced industry workers (not more than $500 million). [Sec 816] •Education grants for farm families (about $1.4 billion). [Sec 817]
Immunity Provisions	No provision	No provision

VARIOUS TOBACCO BILLS

TOPIC	S. (Robb)	
Short Title	Tobacco Market Transition Act	
Funding	Tobacco Community Revitalization Trust Fund funded by amounts from any national tobacco settlement legislation.	
Farmer compensation	Quota owner buyout ($8/lb) and transition payments for active tobacco producers ($2 per pound paid over 5 years). Provides for Tobacco Farmer Individual Retirement Accounts.	
Other USDA tobacco activities	After initial startup of privatized corporation - minimal USDA involvement.	
Community & Worker Economic Assistance	Tobacco Community Economic Development Grants of up to $250 million for each of the FYs 1999-2003, plus to be determined amounts for FYs 2004-2023	
Immunity Provisions	No provision	

Congressional Research Service and
Tobacco and Peanuts Division - FSA - USDA
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5 - Privatized Program
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total $25 to $30 billion.

tobacco Farmers USDA

TOBACCO PROGRAM OPTIONS
(Impacts Compared with Pre-Tobacco Settlement)

TOPIC	Opt.1 - Current Program - Minimal Change	Opt. 2- Current Program - Substantial Changes	Opt. 3 - Income Maintenance Program	Opt. 4 - Quota Buy-out - No Program	Op
Production	Decline by one-third over 10 years.	Increase and move to more efficient areas.	Decline by one-third over 10 years.	Increase and move to more efficient areas.	Wo are
Prices	Decline slightly.	Would decline.	Decline slightly.	Would decline to near world prices.	Wo pric
Regional Impact	Unchanged	Some shift to more efficient producing areas.	Unchanged.	Distribution of production could change considerably.	Lar
Rent/Lease Costs	Decline slightly per lb. Total quota value declines significantly.	Cost would decline as would quota owner's income.	Decline slightly per lb. Total quota value declines significantly.	Quota rent would be eliminated.	Quo
Operating Unit	Unchanged.	Size would increase considerably and many small and minority farmers would stop production.	Unchanged.	Increase significantly with many small and minority farmers ceasing production.	Siz gro sma Opt
Trade Level/ Policy	Unchanged.	Exports would increase, imports would decline.	Unchanged. Could have WTO implications.	Exports up- imports down. WTO implications possible.	Exp WT
USDA Involvement	Remain the same. USDA's Adm. Cost could be covered.	Unchanged - USDA's Adm. Cost covered.	Remain the same.	Largely phased out.	Lar
Cost	$43.4 million in FY 98, if Adm. Cost covered.	$43.4 million for FY 98.	$43.4 million for FY 98. Income maintenance could total $1 billion annually.	Could total $25 to $30 billion.	Cou

Note: All costs are assumed to be covered by increased cigarette taxes or Tobacco Settlement funds. s:\director\fo_draft\side.by.side

To: Tom Freedman
213 0808

From
Barbara Woolley

121 0808

Risk Management and Specialty Crops Subcommittee Hearing
February 3, 1998

- Major issues included:
  - -- The settlement is not adequate without more attention to its impacts on producers and compensation for producers and quota holders.
  - -- There is lack of consensus relative to the kind of compensation package needed. Although there is much variation of opinion, it appears that burley stakeholders generally favor an income maintenance program similar to the Ford Bill, Virginia and North Carolina flue-cured producers favor a privatized program similar to the Robb Bill and Georgia producers favor compensation for lost quota continuation of a supply control program.
  - -- There is much concern and uncertainty among tobacco growers and quota holders relative to future U. S. production prospects. Flue-cured producers cite the 20 percent decline in effective quota for 1998 (17 percent in basic quota), the large loan receipts for 1997 and the potential this has for future production levels. Producers had hoped to continue flue-cured production at around the 1 billion pound level, and had apparently invested in barns and equipment to produce this amount of flue-cured tobacco. Burley producers are concerned about the dependability of tobacco as a source of income in the future.
  - -- A central theme was the importance of tobacco on farms in States such as Kentucky, Tennessee, Georgia, Virginia and South Carolina.
  - -- There was a major concern that this may be the only chance tobacco farmers

have to receive compensation for current tobacco quota. There is a concern that producers may lose both the program and compensation.

-- There was a concern relative to community impacts of lost tobacco production and the need for economic and educational assistance to soften the impact.

-- There was also a concern about taxation of buyout or income maintenance monies.

- Positions of Witnesses:

  -- Witnesses generally applauded the benefits of the tobacco price support production control program

  -- Although there appears to be a wide variety of opinions about how to help tobacco producers, quota holders and tobacco growing communities, there does seem to be a consensus that some type of economic assistance is crucial.

  -- Although there is no universal agreement, the burley State witnesses supported keeping the current program. The flue-cured witnesses favored compenation and a privatized program if the current program cannot be maintained.

- Criticism of Administration:

  -- Representatives Ron Lewis (Kentucky) and Saxby Chambliss (Georgia) stated that while the Administration has indicated it is in favor of a program or programs to help tobacco farmers, it has yet to develop a specific program.

THE WASHINGTON EXCHANGE

INFORMATION
ANALYSIS
INSIGHT

Vol. 5 No. 18
February 6, 1998

Noteworthy...

__Future Tobacco Hearings__:

[1] Senate Judiciary Committee [Chairman Orrin Hatch (R., Utah)] on February 10; no witness list yet posted.

[2] Senate Commerce Committee [Chairman John McCain (R., Arizona)] on February 24, a reprise of the 5 tobacco CEOs.

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THE EXCHANGE LETTER

Updating Our Tobacco Concerns List

Ethan H. Siegal

I. Our Quick Spin Following The Judiciary Committee Hearing.

DOJ Sets The Stage. There is no getting around the fact that yesterday's move by the Clinton Administration's Department of Justice (DOJ), publicly embracing the immunity issue, with pro-consumer caveats, is a positive for the national settlement. The DOJ testimony was vital to reinject life into the tobacco deal, which was, and still is, languishing under the cloud of Campaign '98 reelection politics. That is self-evident from the mixed response from House Judiciary Committee Members. **For A Tobacco Industry Response.** Now, it is up to the tobacco industry to make a strong public move, beyond yesterday's testimony by Meyer Koplow who represents Phillip Morris. We are not so sure this will happen since the industry's strategy for enacting a comprehensive deal remains getting "it" done in the backroom. The industry fails to appreciate the current collective belief of many Members of the Congress, including longstanding Republican allies. That is, there must be a palpable shift in the perceived attitude of the general public who are reluctant to approve a deal for the tobacco industry while limiting the rights of affected consumers to sue the industry. Such a public shift in attitude will materialize only if there is a more strident and sophisticated mea culpa offered by the industry. **To Provide Clinton Cover To Move Forward.** Beyond yesterday's DOJ statement, it is unlikely there will be more action in the near-term on the part of the President Bill Clinton. The Administration's strategy continues to be not to get involved in specific details in order to keep all negotiating options open, but when the deal seems to be bogged down, they will make concessions and provide political cover to keep the legislative process alive. In the meantime, the ups and downs of "MonicaGate" which is sure to explode a couple of more times over the next few weeks will keep most of Washington away from any serious business, other than Iraq. **Which In Turn Could Provide The GOP Cover, Or Put Them On The Hot Seat.** Republicans remain worried that the whole tobacco issue could become a first tier campaign issue in numerous races and hurt the party's chances for consolidating their hold on the House and Senate. That remains to be seen. But one thing is certain, the GOP is not going to gamble on the issue and get tagged by the public as having been the primary sponsor of immunity for the tobacco industry. To a certain degree, Clinton has now removed that onus from the GOP. Yet, there is great distrust within the GOP that no matter what happens, they will look bad on the tobacco deal or whatever alternative might replace the deal; while Clinton [and collaterally the Dems], no matter what, will look good. "MonicaGate" as it has played out so far in public opinion polls reinforces this GOP thinking about Clinton's ability to bounce back and smell like a rose. Thus, even with the DOJ comments, the deal still faces dying a thousand deaths.

Our List Of Issues Of Concern: Adding The GOP & DOJ To Our Previous List. We thought this would be a good time to update our thinking on our list, first unveiled in '97. The issues by priority: **[1] Big Tobacco.** We believe it's time for a makeover in their lobby strategy. Daily, it gets more difficult to get a deal with immunity. **[2] Koop/Kessler.** Rumors continue to swirl that they may come out against any immunity for the industry. That would be a huge hurt since many Members are looking to hide behind a Koop/Kessler endorsement of a final deal. **[3] Leadership.** It remains lacking, but there is enough to keep the deal moving forward, sparked by the big pot of money. Senate honcho-man Don Nickles (R., Okla.) remains a loss leader for the deal. **[4] Clinton.** If he resigns or becomes totally impaired due to "MonicaGate," he would move to #1, but for now we believe he wants the comprehensive deal for legacy sake, money sake and policy sake. But he knows that if the deal fails he has got a great Campaign '98 issue for Congressional Dems if the GOP blocks a "Plan B" excise tax, FDA bill. **[5] GOP.** The GOP, especially in the House, is off of the pro-tobacco reservation with talk about just raising the cigarette excise tax in order to pay for various tax cuts. Part of this is political positioning against Dems who want to use a tobacco tax for new government expenditures. But, this GOP position could come back to haunt the tobacco industry. **[6] DOJ.** We believe that the DOJ investigation of the tobacco industry is a big problem, but that DOJ will not move forward with indictments as long as the Congress is still actively considering a comprehensive deal. Indictments would make it very hard for Members of Congress to support immunity of any kind. **[7] Tax Deductibility.** This issue remains benign but still could be the sleeper klunker once the Congressional tax committees get involved. **[8] IMF Bailout.** The bailout raises the visibility of "Inside The Beltway" favoritism for the powerful and that does not play well juxtaposed against providing immunity for Big Tobacco. ■

tobacco forward LW

Office of the Assistant Secretary for Health
Office of Public Health and Science
Department of Health and Human Services

200 Independence Ave, SW, Rm 716-G
Washington, DC 20201
Phone: 202.690.7694
Fax: 202.690.6960

FAX TRANSMISSION COVER SHEET

Date: 2-9-98

Please Deliver on Receipt!

To: Tom Friedman

Fax: 456-7431

Re: (See Attached)

From: Jim O'Hara

YOU SHOULD RECEIVE ___ PAGE(S), INCLUDING THIS COVER SHEET.
IF YOU DO NOT RECEIVE ALL PAGES, PLEASE CALL 202.690.7694.

Have a Healthy, Active Day!

Richmond Times-Dispatch

News Index
Feedback
Gateway Virginia

Saturday, February 7, 1998

Leaf firms propose aid to growers

BY PETER HARDIN
Times-Dispatch
Washington Correspondent

WASHINGTON — Philip Morris Cos. and three rival cigarette makers, seeking support for the proposed national tobacco settlement, yesterday floated an $11 billion, 25-year plan to help growers weather the expected drop in demand for tobacco.

J. Phil Carlton of North Carolina, a leading lawyer for the tobacco companies, said the plan was a "discussion draft" and not a specific proposal by the industry.

"The position of the companies is that the growers should come up with the plan that they want. . . . They have not reached a consensus. We hope they will. We hope this will
help them do that," Carlton said in a conference call with reporters.

The plan is less generous than a $28.5 billion approach sponsored by Sen. Wendell K. Ford, D-Ky., a $22.5 billion plan by Sen. Charles S. Robb, D-Va., or a $15 billion buyout bill by Senate Agriculture Committee Chairman Richard G. Lugar, R-Ind.

A Pittsylvania County tobacco grower, C.D. Bryant, called the draft plan woefully inadequate to meet growers' needs.

"I think this plan stinks to high heaven. I would never go for it," said Bryant, who is president of Concerned Friends for Tobacco, a political action committee.

The industry draft was circulated to more than 70 members of Congress in a letter by Carlton dated Thursday. It outlined principles that Carlton said could compensate quota holders and growers with $6.5 billion over 25 years.

In addition, the draft would allocate $1.8 billion to funding the government's tobacco program. It would pump $2.67 billion into economic aid for tobacco-dependent communities over 10 years.

Big Tobacco is battling to win approval in Congress of the $368.5 billion proposed settlement deal, which would give the companies broad legal protection in exchange for making multibillion-dollar payments and taking measures to cut youth smoking.

Leaders all the way up to President Clinton have pledged that tobacco growers must be protected if comprehensive legislation is passed.

Scott Ballin, a consultant to the National Center for Tobacco-Free Kids, considered the cigarette makers' draft as an effort to shore up support for the settlement.

"The companies really do need the farmers for political protection in all of this," Ballin said.

Arnold Hamm, assistant general manager of the Flue-Cured Tobacco Cooperative Stabilization Corporation, said it is strategically important to the tobacco companies "that the farmers be on the same page."

The draft for growers, Hamm said, reflected a serious attempt but failed to provide enough money for flue-cured growers to protect their future.

Concern over the growers arises because they were left out when the cigarette giants made the deal with 41 state attorneys general last year in an effort to block expensive litigation.

Robb has proposed ending the federal government's quota system and setting up a private, grower-run system to limit tobacco production. Robb also would buy out all existing quotas from owners. Sen. John W. Warner, R-Va., has signaled support for the Robb plan.

The News&Observer
Saturday
February 7, 1998

N.C. | NEXT STORY

Tobacco-support issue alarms farmers, leaders

This year will be a crucial one for tobacco farmers, Gov. Jim Hunt tells the growers' association.

By BOB WILLIAMS, Staff Writer

There was something quite different served up before the traditional barbecue lunch at the annual meeting of the state's tobacco growers in Raleigh on Friday -- a heaping helping of political and economic reality.

It was dished out by everyone from Gov. Jim Hunt to U.S. Rep. Bob Etheridge, from farm group leaders to agricultural economists.

The head of the growers' association went as far as to declare that the federal price support program for tobacco was probably broken beyond repair and might have to be abandoned.

Such talk would have been considered heresy at such grower meetings in the past, but this year it actually drew a standing ovation from the thousands of farmers that packed into the Holshouser Building at the state fairgrounds.

But unlike past grower meetings, this year's gathering was played against the backdrop of the proposed, $368 billion national tobacco settlement now under debate in Washington. Everyone was worried, from Hunt on down.

"I don't think there is any question that 1998 will be the toughest year the tobacco growers of North Carolina have ever faced," Hunt told the group. "In all sincerity, I believe this year will determine if there is a future for tobacco."

In the meantime, cigarette makers late Friday unveiled an $11 billion, 25-year draft plan to protect growers, quota holders and tobacco-dependent communities.

That plan will join a half-dozen similar ones now being circulated in Washington.

Among other things, it would include:

$2.67 billion over 10 years in block grants to help tobacco-dependent communities.

$1.82 billion over 25 years to cover the costs of continuing the federal price support program for tobacco.

$1.77 billion over 25 years to compensate tobacco growers who have to cut their production due to the settlement.

$4.77 billion over 25 years to buy out quota owners whose quotas are cut due to the settlement.

Back in Raleigh, Etheridge, a Lillington Democrat who represents the tobacco-rich 2nd Congressional District, said the industry has less support than ever in Washington -- and that growers were about the only sector of the tobacco industry still viewed with any sympathy by Congress.

"We've got one hell of a fight on our hands to make sure there is some kind of settlement and that growers and quota holders get some money and protection out of it," Etheridge said.

But the longtime head of the Tobacco Growers Association of North Carolina said he thought it might be possible for Congress to provide some protection for growers and quota holders even if a national settlement is not adopted.

"I believe Washington will come up with some money to help protect the growers and quota holders, settlement or no settlement," said Charles Harvey, the group's executive vice president. "We should go for the money first and worry about production controls later. I, for one, think we need to be prepared to let go of the program if that's necessary."

Preservation of the current tobacco program is at the heart of the plan floated by cigarette makers on Friday, according to Phil Carlton, a former N.C. Supreme Court justice who has been the cigarette manufacturers' lead negotiator on the proposed settlement.

Carlton stressed that the latest plan was "a discussion document," not an ironclad proposal by the cigarette makers.

He said the plan would be contingent on congressional approval of the original $368 billion settlement proposal worked out last June with 41 states that had sued the tobacco industry to recover their Medicaid costs for treating smokers.

Carlton said grower groups hadn't seen the latest plan yet.

"The position of the companies is that the growers should come up with the plan they want," said Carlton in a telephone interview from Washington on Friday. "We hope this will help them reach a consensus."

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

Tobacco Farmers

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

NOTE: These are suggested revisions from the Jan. 5, 1998 document which is being circulated for signatures. The changes are structural only - that is, no language has been deleted or removed or rearranged to change meaning. These organizational changes have been made to better define the intentions of those individuals and organizations who have played the major role in shaping the document.

In the spirit of cooperation and with a commitment towards reducing disease caused by tobacco products, as well as ensuring the future prosperity and stability of the American tobacco farmer, the tobacco farm family, and tobacco farming communities, the undersigned organizations and individuals call on the President of the United States, the Congress of the United States, and all States Attorneys General to commit to supporting and enacting effective tobacco legislation and policies that include the following points of agreement.

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

1. That a tobacco production control program which **limits supply** and which sets a **minimum purchase price** is in the best interest of the public health community and the tobacco producer community. A tobacco program provides stability to tobacco farmers and their communities, and elimination of ~~the~~ a program should not take place during the period in which the terms of any national legislative proposals are implemented. Should no national legislation occur, no changes should take place until after a thorough review of the program, with full participation in decision-making by tobacco producers, which ensures that adequate economic safeguards have been put in place to provide economic stability to producers and their communities. *From a harm reduction standpoint, it is in the best interest of the public health community to support enhanced assurance of quota stability for domestic production of tobacco. [Moved from #5 of public health issues to add emphasis on the program]*

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

3. That there be greater cooperation between the tobacco growing community and the public health community to ensure that quality control and health and safety standards are maintained in the production of tobacco *and that industry information and research should be made available for public review [language from #1 of public health issues added here for consistency]*, both domestically and abroad. Agencies with public health responsibility, including the Food and Drug Administration (whose authority over manufactured tobacco products **should not** extend to on-farm tobacco production), should work cooperatively through structures already in place in the Department of Agriculture and Environmental

Protection Agency so as **not** to extend any additional control and bureaucracy over the on-farm production of tobacco.

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

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

That on issues related to public health there is agreement:

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

2. That there should be strong complementary federal, state and local laws which guarantee that tobacco products are **not** marketed, advertised, sold or otherwise made available to anyone **under the age of 18**. *[numbers 2 and 3 were separated for increased emphasis]*

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

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

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

American Tobacco Grower

Most Misunderstood Group In America Today

A Perspective Report Compiled By
Concerned Friends For Tobacco
June 1997

Table of Contents

CONCERNED FRIENDS FOR TOBACCO

Concerned Friends For Tobacco is a grassroots organization comprised of growers, businesses, and friends who understand and appreciate the significance of tobacco to the economic well-being of rural communities which depend heavily upon tobacco production.

CFFT, in the beginning, set as a primary objective education as to who the American tobacco grower is and why we grow this commodity some people so love to hate.

We, as an organization, have been involved in round table discussions with health advocates from the onset of such talks. CFFT has approached these discussions with cautious optimism as an opportunity to present the grower's perspective with the hopes of reaching common ground and the promise to search for higher ground.

CFFT, feels we have made some inroads with the health community and at last some of this community understand that solutions should be met to protect tobacco communities.

CFFT is concerned about any legislation which is offered that serves to be detrimental to rural tobacco communities. For this reason we rise in strong opposition to House Bill H.R. 1438 and Senate Bill S.643, which prohibit the Federal Government from providing Crop Insurance for tobacco growers.

Although this packet is directed with arguments toward keeping crop insurance in place for tobacco growers, most of the arguments can be used against any legislation which adversely affects tobacco grower families and communities.

In our argument we will attempt to be brief with hopes of an opportunity to expound when that occasion arises. Should you have questions or comments please direct them to our Secretary, J.T. Davis, by phone at 1-800-248-5480 or by mail at 1110 Indian Jim Trail Nathalie, VA 24577.

First and foremost, we think it is most important to address the term tobacco subsidy. Monies provided to assist the farmer and premium payment is a farmer, or people subsidy, and <u>not a tobacco subsidy</u>. It is the same for all crops serviced in the program. The sole purpose of this subsidy is to help keep the farming operation viable. It does nothing to enhance the production of tobacco as that is already set and controlled by the current quota program.

We think the ramifications of this act is more far-reaching than can be imagined by the ones who put together and support this legislation.

Dr. Wayne D. Purcell, who coordinates the Rural Economics Analysis Program, Virginia Tech and is a professor of Agricultural Economics, explains that tobacco issues from the grower prospective are <u>PEOPLE</u> issues. If we keep this foremost in mind we think the focus is clearer.

Tobacco From the Grower Perspective...

... is the fuel which fires the economic engine in rural communities which depend heavily on tobacco.

Quite simply tobacco "pays the bills" and maintains the physical well-being of our communities.

The American tobacco grower is not a threat to society as so many believe.

To annihilate the American grower will not prevent one cigarette from being manufactured. Elimination of the American grower will only destroy the economic and social well-being of rural communities.

We are not part of the problem and can actually be viewed as part of the solution, particularly when it comes to youth access.

Proposed legislation to eliminate crop insurance eligibility for tobacco farmers serves to undermine the estimated 125,000+ family farms which depend on tobacco production to survive.

This packet contains a number of facts and articles which we think are pertinent and valuable in touting our cause in maintaining crop insurance for tobacco.

Crop insurance serves as the only safety net now available to protect so many family farming operations and along with it communities as a whole.

CROP INSURANCE PLAYS AN EVEN GREATER PART IN THE CONTINUATION OF A FARMING OPERATION NOW THAT AD HOC DISASTER ASSISTANCE IS NO LONGER AVAILABLE.

Coupled with volatile weather patterns, this creates a renewed urgency for the program.

Removal of crop insurance for tobacco puts all tobacco growers, large and small, in jeopardy. Tobacco farms are family farms and according to 1992 census data there were 124,270 in 18 + states.

This proposed legislation proves to be double jeopardy for the Black[1] tobacco farmer.

MINORITY FARMERS

Black farmers have been in the news of recent registering charges of discrimination against USDA. They are saying that discrimination is a cause for declining Black farmers.

Black farmers are part of a group of farmers defined as socially disadvantaged. Under the Food, Agriculture, Conservation and Trade Act of 1990 the Secretary of Agriculture "...shall provide outreach and technical assistance to encourage and assist socially disadvantaged farmers and ranchers to own and operate farms and ranches and to participate in agricultural programs."

Approximately 90% of the 18,800 Black farmers are in the South. Black farmers constitute a large portion, approximately 60%, of all minority farmers. Tobacco, corn, & soybeans are the most frequently grown crops on farms operated by Blacks.

Tobacco accounts for half or more of total farm sales on nearly one-third of Black operated farms in the Raleigh Service Region of the Risk Management Authority.

How important is crop insurance to the socially disadvantaged farmer? According to USDA data in 1989 26.7% of Black operators participated in disaster payments (see enclosures). As you are aware as a result of the 1994 Crop Insurance Reform Act, disaster payments no longer exist. Crop insurance has taken its place.

Efforts have been made by the RMA to increase the awareness and participation of minority farmers in crop insurance programs (see enclosures).

Black farm operators are on average older than all farm operators. Nearly 40% of Black farm operators are 65 years or older. Even more striking is the lack of young Black operators. Only 5% of Black farm operators are younger than 35 years.

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[1]The Census of Agriculture uses the term Black to refer to this minority group. For simplicity in referencing data we will use this term throughout this document.

UNITED STATES DEPARTMENT OF A ULT

FARM SERVICE AG Y

PITTSYLVANIA COUNTY FSA OFFICE
P. O. K 400, CHATHAM, VA 24531
(804) 432-8486 FAX (804) 432-0640

April 28, 1997

TO: Mr. J. T. Davis

FROM: Joseph D. Edwards
Ag Credit Mgr., Chatham, VA

Joe Edwards

SUBJECT: FCIC and FSA loans

The regulations on Catastrophic Risk Protection insurance requirements was revised on March 24,1997 The regulations now require an applicant to obtain at least the CAT level of coverage no later than loan closing for each crop of economic significance, as defined by the Federal Crop Insurance Corporation or by waiving eligibility for emergency crop loss assistance for the uninsured crop. FSA emergency loans (EM) are not considered emergency crop loss assistance for the purpose of the crop insurance waiver.

Under the previous FmHA regulations crop insurance was not required but was highly encouraged due to the fact that it was considered a good management tool to use.

Participation in using FCIC insurance coverage has been very high over the years by the individuals obtaining annual production loans. We have encouraged our farm borrowers to obtain crop insurance as a risk management tool.

Our present farm loan population (Pittsylvania, Halifax and Charlotte Counties) broken down by race is 75% white and 25% minority.

If further information is needed concerning FSA loan requirements, please give me a call.

*PLEASE NOTE: PITTSYLVANIA, HALIFAX, & CHARLOTTE COUNTY ARE 1ST, 2ND, & 6TH, RESPECTIVELY IN TOBACCO PRODUCTION IN VIRGINIA.

Table 1 –Distribution of participation in selected Federal agricultural programs, by race, 1989

Program	All participants	Black participants			White participants		
		Black operators		All participants	White operators		All participants
	Number	Number	—Percent—		Number	— Percent—	
Agriculture Conservation Program							
Cost share	118,764	1,088	4.7	0.9	105,231	5.2	88.6
Conservation Reserve Program	66,496	499	2.2	0.8	60,824	3.0	91.5
Forestry Incentives Program	5,324	45	0.2	0.9	4,693	0.2	89.7
Deficiency payments	1,390,201	7,071	30.8	0.5	1,379,916	67.5	99.3
Disaster payments	382,610	6,140	26.7	1.6	350,763	17.2	91.6
Emergency feed assistance	29,312	37	0.2	0.1	25,541	1.2	83.7

Note: Total black operators = 22,980; Total white operators = 2,043,119.

Source: Jones, Hezekiah. "Federal Agricultural Policies: Do Black Farm Operators Benefit?" *The Review of Black Political Economy*. Spring 1994. Vol. 22. No. 4 p 47. (Data for table obtained from U.S. Department of Agriculture, Agricultural Stabilization and Conservation Service and National Agricultural Statistics Service.

MINORITY FARMERS (CONTD.)

Black farmers take great pride in their farming operations with many overcoming great obstacles to secure their farms. If programs are not in place to protect these farmers and encourage young Black farmers to take over the family farms then they are surely an endangered species. Crop insurance for the Black farmer, both young and old, will be a crucial risk management tool for the survival of his family farm.

To further shore up the position of the Black tobacco farmer we have included an article which appeared in the May/June 1997 issue of Co-operative Farmer. This article, *Learning to Manage*, centers on Black tobacco farmers and their plight.

We had an opportunity recently to talk with Cliff Somerville who is featured in this article. Mr. Somerville works with socially disadvantaged farmers in an effort to help them hone their management skills. Mr. Somerville cited an example of a Black farmer who would have lost his farming operation last year if it had not been for crop insurance. His comments went further in saying that without the crop insurance program for tobacco it would only be a matter of time until disaster strikes and some of the farmers he deals with will lose their farms.

There is a saying that the road to hell is paved with good intentions. This intended act to eliminate crop insurance for tobacco farmers will be a road to hell for many Black farmers.

We might add there is another group of socially disadvantaged farmers who will be adversely affected, that group being the American Indians. There are 600 American Indian farmers in North Carolina, many of whom specialize in tobacco.

LIMITED RESOURCE FARMERS

Another segment this act disproportionately affects is the Limited Resource Farmer[2]. Limited Resource Farmers are defined by RMA as farm operators having less than $20,000 income from all sources in the previous two years.

The chart provided on the next page should be an eye-opener as the top four states, Kentucky, Tennessee, Virginia, and North Carolina are also the top four tobacco producing states.

Proposed legislation serves to hurt an destroy family farms of the group of farmers at greatest risk.

A significant number of these farmers are tobacco growers in Appalachia.

Appalachia continues to be a poverty stricken area of this country as displayed in attached exhibits. In Southern Appalachia poverty levels tend to exceed 15% with recent statistics showing average incomes for a family of four people to be $12,700. Tobacco production for many of these is their way of life.

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[2]Limited Resource Farmer data and statistics from Economic Research Service/USDA document 733A unless otherwise noted.

Limited Resource Farmer (contd.)

Agriculture Secretary Dan Glickman in a recent news release stated, "I am determined that everyone will have access to crop insurance – large farmers and small farmers alike, especially those with limited resources, minorities, and producers in all areas of the country."[3]

We would like to hi-light certain statistics again:

1. Limited Resource Farmers – The top four tobacco producing states are also the top four ranking states of limited resource farmers.

2. Minorities – 90% of Black farmers, 18,800 in number, are located in the South. Tobacco accounts for more than 50% of farm sales on nearly one-third of Black operated farms in the RMA Raleigh Service Region.

3. There are approximately 600 American Indian farm operators in North Carolina, many of whom specialize in tobacco.

4. A substantial number of small tobacco growers are located in poverty stricken Appalachia.

5. In Halifax County, 52% of tobacco quota holders are women.

Should legislation move forward which would eliminate crop insurance for tobacco farmers then Secretary Glickman's support for these farmers would bring about an uprising which would have serious negative political connotations.

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[3]USDA News Bulletin, May 23, 1997

Table 2—Catastrophic coverage with administrative fee waivers due to limited resources, by State, ranked by liability, 1995

State	Policies	Net acres	Total premium	Liability	Indemnities payable
	Number	*Acres*	----------------	*Dollars*	----------------
Kentucky	8,140	19,775	194,406	8,635,997	1,005
Tennessee	4,093	13,075	185,603	5,431,007	3,065
Virginia	1,141	13,755	75,421	2,026,927	928
North Carolina	1,377	3,929	51,777	1,299,758	4,256
Arkansas	1,205	32,484	140,328	1,208,542	2,376
Ohio	959	6,088	30,841	713,785	201
Kansas	637	15,986	35,445	666,035	20,862
Illinois	1,339	9,719	25,863	452,610	3,720
Missouri	1,024	12,276	53,807	450,738	5,801
Indiana	566	5,369	15,922	421,657	1,227
Mississippi	487	6,720	36,122	345,471	3,192
Nebraska	446	7,620	16,469	331,925	3,305
Michigan	400	4,591	16,874	240,298	55
South Dakota	169	7,472	22,097	227,203	11,930
Texas	617	7,619	28,511	224,886	4,990
Oklahoma	300	7,390	16,461	198,472	8,071
Iowa	59	2,582	5,395	185,101	2,390
West Virginia	212	340	12,351	176,864	0
Georgia	49	1,115	9,766	171,130	168
Washington	96	4,667	5,194	159,823	0
Louisiana	388	1,945	12,667	157,391	61
Colorado	113	4,347	11,684	149,073	3,837
Pennsylvania	77	2,508	7,213	123,095	0
Idaho	46	1,306	3,226	87,828	0
Wisconsin	93	1,519	6,913	84,954	1,156
California	11	276	2,078	77,908	0
Vermont	5	717	2,613	48,516	0
South Carolina	65	954	5,429	36,502	9,310
Minnesota	61	1,109	3,633	35,780	761
North Dakota	74	1,960	3,663	35,755	1,220
Alabama	104	902	3,510	30,617	507
Utah	12	1,021	1,647	24,871	737
Florida	30	213	1,309	20,326	0
New York	24	521	1,479	18,483	0
Montana	15	560	958	13,165	49
Oregon	37	350	964	12,579	0
Delaware	3	71	137	3,805	0
Wyoming	4	43	153	2,891	0
Maryland	2	6	80	2,568	0
Maine	2	9	65	2,303	0
Alaska	0	0	0	0	0
Arizona	0	0	0	0	0
New Mexico	0	0	0	0	0
Total	24,482	202,899	1,048,074	24,536,639	95,180

Source: Compiled by U.S. Department of Agriculture, Economic Research Service based on data from the Actuarial Branch, Information Unit, Federal Crop Insurance Corporation, November 27, 1995. Correction to California data made by Sacramento Regional Service Office, January 29, 1996.

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To: JT Davis

Organization:

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Number of Pages Including This Page: 2

From: John Sheeley

Date: May 27, 1997

Faxed By: kc

Original document will be mailed: No

Message: Attached is data about limited resource tobacco farmers. As you can see, 17.7% of KY tobacco farmers are limited resource, 16.52 of NC tobacco farmers are LR, 19.36% of TN tobacco policyholders; 18.16% of VA, and 28.18% of WV. You can look to Ag Outlook article you have for definition of limited resource and general characteristics. Statistics on minorities is not available. Probably will be following the 1998 crop year since you as an agent will begin collecting!! I will be in office tomorrow afternoon to the best of my knowledge.

USDA photo by Bob Nichols

Limited-Resource Farmers: Their Risk Management Needs

The risks of crop loss and price declines have long been facts of life in agricultural production. Recent changes in Federal programs have focused attention on the need for U.S. farmers to manage these risks and to examine available risk management options more closely.

USDA's Economic Research Service (ERS) has been working with the Department's Risk Management Agency (RMA) to improve RMA's products and expand its outreach efforts aimed at limited-resource farmers. One RMA product, multi-peril crop insurance (MPCI), has been commonly used by farmers as a risk management tool. While MPCI is sold to farmers primarily by private insurance agents, RMA develops the policies and the underwriting terms, and provides subsidization and reinsurance. As a result, RMA has an interest in knowing how MPCI has been serving the needs of limited-resource farmers.

Using data from USDA's Farm Costs and Returns Survey (FCRS) and from the Census of Agriculture, which provide information on individual farms and on the principal operator of each farm, ERS identified characteristics of socially disadvantaged, small, and limited-opportunity farm operators. The two agencies also examined such farmers' interest in and use of various risk management programs, particularly Federal crop insurance. In both the Census and FCRS, the principal operator of a farm may be the owner, a tenant, or a hired manager.

Results of the research indicate that socially disadvantaged, small, and limited-opportunity operators tend not to purchase crop insurance nor to participate in insurance-type programs operated by USDA. This article traces the reasons behind lack of use of these risk management tools by limited-resource farmers.

Who Are the Limited-Resource Farmers?

Limited-resource farmers are defined by RMA as farm operators having less than $20,000 in income from all sources in the previous 2 years. While not all socially disadvantaged and small farms fall into this income category, the term "limited resource" loosely refers to these types of farms as well as to limited-opportunity farm households.

A socially disadvantaged group is defined by the 1987 Equal Credit Opportunity Act as one whose members have been subjected to racial, ethnic, or other forms of prejudice because of their membership in the group. USDA defines women, African Americans, American Indians and Alaskan Natives (Native Americans), Asians and Pacific Islanders, and Hispanics as ***socially disadvantaged groups***. Data presented on these groups were obtained from the 1992 Census of Agriculture.

Except for women, socially disadvantaged farmers tend to be concentrated in particular regions of the U.S. Approximately 90 percent of the 18,800 African American-operated farms are in the South. In two southern states—South Carolina and Mississippi—African American-operated farms account for 8-9 percent of all farms, compared with 1 percent of all farms nationwide. Most (81 percent) of the 8,300 American Indian-operated farms identified in the Census of Agriculture are west of the Mississippi River. North Carolina, however, has 600 American Indian operators, many of whom specialize in tobacco.

Of the 8,100 Asian/Pacific Islander-operated farms, most (79 percent) are in California and Hawaii, and most of the 21,000 Hispanic-operated farms (72 percent) are in California, Colorado, Florida, New Mexico, and Texas. The 1992 Census of Agriculture identifies about 145,000 farms (8 percent of all U.S. farms) with women as their principal operators, and these are distributed throughout the U.S.

Older operators are more common among farmers in certain socially disadvantaged groups than among the U.S. farm population in general. African American and female operators tend to be older, with at least 36 percent of each of these groups at least 65 years old, compared with 25 percent of all farm operators.

Small, full-time farms were also identified using 1992 Census of Agriculture data. The small, full-time farm designation is based on three criteria: sales of agricultural products were less than $20,000; principal occupation of the operator was farmer or rancher; and the operator worked less than 50 days of the year off the farm. About 350,000 farms fit this definition. Financial data other than sales (e.g., off-farm income) cannot be used as a definitional criteria in the Census.

As with socially disadvantaged farmers, small farms are often associated with age. According to the Census, nearly 60 percent of the operators of small full-time farms were 65 years old or older in 1992.

Limited-opportunity farm households are defined by economic criteria, which include off-farm income and other related financial information. The data source for this definition is USDA's 1992 FCRS. Limited-opportunity farm households exhibit three characteristics: gross household income of less than $20,000; farm sales of less than $100,000; and farm asset value of less than $150,000. In 1992, there were about 185,000 limited-

Farm & Rural Communities

Livestock Is the Key Commodity on Most Socially Disadvantaged and Small Farms

Farm category	Farm type*		Type of crop farm*		
	Livestock	Crop	Cash grains	Vegetables & melons	Fruit & tree nuts
			Percent of farms		
Socially disadvantaged					
African American	58.6	41.4	13.3	3.7	2.0
Native American	70.7	29.3	8.8	1.3	3.9
Asian/Pacific Islander	15.9	84.1	4.5	14.6	16.6
Hispanic	56.4	43.6	6.7	4.7	15.3
Women	62.5	37.5	10.3	1.5	6.2
Small	59.9	40.1	14.9	1.7	4.4
All U.S. farms	55.2	44.8	21.0	1.5	4.6

*At least 50 percent of a farm's total value of sales comes from the specified commodity.
Source: 1992 Census of Agriculture, U.S. Department of Commerce.
Economic Research Service, USDA

opportunity farm households in the U.S. (out of 2.1 million total farms). Although these farms were less geographically concentrated than the farms of socially disadvantaged groups, 60 percent were in the South.

Livestock Dominates Production

Farms operated by members of socially disadvantaged groups and limited-opportunity households are more likely than farms in general to depend on livestock production. Although most socially disadvantaged farm operators harvest cropland, crops generally provide a smaller share of their farm income than livestock, a sector that government-sponsored insurance programs do not cover. Livestock for these operators frequently means beef cattle, which often have relatively flexible labor requirements that can combine well with an off-farm job or provide a supplement to retirement income.

More than 70 percent of farms operated by Native Americans obtained half or more of their total sales from livestock, as did more than 60 percent of farms operated by women and more than 50 percent of farms operated by both African Americans and Hispanics. Among limited-opportunity farms, crop sales accounted for only 30 percent of the gross farm income, compared with more than 40 percent for all farms.

An exception to the livestock "rule" are farms operated by Asians/Pacific Islanders. More than 80 percent of Asian/Pacific Islander farms derived at least half of total sales from crops. In addition, many of these farmers, as well as other socially disadvantaged groups who raise crops, concentrate on specialty crops such as fruits and vegetables. Although Federal insurance is available for most fruit and nut crops in selected areas, many vegetables, as well as livestock, are not yet covered by Federal insurance programs.

The types of crops harvested by socially disadvantaged farmers, and therefore the extent to which these farmers may be covered by crop insurance, depends to a great extent on where socially disadvantaged groups are geographically concentrated. Tobacco, for example, is grown primarily in the upper South, where many African American-operated farms are concentrated. Since tobacco is eligible for crop insurance, these socially disadvantaged farmers may be covered. According to the 1992 Census of Agriculture, tobacco accounts for half or more of total farm sales on nearly one-third of African American-operated farms in the RMA Raleigh service region (the east coast states from North Carolina to Maine).

Hay, on the other hand, associated with livestock farming, is the most commonly harvested crop on farms operated by Native Americans and Hispanics. Almost all land farmed by Native Americans, most of which is used for grazing, is in RMA's Oklahoma City (Southern Plains) and Billings (Northern Plains) regions, where many large reservations are located. Almost half of all Hispanic-operated farms are also located in the Oklahoma City (Southern Plains) region, which includes traditional Hispanic farming and ranching areas in New Mexico and Texas.

RMA's Group Risk Plan (GRP) crop insurance for forage has so far been available only in selected counties in the Lake States and Northern Plains. RMA plans a significant expansion of GRP crop insurance for forage in 1998. GRP benefits are based on variations in county-level yields. An individual-yield forage policy is also widely available under the Federal crop insurance program. The RMA regional service offices have considerable discretion in deciding the types of forage covered under the individual-yield and GRP policies, although alfalfa and alfalfa mixes are the primary types covered in many areas.

Most Asian/Pacific Islander farms are in California and Hawaii, areas where significant acreage is planted to fruits and vegetables. According to the 1992 Census of Agriculture, nearly 60 percent of the Asian/Pacific Islander-operated farms in RMA's Sacramento region (California, Hawaii, Arizona, Nevada, and Utah) grew fruits, nuts, or berries.

The Sacramento region also contains about 20 percent of all Hispanic-operated farms, and slightly more than half of these farms grew fruits, nuts, or berries. Nearly half (48 percent) of these Hispanic farmers obtained most of their sales from fruit and tree nuts.

While farms operated by women are geographically distributed much like all U.S. farms, they obtained a smaller portion of their income from crop production than all farms. Just 63 percent of farms operated by women harvested some cropland, compared with 78 percent of all farms, and only 38 percent of female-operated farms obtained half or more of their sales from crops, compared with 45 percent of all farms.

ECONOMIC IMPACT OF TOBACCO ON RURAL COMMUNITIES

We have selected Halifax County Virginia as an example of a rural area heavily dependent on tobacco.

Halifax County, Virginia is the 4th largest county in the state of Virginia, with a population of 36,030 (1990 census data). In 1994 sales from tobacco production amounted to $31,674,000 or approximately 92.3% of total crop cash receipts. Using an economic impact figure of 5 times the 1994 sales figures converts into $158,370,000 which, of course, carries a major impact on Halifax and surrounding counties. This figure may be somewhat conservative as 'tobacco dollars' tend to stay and circulate in the local economies.

Given the fact Halifax County as of February '97 has a 13.1% unemployment rate, removal of this income would devastate such an economy, rendering plummeting farm values along the way. Most recent figures supplied by the Commissioner of Revenue shows taxes generated annually on farm land at $1,233,491 with an assessed value of $324,603,300. An entire economic system would suffer collapse with removal of this revenue and tax base.

ECONOMIC IMPACT OF TOBACCO AS A WHOLE IN ALL GROWING REGIONS.

The enclosed graph shows tobacco sale receipts for all types 1987-'96.

Average sales for '92-96 for grower sales averaged $2.74 billion annually with an economic impact factor of $13.7 billion of monies pumped into tobacco communities by the grower sector.

What does a 100 acre tobacco producer mean to the local economy? A 100 acre producer will generate in sales an estimated $450,000. Using an economic impact factor of 5, this figure converts to $2.25 million impact this single 100 acre grower has on the community.

Halifax

1992 Census Data:							
	No. Farms	Acres in Farms	Harvested Cropland	Cash Receipts ($1000) Crops	Livestock	Total	Rank
	1,042	232,857	36,371	28,371	5,021	33,393	14

Crops: 1994	Harvested Acres	Yield	Production	Rank
Corn for grain, Bu	2,900	80.0	232,000	42
Corn for silage, Tn	800	15.0	13,500	40
Soybeans, Bu	2,700	33.0	122,100	34
Wheat for grain, Bu	5,700	41.0	233,700	22
Barley for grain, Bu	*	*	*	*
All Hay, Tn	17,000	1.8	30,000	34
Alfalfa Hay, Tn	1,600	2.5	4,000	33
Other Hay, Tn	15,400	1.7	26,000	32
Flue-Cured Tobacco, Lbs	7,280	2,310.0	16,831,000	2
Burley Tobacco, Lbs	*	*	*	*
Fire-Cured Tobacco, Lbs	115	1,790.0	206,000	4
Sun-Cured Tobacco, Lbs	*	*	*	*
Peanuts, Lbs	*	*	*	*
Cotton, Lbs and Bales	*	*	*	*
Apples, 42# box, Thousand	*	*	*	*
Livestock		**Number**		**Rank**
As of January 1, 1995				
All Cattle and Calves		22,000		30
Beef Cattle		12,500		26
Milk Cows		600		44
All Sheep & Lambs		*		*

*None or no estimate available

Table 31—Cash receipts from farm marketings and tobacco, 1987-96

Period	Cash receipts				Tobacco as a percentage of	
	Livestock and products	All crops	Total farm	Tobacco	All crops	Total cash receipts
	Million dollars				Percent	
1987	75,996	65,800	141,797	1,816	2.76	1.28
1988	79,640	71,603	151,243	2,069	2.89	1.37
1989	83,918	76,892	160,810	2,410	3.13	1.50
1990	89,193	80,256	169,449	2,733	3.41	1.61
1991	85,750	82,001	167,751	2,881	3.51	1.72
1992	85,596	85,662	171,346	2,962	3.46	1.73
1993	90,036	87,102	177,617	2,949	3.39	1.66
1994	88,107	91,562	180,775	2,645	2.89	1.46
1995	86,844	98,906	185,750	2,594	2.62	1.40
1996 1/	90,474	107,918	198,392	2,548	2.36	1.28

1/ Preliminary. Calendar year sales.

COSTS EXPERIENCED BY THE GROWER ARE SIGNIFICANT

(See enclosure)

Average costs to produce 1 acre of flue-cured tobacco from seed to warehouse, considering variable and fixed costs amounts to approximately $3155.

Similar costs associated with Burley Tobacco amount to an estimated $3029 per acre.

Given the fact investment costs to raise an acre of tobacco are extremely high, I hope figures in enclosed charts will set the record straight that tobacco growers are not making exorbitant profits.

Using a 10 year county average, production in Halifax County, Virginia is 1925# per acre for flue-cured tobacco. A quotation sheet showing cost of crop insurance at various levels is enclosed. 65% coverage level, which is the most popular, provides the farmer $2243 protection at 100% loss. If he does not harvest and produce for sale 20% of his guarantee, then he is only eligible to receive $1458.

A quotation sheet is provided for Scott County, Virginia using a 2500# average for Burley tobacco. 65% coverage level provides for $2763 guarantee at 100% loss. The same 20% rule applies for Burley. If the producer does not harvest 20%, the maximum amount he could receive would be $1796.

Although Crop Insurance does not insure to value, the farmer's investments are protected which will be an enabling factor in keeping the farming operation for all commodities intact.

ESTIMATED REVENUE, OPERATING EXPENSES, ANNUAL OWNERSHIP EXPENSES & NET REVENUE PER ACRE MEDIUM SIZED FARM (AROUND 50 ACRES TOBACCO)

Jan-97

Item:		Quantity		Price	Value	Your Farm
RECEIPTS: FLUE TOBACCO		2,500	LBS	1.78	4450.00	
Operating Inputs:						
PLANT BED:						
Tobacco Seed		0.12	OZ	67.00	8.04	
Fumigant		7.50	LBS	2.48	18.60	
Plastic Cover		75.00	YDS	0.10	7.65	
Remay Cover (2 Yrs)		75.00	YDS	0.14	10.31	
Straw		0.50	BALES	2.00	1.00	
12-6-6		0.60	CWT	9.85	5.91	
16-0-0		0.04	CWT	13.00	0.52	
Fungicide	(Ridomil)	0.50	OZ	1.14	0.57	
Insecticide	(Di-syston)	6.75	OZ	0.10	0.65	
Sub-total: Plantbed					53.25	
FIELD:						
Lime		0.563	TON	25.00	14.08	
PPI: Herbicide	(Prowl)	1.350	PTS	3.15	4.26	
PPI: Fungicide	(Ridomil)	1.125	QTS	36.37	40.91	
PPI: Nematicide	(Lorsban)	2.250	QTS	11.23	25.26	
PPI: Nematicide	(Nemacur)	2.250	GAL	66.55	149.74	
FRow Fertilizer	(6-12-18)	6.5	CWT	12.80	83.20	
TPW: Insecticide	(Orthene)	1	LB	10.16	10.16	
Sidedress:	(15-0-14)	1.50	CWT	14.25	21.38	
Insecticide	(Dipel)	0.5	LB	11.10	5.55	
Insecticide	(Orthene)	2	LB	10.16	20.32	
Sucker Control	(Contact)	3.6	GAL	10.90	39.24	
Sucker Control	(MH)	1.5	GAL	13.31	19.97	
Federal Crop & Hail Ins.		1.00	ACRE	165.00	165.00	
Cover Crop: Rye Seed		2.00	BU	8.50	17.00	
Tobacco Curing Fuel		25	CWT	8.01	200.25	
Building Insurance & Elec.		1	ACRE	32.50	32.50	
Marketing Charges		25	CWT	6.79	169.75	
Tractor, Equipment, Fuel & Repairs		1	ACRE	385.33	385.33	
Hired Labor		120	HOURS	7.36	883.20	
ANNUAL OPERATING CAPITOL		$755.19		9.50%	71.74	
TOTAL OPERATING COSTS					$2,412.06	"
Returns to Land, (Quota), Capital, Machinery, Overhead, & Management					$2,037.94	
MACHINERY & EQUIPMENT FIXED COSTS					743.09	
Returns to Land, (Quota), Overhead & Mgmt.					$1,294.85	

SUMMARY

	$ per ACRE	$ per CWT	YOUR FARM	
PLANT BED	53.25	2.13		
CHEMICALS	315.40	12.62		
FERTILIZER & LIME	118.64	4.75		
CURING FUEL	200.25	8.01		
MARKETING	169.75	6.79		
HIRED LABOR	883.20	35.33		
MACHINERY & EQUIPMENT	385.33	15.41		
OPERATING OVERHEAD	286.24	11.45		
FIXED COSTS	743.09	29.72		
	3155.16	126.21		
RETURNS TO LAND, QUOTA, OVERHEAD & MGMT.		51.79		

1997 Flue-Cured Tobacco Profitability Worksheet

ITEM	QUANTITY	UNIT PRICE	TOTAL	YOUR FARM
RECEIPTS (lbs)	2,400	$1.75	$4,200	
COSTS				
Plants(1000s)	6.5	35.00	$227	
Nitrogen (lbs)	65	0.27	$18	
P2O5 (lbs)	80	0.30	$24	
K2O (lbs)	140	0.13	$18	
Lime (ton)	0.5	32.00	$16	
Pesticides			$315	
Applications fert & CPP	2	5.00	$10	
Machinery & repairs			$385	
Labor (hours)	120	7	$840	
Curing Fuel (LP) (gals)	240	0.7	$168	
Crop Insurance			$165	
Land rent				
Quota rent (lbs)	2,400	0.4	$960	
Warehouse fee (lbs)	2,400	0.06	$144	
Inspection & grading	2,400	0.01	$24	
No-net Cost (lbs)	2,400	0.01	$24	
Interest (9 mos)	$1,010	8.0%	$81	
TOTAL COSTS			$3,419	
Net Above Costs			$781	

Flue-cured Net Income per acre for $3,400 costs

Flue-cured Price ($/Bu)

YIELD PER ACRE (bu)	$1.65	$1.70	$1.75	$1.80	$1.85	$1.90
1,800	($430)	($340)	($250)	($160)	($70)	$20
1,900	($265)	($170)	($75)	$20	$115	$210
2,000	($100)	$0	$100	$200	$300	$400
2,100	$65	$170	$275	$380	$485	$590
2,200	$230	$340	$450	$560	$670	$780
2,300	$395	$510	$625	$740	$855	$970
2,400	$560	$680	$800	$920	$1,040	$1,160
2,500	$725	$850	$975	$1,100	$1,225	$1,350

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2,600	$890	$1,020	$1,150	$1,280	$1,410	$1,540
2,700	$1,055	$1,190	$1,325	$1,460	$1,595	$1,730

Return to Crop Costs of Production

Return to Table of Contents

Download Microsoft Excel Worksheet

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BURLEY TOBACCO: ESTIMATED REVENUE, OPERATING EXPENSES, ANNUAL OWNERSHIP COSTS & NET REVENUE PER ACRE

CATEGORY	UNITS	PRICE	QUANTITY	VALUE	YOUR VALUE
PRODUCTION: BURLEY TOB.	LBS	$ 1.750	2600.000	$4550.00	
TOTAL RECEIPTS				$4550.00	
OPERATING INPUTS:					
CUSTOM PLANTS	SQ YD	$ 0.360	100.000	$ 36.00	
HYBRID SEED	OZ	87.000	0.167	14.53	
12-6-6, BAGGED	CWT	40.040	0.081	5.05	
BLUE MOLD, P.B.	QT	40.040	0.081	0.84	
INSECTICIDE, P.B.	EACH	9.200	0.016	0.15	
PLANTBED COVER	EACH	26.000	0.500	13.00	
FIELD BLUE MOLD	GAL	147.000	0.500	73.50	
LIME	TONS	30.000	0.250	7.50	
6-12-18, BAGGED	CWT	12.950	8.333	107.91	
33.5% AMMON. NIT	CWT	9.600	3.333	32.00	
HERBICIDE	LBS	8.530	1.000	8.53	
INSECTICIDE	LBS	9.200	4.000	36.80	
CONTACT, SUCKERS	ACRE	35.500	1.000	35.50	
COVER CROP	ACRE	19.000	1.000	19.00	
CROP INSURANCE	DOL	0.080	1704.000	135.70	
BUILDING INSURANCE	ACRE	68.000	1.000	68.00	
SELLING CHARGES	DOL	0.040	4550.000	182.00	
MARKET ASSESSMENT	LBS	0.010	2600.000	26.00	
STICK REPLACEMENT	ACRE	35.000	1.000	35.00	
COTTON TWINE	ACRE	10.000	1.000	10.00	
LEASED QUOTA	LBS	0.000	2600.000	0.00	
OTHER EXPENSES	ACRE	0.000	1.000	0.00	
TRACTOR FUEL & LUBE	ACRE			18.83	
TRACTOR REPAIR COST	ACRE			13.06	
MACH. FUEL & LUBE	ACRE			71.07	
MACH. REPAIR COST	ACRE			104.25	
TOTAL OPERATING COST				$1101.30	
RETURNS TO LAND, LABOR, CAPITAL, MACHINERY, OVERHEAD & MANAGEMENT				$3448.70	
CAPITAL COST:					
ANNUAL OPERATING CAPITAL		0.100	773.579	77.36	
TRACTOR INVESTMENT		0.100	161.433	16.14	
MACHINERY INVESTMENT		0.100	1061.139	106.11	
EQUIPMENT INVESTMENT		0.100	3093.245	309.32	
TOTAL INTEREST CHARGE				$ 440.84	
RETURNS TO LAND, LABOR, MACHINERY, OVERHEAD, RISK & MANAGEMENT				$2957.36	
OWNERSHIP COSTS (DEPRECIATION, TAXES, INSURANCE)					
TRACTOR	DOL			14.33	
MACHINERY	DOL			149.79	
EQUIPMENT				244.45	
TOTAL OWNERSHIP COST				$ [illegible]	
RETURNS TO LAND, LABOR, OVERHEAD, RISK & MANAGEMENT				$2178.80	
LABOR COST:					
MACHINERY LABOR	HOUR	6.000	32.816	196.89	
OTHER LABOR	HOUR	4.750	181.500	862.12	
TOTAL LABOR COSTS			214.316	$[illegible]	
RETURNS TO LAND, OVERHEAD, RISK & MANAGEMENT				$[illegible]	

Prepared by G.M. Seester, Crop Sci. Ext. Spec, and A. D. Brown and D. F. Newman, Ext. Econ

Based upon 100 Sq. Yds. of plantbed per planted acre.

total = 3029.52

Post-it™ Fax Note 7671

Date 1/23	# of pages ▶ 4
To J. T. Davis	From Larry Mc Peters
Co./Dept.	Co.
Phone # 8	Phone # 476-2147
Fax # 376-5480	Fax # 476-7777

Proposed Crop Insurance for:
Any Farmer

CROP:	**TOBACCO**	TYPE:	**11A**	COUNTY:	**HALIFAX**
PRICE ELECTION:	**1.77**	RISK	**T12**	APH T YIELD:	**1950**
ACRES:	**1.0**	HAIL	**WITH**		
INTEREST:	**100%**				

Loss Coverage

		65%	70%	75%
5%	$			
10%	$			
15%	$			
25%	$			
35%	$		173	345
50%	$	518	690	863
55%	$	690	863	1354
70%	$	1208	1805	1553
90%	$	1898	2071	2243
100%	$	2243	2416	2589
Premium	$	49.70	75.69	114.86

	Guarantee Per Acre	MPCI Per Acre	MPCI Cost Per $100	Base Rate	Subsidy
65%	1268	49.70	2.22	3.80	$35
70%	1365	75.69	3.13	4.60	$35
75%	1463	114.86	4.44	5.80	$35

DISCLAIMER: This proposal is an insurance quote based on the yield given by the producer. This quote is not a binding insurance offer or schedule of performance.

ADMINISTRATIVE FEES are added to the TOTAL PREMIUM.

Proposed Crop Insurance for:
Any Farmer

CROP:	TOBACCO	TYPE:	031	COUNTY:	SCOTT
PRICE ELECTION:	1.70	RISK	A01	APH T YIELD:	2500
ACRES:	1.0	HAIL	WITH		
INTEREST:	100%				

Loss Coverage

		65%	70%	75%
5%	$			
10%	$			
15%	$			
25%	$			
35%	$		212	425
50%	$	638	850	1062
55%	$	850	1063	1275
70%	$	1488	1700	1913
90%	$	2338	2550	2763
100%	$	2763	2975	3188
Premium	$	104.68	160.05	243.84

	Guarantee Per Acre	MPCI Per Acre	MPCI Cost Per $100	Base Rate	Subsidy
65%	1625	104.68	3.79	6.50	$75
70%	1750	160.05	5.38	7.90	$75
75%	1875	243.84	7.65	10.00	$75

DISCLAIMER: This proposal is an insurance quote based on the yield given by the producer. This quote is not a binding insurance offer or schedule of performance.

ADMINISTRATIVE FEES are added to the TOTAL PREMIUM.

MULTIPLE PERIL CROP INSURANCE

MPCI Industry Summary By Crop for VIRGINIA

CROP	YEAR	PROTECTION IN FORCE (DOL.)	NET ACRES INSURED	TOTAL PREMIUM (DOL.)	LOSSES PAID (DOL.)	LOSS RATIO	(Liability x 5) ECONOMIC SECURITY[1]	(Loss Payments x 5) ECONOMIC IMPACT[2]
	90-94	19,031,588	30,963	2,844,062	4,942,866	174	95,157,940	24,714,330
	81-94	38,905,381	52,616	4,761,[illegible]	9,045,448	190	194,[illegible]	45,2[illegible]
TOBACCO	88	59,214,395	25,684	1,505,810	2,650,879	176	296,071,975	13,254,[illegible]
	89	65,192,694	27,973	1,648,489	2,997,726	182	325,963,470	14,988,630
	90	74,664,747	31,501	2,022,047	1,604,006	79	373,323,735	8,020,030
	91	74,783,241	29,803	2,307,090	937,452	41	373,916,205	4,687,260
	92	67,356,076	26,654	2,250,630	951,057	42	336,780,380	4,755,285
	93	62,605,339	24,737	1,946,873	5,823,270	299	313,026,695	29,116,350
	94	59,642,827	58,747	1,880,036	678,071	36	298,214,135	3,390,355
	90-[illegible]	339,052,230	171,442	10,408,685	9,993,856	96	1,695,261,150	49,969,280
	81-[illegible]	892,398,692	421,583	24,668,998	32,660,988	132	4,461,993,460	163,304,940
PEANUTS	88	31,847,496	57,521	1,665,513	482,390	29	159,237,480	2,411,950
	89	34,796,26[illegible]	59,197	1,607,968	568,980	31	173,981,335	2,844,900
	90	36,273,221	61,558	1,658,815	51,348	3	181,366,105	256,740
	91	35,511,746	60,877	1,634,430	27,673	2	177,558,730	138,365
	92	35,554,234	58,632	1,846,188	357,156	19	177,771,170	1,785,780
	93	38,027,788	57,589	1,836,416	11,405,320	621	190,138,940	57,026,600
	94	44,869,745	68,904	2,185,874	261,971	12	224,348,725	1,309,855
	90-94	190,236,734	307,560	9,561,723	12,103,468	127	951,183,670	60,517,340
	81-94	486,833,706	860,631	26,315,241	[illegible],464,972	104	2,434,168,530	137,324,860
SOYBEANS	88	5,547,763	78,184	443,845	610,709	138	27,738,915	3,053,545
	89	7,627,822	88,434	584,790	291,169	50	38,139,110	1,455,845
	90	6,388,217	79,683	483,015	423,858	88	31,941,085	2,119,290
	91	4,644,809	57,769	342,222	641,634	187	23,224,045	3,2[illegible]
	92	3,747,704	45,957	320,296	202,125	63	18,738,520	1,010,62[illegible]
	93	4,369,152	50,563	382,846	1,403,570	367	21,845,760	7,017,85[illegible]
	94	11,[illegible]5,505	136,583	921,385	987,616	107	55,877,525	4,938,080
	90-94	3[illegible],325,387	372,535	2,450,464	3,656,603	149	151,626,935	18,294,015
	81-94	9[illegible]48,741	1,032,874	[illegible],217,155	11,289,637	156	458,743,705	56,448,185
POTATOES	88	845,571	1,742	35,649	0	0	4,227,855	0
	89	111,585	218	7,658	15,583	203	557,925	77,915
	90	[illegible]5,500	357	11,96[illegible]	0	0	877,500	0
	91	165,666	346	14,045	25,240	180	828,330	126,200
	92	274,336	526	26,692	0	0	1,371,680	0
	93	317,252	514	31,047	95,299	307	1,586,260	476,495
	94	1,088,915	1,728	107,106	323,959	302	5,444,575	1,619,795
	90-94	2,021,669	3,475	190,850	444,498	233	10,108,345	2,222,490
	81-94	3,233,548	5,988	248,7[illegible]4	477,375	192	16,167,740	2,386,875
TOMATOES-FRESH	89	267,850	184	17,409	0	0	1,339,250	0
	90	301,558	182	23,341	11,940	51	1,507,790	59,700
	91	344,146	192	28,496	7,382	26	1,720,730	36,910
	92	357,464	250	30,741	21,150	69	1,787,320	105,750
	93	559,974	378	48,038	46,980	98	2,799,870	234,900
	94	1,264,083	510	108,559	159,446	175	6,320,415	947,230
	90-94	2,827,225	1,512	239,175	276,898	116	14,136,125	1,384,490
	81-94	3,095,075	1,696	256,58[illegible]	276,898	108	15,475,375	1,354,490
TOMATOES	88	21,780	33	[illegible]84	0	0	108,900	0
	81-94	21,780	33	[illegible]84	0	0	108,900	0
BARLEY	88	392,320	7,162	23,597	4,92[illegible]	21	1,961,600	24,620
	89	447,802	7,663	25,3[illegible]	[illegible]	[illegible]	2,239,010	335,810
	90	483,332	6,166	26,857	[illegible]	11	2,416,660	15,020
	91	486,075	5,978	30,043	[illegible],152	124	2,430,375	185,760
	92	32[illegible]483	3,335	24,494	8,952	37	1,637,415	44,760
	93	317,104	3,139	20,961	43,852	209	1,585,520	219,260
	94	280,597	3,687	19,487	31,461	161	1,402,985	157,305
	90-94	1,894,591	24,325	121,842	124,421	102	9,472,955	622,105
	81-94	4,062,236	56,226	241,[illegible]	315,359	141	20,311,180	1,[illegible]26,795

1996 Crop Year Tobacco-Only MPCI Data of Tobacco States as of 5/12/97

ST ABBR	CROP ABBR	POL SOLD	POL EARN PREM	POL INDEM	UNITS EARN PREM	UNITS INDEM	NET ACRES	LIABILITY	TOTAL PREMIUM	SUBSIDY	INDEMNITY	LOSS RATIO
U.S. All Crops		2,242,688	1,619,762	389,786	3,208,320	503,813	204,525,226	26,731,057,849	1,827,180,723	975,569,871	1,475,401,819	0.81
AL	TOB	8	8	0	18	0	363	813,484	30,953	8,794	0	0
CT	TOB	54	50	0	117	0	1,624	8,323,047	418,593	254,783	0	0
FL	TOB	242	202	2	218	2	6,071	11,048,167	266,242	170,877	57,625	0.22
GA	TOB	1,866	1,506	46	2,369	54	40,673	85,923,543	2,960,017	1,321,440	1,649,559	0.56
IN	TOB	1,597	828	96	1,089	107	3,138	6,267,007	337,768	182,227	406,979	1.2
KY	TOB	40,497	30,670	1,865	40,995	2,055	111,411	180,103,898	7,406,992	5,436,825	4,744,614	0.64
MA	TOB	45	36	0	47	0	695	3,389,363	130,842	110,498	0	0
MD	TOB	58	49	3	58	3	687	482,594	13,484	11,823	3,851	0.29
MO	TOB	564	393	5	559	5	1,504	2,110,390	132,649	101,689	11,645	0.09
NC	TOB	18,828	15,266	4,130	37,132	7,759	260,389	597,413,233	18,136,919	6,934,639	69,229,636	3.82
OH	TOB	2,339	1,670	358	2,129	414	4,787	6,975,428	416,633	297,775	703,633	1.69
PA	TOB	25	17	1	17	1	203	149,276	5,637	3,916	173	0.03
SC	TOB	2,156	1,817	289	5,115	501	48,594	112,689,801	3,603,526	1,534,194	5,033,842	1.4
TN	TOB	12,693	9,357	1,185	11,910	1,446	29,501	48,132,917	3,134,080	2,043,904	3,904,363	1.25
VA	TOB	7,102	5,442	911	8,874	1,127	41,412	88,012,669	2,979,956	1,235,627	3,549,049	1.19
WI	TOB	809	562	159	844	188	2,031	4,024,769	158,397	59,704	391,211	2.47
WV	TOB	633	542	143	601	158	1,204	1,364,195	123,612	94,119	214,861	1.74
All U.S. Tobacco		89,516	68,415	9,193	112,092	13,820	554,287	1,157,223,781	40,256,300	19,802,834	89,901,041	2.23
Tob v. All Crops:		4.0%	4.2%	2.4%	3.5%	2.7%	0.3%	4.3%	2.2%	2.0%	6.1%	
TOB	FCAT	45,890	34,430	1,989	44,326	2,134	154,446	198,357,939	6,757,534	6,757,534	1,973,005	0.29
	RBUP	35,790	28,496	7,011	60,518	11,495	340,441	889,383,556	31,655,056	11,201,590	87,560,707	2.77
	RCAT	7,836	5,489	193	7,248	191	59,400	69,482,286	1,843,710	1,843,710	367,329	0.2
TOB		89,516	68,415	9,193	112,092	13,820	554,287	1,157,223,781	40,256,300	19,802,834	89,901,041	2.23

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1996 Crop Year Tobacco-Only MPCI Data of Tobacco States as of 5/12/97
Ranked by Policies Sold

ST ABBR	CROP ABBR	POL SOLD	POL EARN PREM	POL INDEM	UNITS EARN PREM	UNITS INDEM	NET ACRES	LIABILITY	TOTAL PREMIUM	SUBSIDY	INDEMNITY	LOSS RATIO
U.S. All Crops		2,242,688	1,619,762	389,786	3,208,320	503,813	204,525,226	26,731,057,849	1,827,180,723	975,569,871	1,475,401,819	0.81
KY	TOB	40,497	30,670	1,865	40,995	2,055	111,411	180,103,898	7,406,992	5,436,825	4,744,614	0.64
NC	TOB	18,828	15,266	4,130	37,132	7,759	260,389	597,413,233	18,136,919	6,934,639	69,229,636	3.82
TN	TOB	12,693	9,357	1,185	11,910	1,446	29,501	48,132,917	3,134,080	2,043,904	3,904,363	1.25
VA	TOB	7,102	5,442	911	8,874	1,127	41,412	88,012,669	2,979,956	1,235,627	3,549,049	1.19
OH	TOB	2,339	1,670	358	2,129	414	4,787	6,975,428	416,633	297,775	703,633	1.69
SC	TOB	2,156	1,817	289	5,115	501	48,594	112,689,801	3,603,526	1,534,194	5,033,842	1.4
GA	TOB	1,866	1,506	46	2,369	54	40,673	85,923,543	2,960,017	1,321,440	1,649,559	0.56
IN	TOB	1,597	828	96	1,089	107	3,138	6,267,007	337,768	182,227	406,979	1.2
WI	TOB	809	562	159	844	188	2,031	4,024,769	158,397	59,704	391,211	2.47
WV	TOB	633	542	143	601	158	1,204	1,364,195	123,612	94,119	214,861	1.74
MO	TOB	564	393	5	559	5	1,504	2,110,390	132,649	101,689	11,645	0.09
FL	TOB	242	202	2	218	2	6,071	11,048,167	266,242	170,877	57,625	0.22
MD	TOB	58	49	3	58	3	687	482,594	13,484	11,823	3,851	0.29
CT	TOB	54	50	0	117	0	1,624	8,323,047	418,593	254,783	0	0
MA	TOB	45	36	0	47	0	695	3,389,363	130,842	110,498	0	0
PA	TOB	25	17	1	17	1	203	149,276	5,637	3,916	173	0.03
AL	TOB	8	8	0	18	0	363	813,484	30,953	8,794	0	0
All U.S. Tobacco		89,516	68,415	9,193	112,092	13,820	554,287	1,157,223,781	40,256,300	19,802,834	89,901,041	2.23
TOB	FCAT	45,890	34,430	1,989	44,326	2,134	154,446	198,357,939	6,757,534	6,757,534	1,973,005	0.29
	RBUP	35,790	28,496	7,011	60,518	11,495	340,441	889,383,556	31,655,056	11,201,590	87,560,707	2.77
	RCAT	7,836	5,489	193	7,248	191	59,400	69,482,286	1,843,710	1,843,710	367,329	0.2
TOB		89,516	68,415	9,193	112,092	13,820	554,287	1,157,223,781	40,256,300	19,802,834	89,901,041	2.23

Provided as a Service by American Assn. of Crop Insurers

Source: FCIC/RMA;96tobst;tobacco-Ranked

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PCI TOBACCO ANALYSIS – COSTS

Year	Total Premium	Subsidy	Farmer Pd Prem.	Indemnities	Excess Loss	Admin Expense	Loss Ratio	Total Costs
1984	$ 24,601,231	$ 4,977,359	$ 19,623,872	$ 12,208,740	$ (7,415,132)	$ 7,626,382	0.496	$ 211,250
1985	$ 18,124,437	$ 3,319,443	$ 14,804,994	$ 10,673,124	$ (4,131,870)	$ 5,618,575	0.589	$ 1,486,705
1986	$ 13,710,320	$ 2,416,863	$ 11,293,457	$ 23,735,017	$ 12,441,560	$ 4,250,199	1.731	$ 16,691,759
1987	$ 14,891,528	$ 2,719,809	$ 12,171,719	$ 22,777,069	$ 10,605,350	$ 4,616,374	1.530	$ 15,221,724
1988	$ 16,920,657	$ 3,142,341	$ 13,778,316	$ 15,422,878	$ 1,644,562	$ 5,245,404	0.911	$ 6,889,966
1989	$ 18,294,124	$ 3,462,916	$ 14,831,208	$ 30,927,002	$ 16,095,794	$ 5,671,178	1.691	$ 21,766,972
1990	$ 22,186,552	$ 4,279,835	$ 17,906,717	$ 20,303,895	$ 2,397,178	$ 6,877,831	0.915	$ 9,275,009
1991	$ 24,216,033	$ 4,819,559	$ 19,396,474	$ 23,556,573	$ 4,160,099	$ 7,506,970	0.973	$ 11,667,069
1992	$ 25,304,863	$ 5,105,896	$ 20,198,967	$ 29,564,413	$ 9,365,446	$ 7,844,508	1.168	$ 17,209,954
1993	$ 23,835,184	$ 5,020,395	$ 18,814,789	$ 48,943,302	$ 30,128,513	$ 7,388,907	2.053	$ 37,517,420
1994	$ 22,310,289	$ 4,796,522	$ 17,513,767	$ 20,021,456	$ 2,507,689	$ 6,916,190	0.897	$ 9,423,879
1995 fcat	$ 7,608,096	$ 7,608,096	$ -	$ 3,998,146	$ 3,998,146	n/a	0.526	$ 3,998,146
1995 rcat	$ 1,793,258	$ 1,793,258	$ -	$ 1,191,449	$ 1,191,449	$ 252,849	0.664	$ 1,444,298
1995 rbup	$ 23,659,693	$ 7,569,016	$ 16,090,677	$ 88,755,003	$ 72,664,326	$ 7,334,505	3.751	$ 79,998,831
tot 95	$ 33,061,047	$ 16,970,370	$ 16,090,677	$ 93,944,598	$ 77,853,921	$ 7,587,354	2.842	$ 85,441,275
1996 fcat	6,763,105	6,763,105	0	1,922,671	$ 1,922,671	n/a	0.28	$ 1,922,671
1996 rcat	1,844,074	1,844,074	0	366,911	$ 366,911	$ 260,014	0.2	$ 626,925
1996 rbup	31,583,745	11,178,615	20,405,130	87,376,746	$ 66,971,616	$ 9,790,961	2.77	$ 76,762,577
tot 96	$ 40,190,924	$ 19,785,794	$ 20,405,130	$ 89,666,328	$ 69,261,198	$ 10,050,975	2.231	$ 79,312,173
g.'84-96	**$ 22,895,938**	**$ 6,216,700**	**$ 16,679,237**	**$ 33,980,338**	**$ 17,301,101**	**$ 6,707,757**	**1.484**	**$ 24,008,858**
g. '84-'94	**$ 20,399,565**	**$ 4,005,540**	**$ 16,394,025**	**$ 23,466,679**	**$ 7,072,654**	**$ 6,323,865**	**1.150**	**$ 13,396,519**

= FSA CAT policy, rcat = Reinsured CAT policy, rbup = Reinsured Buy-up Policy

Provided as a Service by AACI

Source of Data: ORM/FCIC
TOBjy9

Production Characteristics

According to preliminary 1992 Census of Agriculture estimates, about 124,000 U.S. farms produced tobacco that year (table 1). About 62 percent of the farms were located in North Carolina and Kentucky, the major tobacco-producing States.

The average U.S. farm grew about 6.7 acres of tobacco. Tobacco acreage per farm varied geographically, ranging from 2.1 acres in West Virginia to 33.9 acres in Connecticut. Acreage also varied by type of tobacco grown. In States where flue-cured predominates, average acreage varied from 16 to 26. Among burley-producing States, average acreage ranged from 2 to 5. The high average in Connecticut represents large vertically integrated cigar wrapper operations; cigar binder farms in this State are much smaller.

Census figures do not reveal the number of flue-cured and burley producers. However, data from U.S. Department of Agriculture (USDA) surveys provide information about farm characteristics of these kinds of tobacco.

Tenure Arrangements

Although not sampling the entire flue-cured population, a survey of farms in 1991 showed only 7 percent of the flue-cured operators owned the entire tobacco quota they produced, about 21 percent rented all their quota (the right to produce and sell a specified quantity of tobacco), and the remaining 72 percent both owned and rented quota. Based on a survey of farms in 1989 that may not reflect Burley Belt population averages, 48 percent of operators grew their entire tobacco acreage on quota allotments they owned. About 19 percent rented all their burley quota, and the remaining 33 percent produced tobacco on acreage combining owned, rented, or leased quota in 1989. Lease and transfer of quota refers to an arrangement whereby the quota is grown on a farm other than the one to which it is assigned (lease and transfer of flue-cured quotas was eliminated in 1987 but reinstated for disaster conditions beginning in 1988). Renting refers

Table 1—Number of farms, acres, and average acres of tobacco on farms growing tobacco, 1992

State	Farm	Tobacco acreage	Average tobacco acreage per farm
	Number	*Acres*	
Alabama	14	335	23.9
Connecticut	43	1,456	33.9
Florida	233	6,928	29.7
Georgia	1,658	40,403	24.4
Indiana	2,946	9,170	3.1
Kansas	12	37	3.1
Kentucky	59,373	268,140	4.5
Maryland	951	8,470	8.9
Massachusetts	27	400	14.8
Missouri	454	1,846	4.1
North Carolina	17,625	283,900	16.1
Ohio	3,487	11,006	3.2
Pennsylvania	1,348	8,445	6.3
South Carolina	1,965	50,194	25.5
Tennessee	22,953	75,621	3.3
Virginia	8,444	55,419	6.6
West Virginia	1,003	2,072	2.1
Wisconsin	1,729	7,379	4.3
Other States	5	12	2.4
United States	124,270	831,233	6.7

Health Advocates Defend Tobacco Program

Tobacco farmers find unlikely supporters

Some health advocates back price supports

BY BOB GEIGER AND JAMIE LUCKE
HERALD-LEADER STAFF WRITERS

Marshall Banta, a Henry County tobacco farmer, couldn't believe his ears. Public health advocates at a recent meeting in Raleigh, N.C., were defending the federal price support program for tobacco.

The program has long been one of the anti-smoking movement's favorite targets for elimination.

"At first, I was kind of taken aback by it," Banta said. "But when you think about it, what they want is to be sure there's not cheap tobacco out there for the companies to buy."

In what would be a stunning departure from the past, tobacco growers fighting to preserve the price support program have found a potential ally in the unlikeliest of places: among health advocates.

At the Raleigh meeting, farm leaders were encouraged to hear one of the nation's premier anti-smoking lobbyists, Scott Ballin, defend the tobacco program as a barrier to cigarette price cutting that would encourage more smoking.

In a recent interview, Ballin, vice president of the American Heart Association, sounded almost like a Kentucky politician as he described the plight of tobacco farmers.

"They've done this all their lives. Taking it away from them, they don't have any assurances that they're going to be able to make a

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TOBACCO: Health advocates defend price support

FROM PAGE ONE

living and support their families ... We're in the business of public health. We're not in the business of disrupting families,' he said.

Karen Daragin, a spokeswoman for Philip Morris in New York, also seemed taken aback by Ballin's support of the price support program. "That's certainly an interesting indication," she said.

Daragin said that anti-smoking forces for years have been courting tobacco farmers, trying to drive a wedge between them and the cigarette companies. "What's new is that the Robert Wood Johnson Foundation is putting money behind the efforts," she said.

The Robert Wood Johnson Foundation, which aims to reduce smoking, has handed out about $1.5 million in grants during the past four years on issues related to tobacco farmers. The grants are designed to promote dialogue between tobacco farmers and public health advocates and to search for other ways tobacco communities can make money.

Daragin, who said Philip Morris supports the price support program and tobacco farmers in myriad ways, said an earlier summit between health and tobacco interests in Roanoke, Va., "was put together with much fanfare ... but generated no excitement."

But the prospect of anti-smoking forces lining up behind the price support program is generating some excitement among Kentucky growers. Danny McKinney, CEO of the Burley Tobacco Growers Association in Lexington, was among the 80 people in Raleigh.

McKinney said support from the anti-smoking lobby could help the program survive the regular attacks it has received in Congress. "It could be the foundation for helping secure the program we've got."

U.S. Rep. Scotty Baesler, D-Lexington, agreed. From the farmers' standpoint, Baesler said, "the most dangerous assault in Washington would be on the program itself."

The feature that farmers and some anti-smoking activists like about the federal program is the way it assures what McKinney calls "artificially high prices" for the tobacco that American farmers sell to cigarette manufacturers.

"Eliminating the program ... could, in fact, result in increased consumption of tobacco products," Ballin said.

Doing away with the federal program and replacing it with a free market would likely drive down the price farmers get for raw tobacco, said David Altman, a public health professor at Wake Forest University. That would tend to slightly lower the cost of cigarettes, prompting more people to smoke, said Altman, who presented his views at the Raleigh conference.

While they welcome the potential help, not all tobacco farmers agree with Altman's hypothesis. Harold Prather of Lexington said farmers receive only a nickel from the sale of a pack of cigarettes, making the cost of raw tobacco an "insignificant factor."

But McKinney noted that any savings to the companies could go into additional cigarette advertising or profits.

For years, tobacco farmers and anti-smoking activists have viewed each other as bitter enemies. That perception persists with some in both camps and the public health advocates are far from united in supporting the federal tobacco program.

Still, the dialogue represents a change.

Rebecca Reeve, director of the Southern Tobacco Communities Project, which helped organize the Raleigh meeting, said public health advocates used to talk among themselves but never with farmers.

During the last few years, anti-smoking activists have begun to seek a better understanding of farmers' situations, she said.

Reeve said economically stronger communities are healthier ones. "I don't think we're doing anything for the health of the community if we're going in and decimating the economy. There has to be a way to have both," she said.

Meanwhile, Kentucky burley leaders have quietly tried to explain themselves to health advocates. Owensboro farmer Rod Kuegel, president of the burley co-op, arranged meetings with leaders of heart, cancer and lung associations in Kentucky more than a year ago.

"I think any kind of alliance we can build has to be a help to us," said Paul Tucker, a Harrison County tobacco farmer.

Doing away with the tobacco program would cause instability in tobacco-growing communities, Altman said. Tobacco money now sometimes pays for the education, training or investments that farmers need to make a transition into other livelihoods. Ending the program abruptly could undercut these diversification efforts, Altman said.

Altman also said that without the federal tobacco program, "you'd be in effect taking money out of the pocket of farmers and putting it in the companies' hands. I don't think many in public health see that as a good thing to do."

The companies could use the money for cigarette advertising or to fight smoking-related lawsuits, Altman said.

Tobacco is not subsidized in the same way as wheat or corn, where the government makes payments to farmers. Tobacco farmers and manufacturers pay into a fund that stabilizes tobacco prices. Each year the government sets production quotas tailored to demand.

Tobacco critics in Congress say the government could save taxpayers $25 million a year by cutting out expenses related to the tobacco program, including crop insurance and extension agents who advise farmers.

Altman said he could support the tobacco program even if this federal financing continues, while Ballin said any federal money definitely has to be eliminated. Both, however, say that it is a relatively small amount of money and that some in the farm community think it would not be difficult to find alternative ways of paying for it.

Tobacco farmers prefer the status quo. But in a nod to political reality, burley co-op leaders recently started developing an alternative plan for keeping the production quotas without any government involvement or funding. None of the details of their discussions have been made public.

Altman suggested that the tobacco manufacturers should pay for any additional cost.

Ballin also said he'd work with farmers on another contentious issue, the Food and Drug Administration's regulation of cigarettes. Ballin said he would have no problem with prohibiting the FDA from banning smoking. He also said he might support a law clarifying that FDA agents will not show up at farms.

"For many years, the public health community's perspective was that the government shouldn't be subsidizing tobacco. We should kill the program," Ballin said. "That's a little simplistic."

Ballin now says: "We didn't do our homework."

We, the American Tobacco Grower, feel as if we are an endangered species.

Our rights as honest, hard-working, God-fearing citizens, are being threatened to the utmost.

Our founding fathers took steps to prevent big government from violating the rights of individuals.

George Mason, principal writer of the Virginia Bill of Rights in 1776, stated that all men are by nature equally free and independent, and have certain inherent rights, of which, when they enter into a state of society they cannot, by any compact, deprive or divert their posterity, namely the enjoyment of life and liberty with the means of acquiring and possessing property and pursuing and obtaining happiness and safety.

Thomas Jefferson, a short while later, incorporated these words in the Declaration of Independence by stating, "We hold these truths to be self evident, that all men are created equal, that they are endowed by their creator with certain indivisible rights, that among these are life, liberty, and the pursuit of happiness.

By singling the American tobacco farmer out, our constitutional rights and privileges are being violated. We are, in essence, being denied the rights of life liberty, and the pursuit of happiness.

We think all elected officials in Washington should look back at our original documents and assure themselves that they, in fact, are looking out for the best interest of all Americans.

Should this legislation go forward with removal of the opportunity for tobacco farmers to purchase crop insurance, then many will be put in jeopardy of losing their family farms whether they are the small acreage operator or the larger acreage operator.

If the elected officials of this country along with the health community want to do what is right then they will not push legislation which will destroy rural America.

APPENDIX I

:liff Somerville says
better books can
·ve troubled farms.

Learning to Manage

Good Records Do More Than Control Debt

By Charles I. Batchelor

James Perry says he is in trouble. He hopes that Cliff Somerville can help, so Perry greets Somerville and me warmly when we arrive at his modest farm home.

Perry works hard, says Somerville. His living standards are very modest. He's an experienced farmer who can grow a good crop. Yet, Perry says—and Somerville confirms—he is in real danger of losing the farm to satisfy his creditors. The 66-year-old black farmer has too much debt and not enough income.

What went wrong? In trying to help his family, he has hurt the farm, suggests Somerville.

"I need to keep better records," Perry explains, leaning on the hood of Somerville's truck, thoughtfully smoking a cigarette. "I always meant to, but I never did. But looking at it now with Mr. Somerville, it looks like I'm paying my debt and others' debt, too. That leaves me with not much of anything. Last year I made about $1,000, right?" he says to Somerville, who agrees.

"You look at the money coming in, and it looks like I am mopping up. But I'm not getting anything but the bills. So this year we're going to keep records. And I don't think I have any idea what the situation is or will be until we get all the records down," he continues.

The farmer ("James Perry" is a pseudonym to protect his privacy) has about 30 acres of flue-cured tobacco. He rents most of his allotment from several different farms, and owns some as well. While he has some bulk barns, most of his leaf is cured in labor-intensive hanging barns. He has plenty of family labor, but this "advantage," says Somerville, is likely the root of Perry's money problems.

Adult children, sons-in-law, grandchildren and others all work on the tobacco, each getting a share of the production. Of the 30 acres Perry grows, Somerville estimates half of the income—but few of the expenses—goes to others.

The result of this kind-hearted management has been too much debt.

"I haven't gotten a letter from the bank, but from everyone else," Perry explains thoughtfully. "I'm behind to the gas people, the tractor people....I have got more debt than I am able to pay. I might never live long enough to pay all of it. I'm reaching out for some help," he adds, nodding toward Somerville, "but I don't know if he can do anything. Maybe someone can see some good in it...."

Somerville sums up Perry's situation carefully. The farmer works hard and he knows how to grow a good crop. He doesn't need to change a lot of his production practices; maybe pay less for some tobacco allotments and consolidate all of his tobacco on one or two farms so his older equipment will last longer. Bulk barns would be nice, but that's not affordable right now.

"The big problem is that the farm is made up of a lot of people, even grandchildren. What we need to do is get his records straight where everyone knows what their costs are. In the past, Mr. Perry has been paying almost all of the costs, and he can't afford it.

"He farms on share and pays the family with part of the production from the fields. In some cases, he could have hired labor cheaper," says Somerville.

Perry agrees, saying that he needs "controls." He sees that he is facing the heartbreak of financial mismanagement, taken to the extreme. It's a lesson many well-meaning, hard-working, caring family farmers have learned the hard way.

FOR 25 YEARS it's been Cliff Somerville's job to try to help farmers such as James Perry understand how to use money. It may be the toughest assignment in agriculture. Working with smaller farmers against economic trends that have demanded financial sophistication and larger-scale operations, Somerville has had to cope with most of his minority farmers not being connected to the informal "mainstream" support network of many farm communities. And he has seen some discrimination. (See page 22.)

Many of his farmers have sad stories. Lack of education, even to the point of illiteracy, is sometimes a factor. Somerville doesn't waste his time on deadbeats, lazy or stubborn people.

Something of an agricultural social worker, the North Carolina A&T graduate has worked with Extension, Farmers Home, Virginia State University and, most recently, USDA's Natural Resource Conservation Service.

During the last few years, Somerville has worked as part of a team of management specialists based from Virginia State University who reach out to farmers needing basic recordkeeping and financial planning help. Somerville covers several counties in Virginia, including Halifax, on the North Carolina line, where tobacco is far and away the number-one farm enterprise. Some 100 minority growers are targeted under the USDA outreach program that funds Somerville's efforts in Virginia. Similar programs have been set up in surrounding states.

Somerville gets his clients on recommendation from the Farm Service Agency when they begin falling behind on payments. The agent visits the farm and offers his assistance. No one is required to meet with him, however.

A part-time cattle farmer himself, Somerville has excellent rapport with many of the people he is trying to help. More important, he is an upbeat guy who is friendly, open, and hopeful.

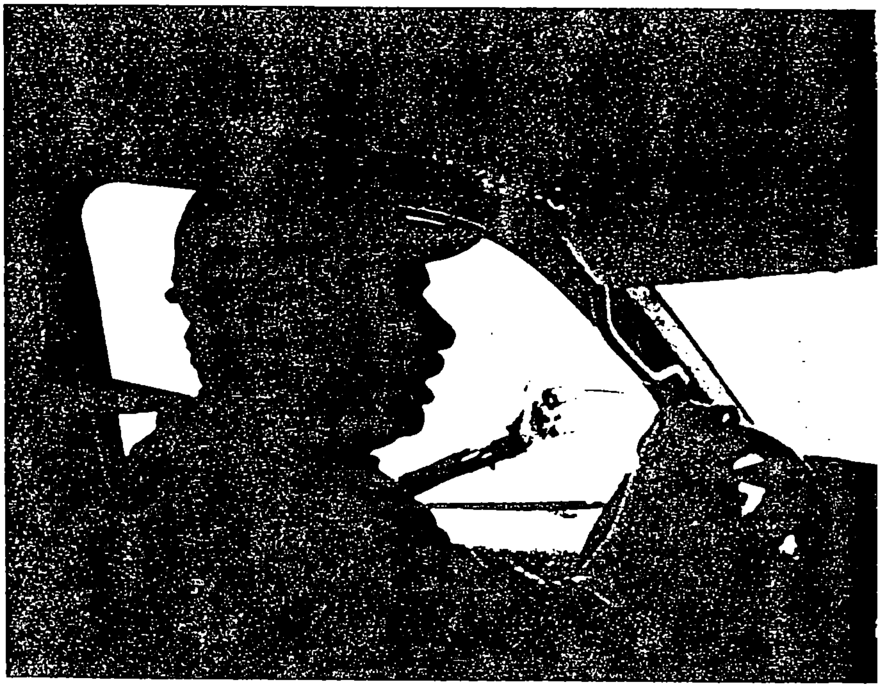
Alas, sometimes his job means shutting down the farm.

RIDING AND TALKING on the back roads of Halifax County, we come upon a small development of well-kept mobile homes. Somerville points to a neat farmhouse off the road and tells a story.

"He was a tobacco and cattle farmer with about 80 acres who got one of the Small Business Administration loans a few years ago. He qualified for \$45,000. He couldn't read or write, but he was a very good farmer; he worked with Extension and even won some conservation awards.

"Then his health got worse after a couple of >>

Small farmers need better money management, not just more loans, says Somerville.



heart attacks, and farming got difficult; the farm suffered. Then he had a stroke and died.

"He had a daughter—she lives over there—but she wanted nothing to do with the farm; it was a hard life to be avoided. His widow was in her 70s and in debt.

"Looking at all the options, we ended up taking some of the land along the road and selling eight lots to put trailer homes on. Then we split up the farm. We got her some money in the bank. All of that took three years."

Some of his clients' recordkeeping problems are very basic. "Another farmer had trouble with the IRS. He didn't file or keep his records because he didn't make money, and," Somerville laughs, "the tax folks had a few questions. As we went into it, using his Farmers Home records, it turned out he had paid more than he should have in those years when he did pay taxes.

"In the last two years, the IRS has been coming down on the tobacco farmers around here a lot, so having poor records, especially labor records, is a problem. Farmers who used to pay their help in cash, out of pocket, are finding they can't do that.

"He might keep records, but not with the family share. The children are given a share of the crop, but it's all sold under the father's name, and he can't understand why he has this huge tax bill.

"Taxes are not a problem for just the farmers I am working with, but with everyone. Even the CPAs are telling me that the IRS is asking for back records," Somerville adds.

The simple rural life of barter and odd jobs is tough to maintain in the 1990s.

"Just a few years ago, some farmers would cut timber, slaughter a pig for neighbors or till up some land for a few extra dollars. Now things are different, so much more complex. Cutting timber, for example. You have to have it a certain length, and it takes special equipment. Or you have to be insured, or inspected. And all of that means records," he explains.

JERALDINE AND MASON COLEMAN are a good example of how records can do more than make government lenders comfortable. FSA asked Somerville to visit them a few years ago and today this farm is one of the turn-around stories.

Jeraldine Coleman is a profile in courage. Despite a long and difficult recovery from the removal of a brain tumor, the farm wife never quit her role as the family farm accountant and financial manager. Starting with a box of receipts and bills, she watched how Somerville posted each one in the "Farm Family Record Book" USDA provided.

"The papers would just pile up and I didn't

Racist Landscape?

ASKED IF BLACK [illegible] being discriminated [illegible] USDA loans, Chris Somerville [illegible] [illegible]

[illegible] for their anger and frustration. [illegible] Still, some complaints have been [illegible] voiced by other non-minority farmers. Gripes about unreasonable regulations, [illegible] late responses and the cumbersome paperwork that can overwhelm small-scale farmers are not race-specific. [illegible] Field employees' performance [illegible] [illegible]

33

really know what to do with them," the soft-spoken woman says with a smile. "But he had a method that makes it easy."

"Now, it takes no time at all to work with them," says Somerville. "I just check over the records sometimes. The banks and Farm Service love it." The tobacco farm with a 36,000-pound allotment is now on firm footing.

Her records pointed to several ways the farm could reduce costs. "Every time we moved from one farm to another, there was all of this set-up. And the men have to stop for a drink and they get off doing this or that. I kept thinking what this was costing," says Coleman. All of the tobacco is now managed in one location.

"The records made them all better shoppers, too," adds Somerville. "With the receipts, they should see who was charging them for everything. They know whether what they're doing is paying or not paying."

The Colemans got their debt under control. Their son, Steve, is a partner in the farm, and the family, working together with clear goals, is now building a business that might be passed on for generations.

Likewise, James Perry's grandson, David, is a high school senior and has said he'd like to someday take on the family farm as a part-time operation. But his grandfather worries that there might not be anything to take on.

"I'm on the edge of losing it all, I know that. I'd hate that. Some changes have to be made. I don't have any money. If I owe you $10, then are you going to give me $10 more? Then I'll owe you $20," Perry says to us as we prepare to leave his farm.

Perry is not giving up. He is working with Somerville to try to get everyone paid. "I am in debt, too much debt. I hope FSA and everyone else will let me make this crop and see where I stand," he says. CF

Geraldine Coleman uses Somerville's system to manage the family farm.

While there are problems in some areas, [illegible] there appears to be no consistently dis[illegible] between minority and non-minority [illegible] growers in the Farm Service Agency [illegible] The disparity in participation [illegible]

[illegible] into more debt than they could handle, he recalls. [illegible] Somerville's funding has been continued at least for a year and probably for several more. He doesn't plan to change his approach to his counseling [illegible]

[illegible] some people have made some bad decisions," he notes. "It's hard for me to recommend to young people here that they should get into farming. Tobacco, cattle, wheat and a few alternative crops of some kind — that's agriculture in this area. [illegible]

MINORITY FARMERS are an endangered species. "We keep up with endangered species of animals," one black farmer told a USDA listening session. "I guess what we're saying is that black farmers, people-of-color farmers in this country... deserve a kind of registry, a kind of list so that we could preserve those farmers."

USDA might go so far as to establish a "voluntary registry of minority land owners," through the Farm Service Agency, it was suggested, even establishing "a baseline of land ownership by people of color."

Black farmers blast USDA

WASHINGTON (AP) — Several hundred black farmers called for an end Wednesday to Agriculture Department practices they say are discriminatory and threaten the existence of black farms.

At a rally outside the Agriculture Department and at a special hearing of the Congressional Black Caucus, speakers had the same message: The USDA must erase immediately the practices that have caused it to be labeled "the last plantation."

John W. Boyd Jr. of Baskerville in Mecklenburg County, Va., president of the National Black Farmers Association, which sponsored the USDA rally, said black farmers are losing land at a rate of 9,000 acres a week.

"We can no longer afford to remain silent," he told the morning rally. "We must demand an end to discriminatory practices at USDA that are driving us off our land."

Indeed, Rep. Maxine Waters, D-Calif., who chairs the Black Caucus, told farmers packed into a hearing room in the afternoon that if current trends continued, black farms will have vanished by 2000.

"Discrimination and lack of access to capital are the key reasons for the decline of the African-American farm," she contended. "We believe that part of the problem at the USDA is institutional. Bureaucrats at all levels have actively worked to deny access to loans."

Agriculture Secretary Dan Glickman and a dozen top aides listened to black farmer after black farmer recite examples of allegedly discriminatory treatment they had received from personnel at the department's local field offices.

Boyd, for instance, recalled an instance in which it took 222 days for the USDA to process a black farmer's loan application and at the same time it took just 60 days to approve a loan for a white farmer.

Vivian Warrens of Southampton, Va., related that when her father finally got his loan one year, it was too late to achieve the crop's potential.

"We can be as successful as white farmers who get their

(Please see USDA, page 2)

USDA

From page 1

(USDA loans) in time to get their crops planted," contended Cecil Brewington, a North Carolina farmer.

Glickman acknowledged the "biggest challenge we face at USDA — the one that's consumed the most of my time and commitment — has been civil rights."

Saying the problem is decades old, he repeated a promise "that on my watch, we'll change the culture of the Department of Agriculture .... We will close down 'the last plantation' and reopen the door to 'the people's department.'"

Glickman said a new Civil Rights Division he created "is in high gear, working to eliminate the backlog of program discrimination and equal employment opportunity complaints."

"All complaints that can be resolved will be resolved by June 6," he pledged, adding that the department is streamlining the complaint settlement process.

In addition, he said, USDA field offices have been instructed to halt any foreclosures on department loan accounts when discrimination complaints are pending and to continue processing applications even when the complaints are outstanding.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. letter	Tobacco Farming [partial] (1 page)	05/16/1997	b(6)

COLLECTION:
Clinton Presidential Records
Domestic Policy Council
Thomas Freedman
OA/Box Number: 17554

FOLDER TITLE:
Tobacco Farmers

2015-0274-S
wr10809

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.
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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]

[001]

[redacted] (b)(6)

MAY 16, 1997

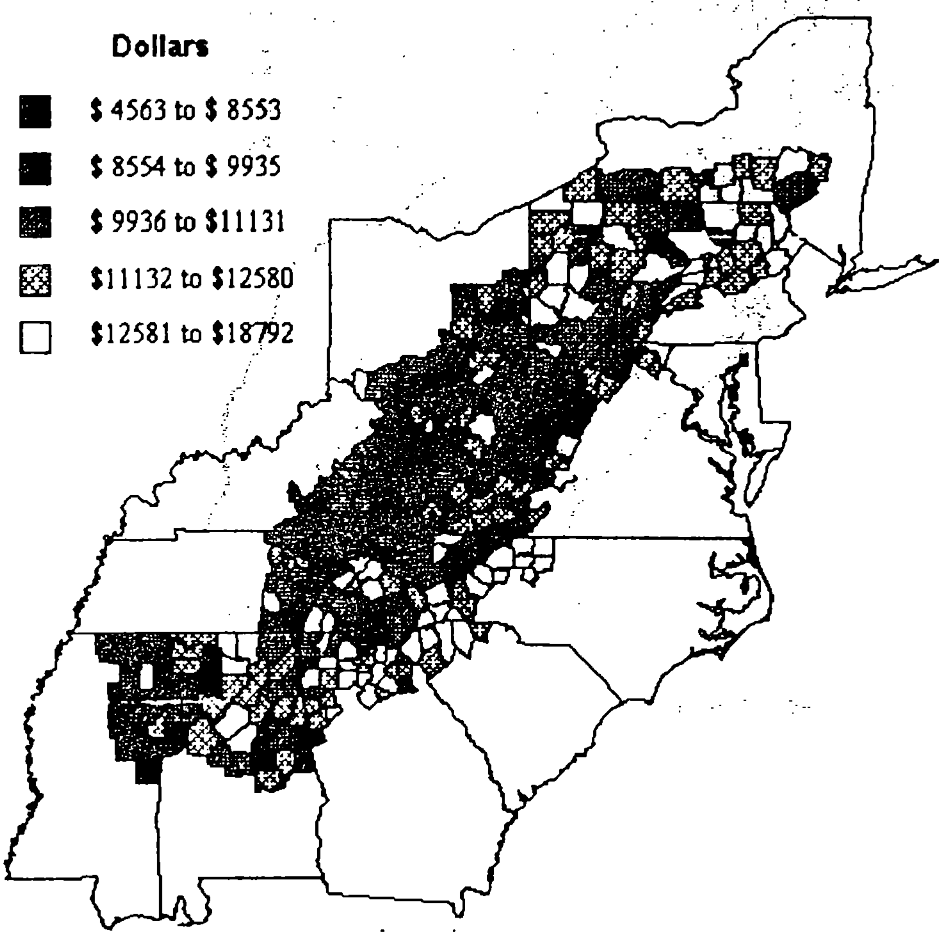
TO WHOM IT MAY CONCERN

I AM A 74 YEAR OLD MINORITY TOBACCO FARMER AND IT HAS COME TO MY ATTENTION THAT SOME SENATORS IN WASHINGTON WANT TO DO AWAY WITH THE MPCI (FEDERAL CROP) INSURANCE ON TOBACCO. IF THE SENATORS DO THIS, I WILL BE OUT OF BUSINESS AS THE LOCAL LENDING INSTITUTION WOULD NOT LEND ME ANY MONEY WITHOUT MPCI CROP INSURANCE. FARMING IS MY LIVING AND I PAY A PREMIUM FOR IT, BUT IF IT IS DONE AWAY WITH I WILL NOT BE FARMER ANY LONGER BECAUSE I COULD NOT BORROW ANY MONEY TO FARM WITH.

PLEASE TAKE A HARD LOOK AT THIS SITUATION AS I AM NOT THE ONLY ONE IT WOULD AFFECT. IT WOULD AFFECT THE BIG FARMER JUST AS BAD AS IT AFFECTS ME. WHEN YOU DO AWAY WITH ANY PART OF FARMING OUR COUNTRY IS GONE.

[redacted]

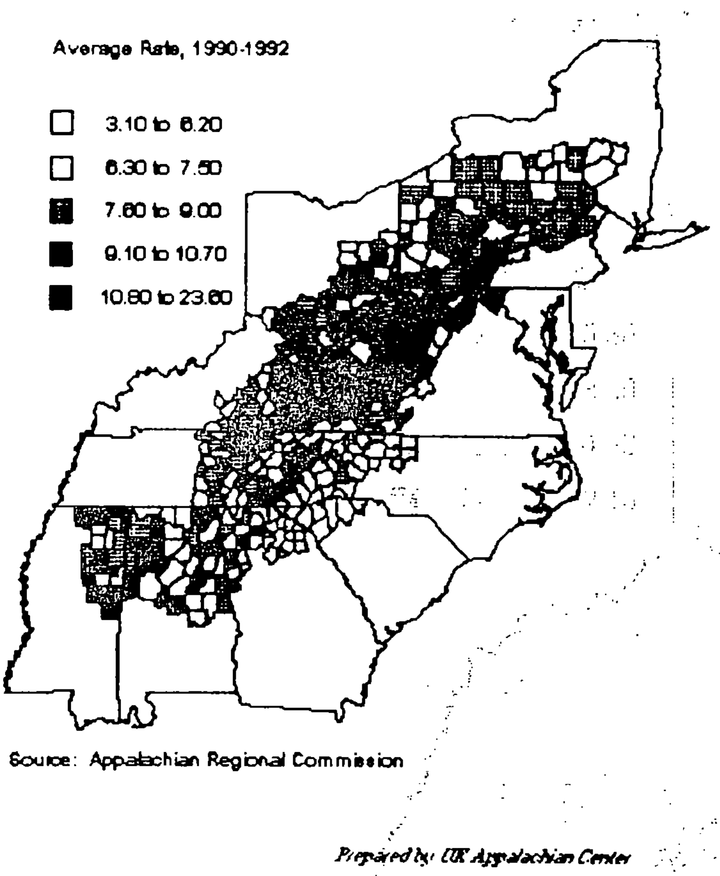
Per Capita Market Income, 1991*



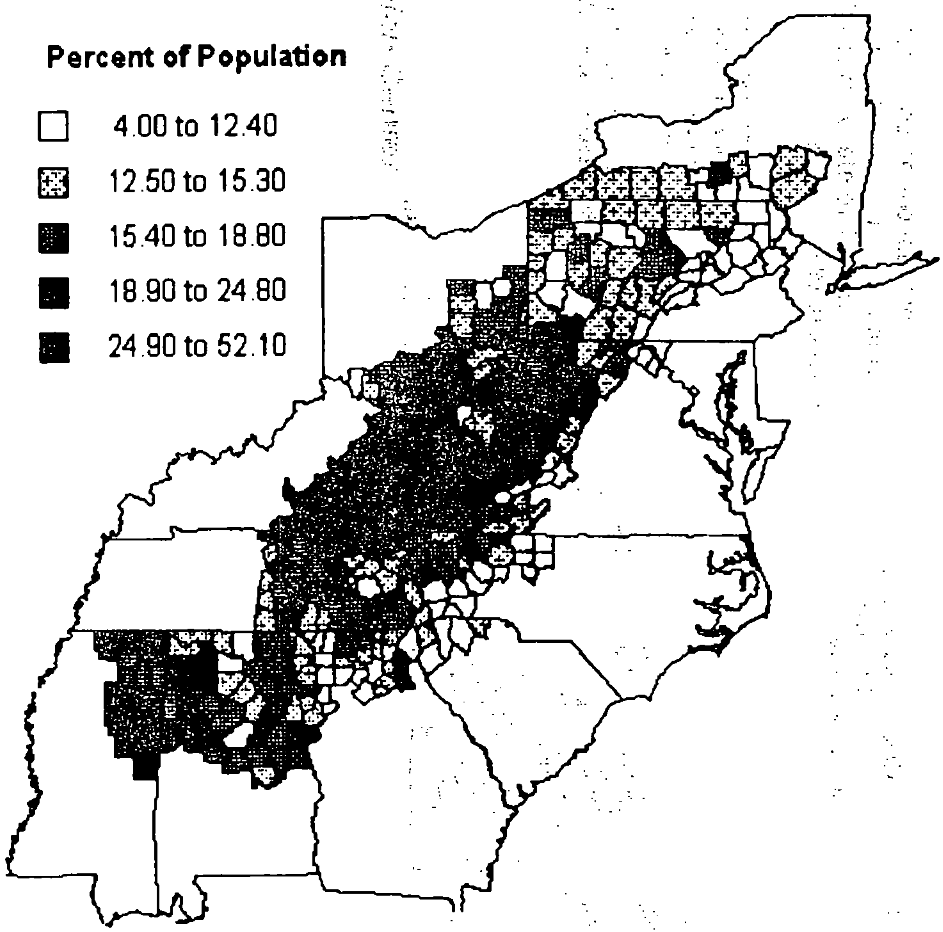
*Market Income equal PCI minus all transfer payments
Source: US Census

Prepared by: UK Appalachian Center

Unemployment in Appalachia



Poverty in Appalachia, 1990



Source: U.S. Census

Prepared by: UK Appalachian Center

Virginia ARC Region Poverty Rates by Census Tracts: a regional comparison

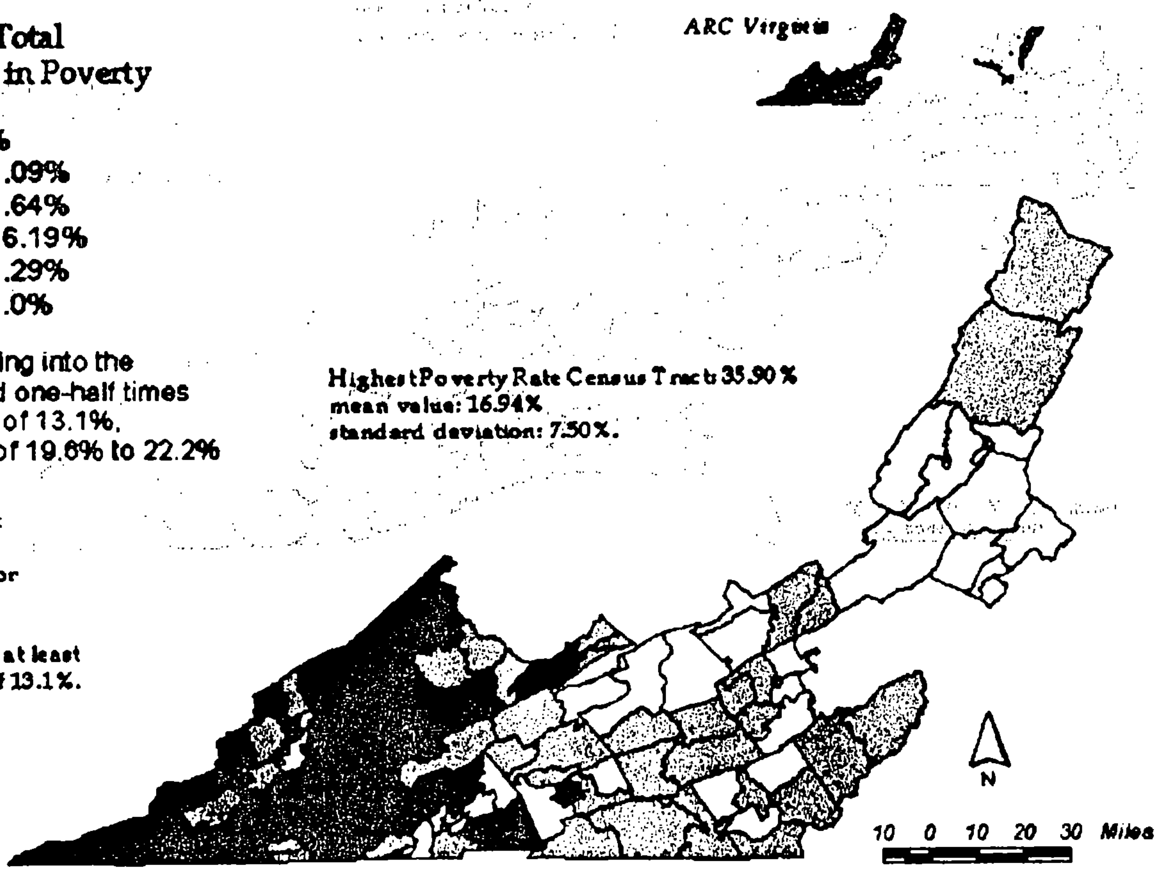
source: 1990 US Census

Proportion of US Poverty Rate of 13.1%	Percent of Total Population in Poverty
0 - .5	0% - 6.59%
.5 - 1	6.60% - 13.09%
1 - 1.5	13.1% - 19.64%
1.5 - 2.0	19.65% - 26.19%
2.0 - 3.0	26.2% - 39.29%
3.0 - 6.0	39.3% - 80.0%

* for example, a census tract falling into the center red category, has one and one-half times to two times the US poverty rate of 13.1%, which equates to a poverty rate of 19.6% to 22.2%

The red categories, the three highest poverty rate classes, indicate those tracts which exceed poverty levels for ARC Distressed Area designation.

ARC 1997 Distressed Counties have at least 1.5 times the 1990 US Poverty rate of 13.1%.



UK Appalachian Center

North Carolina ARC Region Poverty Rates by Census Tract: a regional comparison

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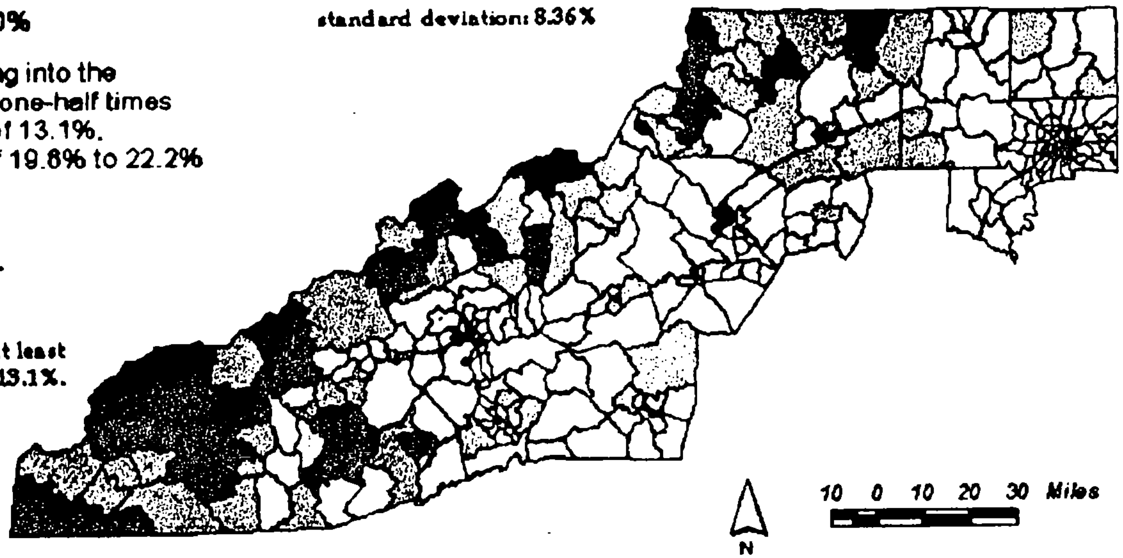
ARC 1997 Distressed Counties have at least 1.5 times the 1990 US Poverty rate of 13.1%.

Highest Poverty Rate Census Tract: 51.46%
mean value: 13.12%
standard deviation: 8.36%



UK Appalachian Center

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

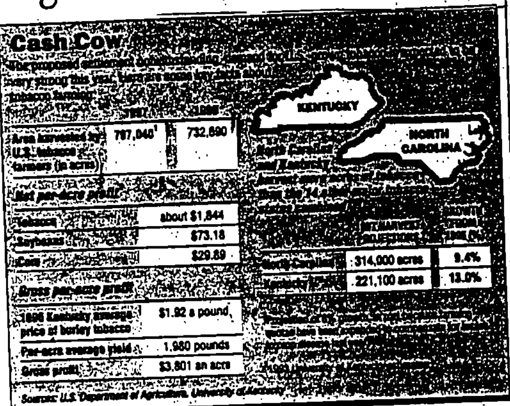
By JEFFREY TAYLOR
Staff Reporter of THE WALL STREET JOURNAL

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

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

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

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



Switch to Alternative Crops

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

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

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

Studying the Economic Impact

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

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

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

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

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

THE WALL STREET JOURNAL
WEDNESDAY, JULY 16, 1997

Farmers — EW

MEMORANDUM

Ms
Can you find?
Tom

TO: DPC STAFF

FROM: RAVEN MONTGOMERY

RE: TODAY'S ARTICLES ON TOBACCO

DATE: JULY 1, 1997

The New York Times July 1, 1997
Letters to the Editor

The Wall Street Journal July 1, 1997
Marlboro's Billboard Man May Soon Ride Into the Sunset
Sally Goll Beatty

- This article discusses the people who paint the Marlboro's billboard bleak future since the proposed settlement would ban all cigarette billboards and all ads with human characters.

The Wall Street Journal July 1, 1997
It's 'Judgement Day' in U.K. Tobacco Case
Earnest Beck

- The court will decide if 47 lung-cancer sufferers can continue with their case against the United Kingdom's two largest cigarette manufacturers, Imperial Tobacco and Gallaher Group.

The Washington Post July 1, 1997
Virginia Sees Opportunity In Wake of Tobacco Deal
Mike Allen

- Virginia is demanding its share of the settlement money and lobbying Congress to add relief for farmers.

USA Today July 1, 1997
Tax bills: How they stack up

- This is only a comparison of highlights of the tax changes proposed Monday by the President and the tax bill passed last month by the Senate and the House.

The New York Times, TUESDAY, JULY 1, 1997

China and Sanctions

To the Editor:

Leo Cecchini (letter, June 24) says that "a flourishing market economy is compatible only with a free society." He has it backward. A democratic system can survive only with an open, vibrant economy in which people are free to make economic choices.

If the United States severs normal trade relations with China, private enterprises in China and Hong Kong producing export goods will suffer a setback. The standard of living for more than a billion Chinese, including those in Hong Kong, will deteriorate.

Does Mr. Cecchini think that will improve the chance for a democratic in China? If trade sanctions haven't worked in Cuba or Iraq, how likely are they to have the intended effect in China? LI-LAN CHENG
New York, June 24, 1997

Next, Tobacco War?

To the Editor:

No one seems to have noted the parallel between Britain's Opium War of a century ago (Week in Review, June 29) and the tobacco industry's girding to make its future profits on the exporting of tobacco.

Having protected its citizens at home, it doesn't look as if Washington will lift a finger to stop the export of death abroad.

This has been the policy on agricultural chemicals, and there is no indication that it is about to change. MORTON SOBELL
San Francisco, June 29, 1997

Charity Shouldn't Just Mimic Government

To the Editor:

Visions of my plaid shirt apparently made Frank Rich misread our report on giving (column, June 26). Of course we salute Bill and Melinda French Gates for their $400 million gift to libraries. We concluded that the country would be better off if more would do what they have done: plan carefully, and then invest time and money in their communities.

We suggested that givers, especially foundations, spend less time pioneering new programs "as the advance men and women for government and spend more time being venture capitalists for a new army of civic entrepreneurs who are determined to build up their own deteriorating families, neighborhoods and schools." Who better than the Gateses to be venture capitalists for community libraries?

Rebuilding community institutions is usually best done by gifts that are responsive, personal, sometimes controversial and often faith-based, all of which are uncharacteristic of government. It's what private actions do best. So we also suggested that charity do more "transforming" — help someone get on his or her feet and stay there, love a child, develop will power, reject drugs — and leave to government the job of transferring money to those in trouble. LAMAR ALEXANDER
Washington, June 27, 1997

The writer is head of the National Commission on Philanthropy and Civic Renewal.

Paterson's Great Falls

To the Editor

I loved the serendipity of the bike tour you recount (Weekend section, June 27), but to have come within a mile of Paterson's Great Falls and missed them is like bypassing "Winged Victory" at the Louvre.

The hills your reporter climbed to Haledon are part of the same lower Watchung chain that makes the falls' 75-foot drop so breathtaking. After crossing that "scary" bridge, had he stayed his course through a seedier bit of Paterson he would have had his obligatory hill and seen a sight few New Yorkers see. FLAVIA ALAYA
Paterson, N.J., June 28, 1997

Now Use Medicare for Universal Coverage

To the Editor:

"Inevitable Surgery on Medicare" (editorial, June 26) holds that Medicare will be rescued by changing the eligibility age and increasing contributions by the wealthy. Absolutely, but not according to plans crafted by the Senate.

Medicare's eligibility age should be lowered to 0, at once solving the problem of the uninsured and ending profiteering in the health sector. And yes, the wealthy should pay more — not at the point of service or premium, but through a more equitable income tax system. Medicare's popularity calls for its extension, not its disappearance. ANNE-EMANUELLE BIRN
New York, June 26, 1997

The writer is an assistant professor of health policy and history, New School for Social Research.

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Spontaneous Outrage

To the Editor:

"Inevitable Surgery on Medicare" (editorial, June 26) says that "when Congress voted in 1988 to raise Medicare premiums on wealthier retirees, the elderly forced it to repeal the decision." In fact, Medicare premiums were raised for all beneficiaries without regard to income. In addition, a surtax was to be levied on income taxes paid by elderly people of moderate or high income; it was the country's first tax on age.

Both taxes were to escalate sharply in subsequent years. When the details sank in, spontaneous outrage caused repeal. JOHN L. HESS
New York, June 26, 1997

For Ousted HarperCollins Writers, All Isn't Lost

To the Editor:

As a writer and editor, I pity the authors cut loose by HarperCollins ("HarperCollins Cancels Books in Unusual Step for Industry," front page, June 27). On the other hand, 70 of the 106 books let go were past deadline. It's about time, authors faced accountability for lateness.

Also, in a market overgrown with new books, a little pruning is hard to bemoan. Besides, HarperCollins isn't rescinding advances, so the authors have a chance to sell their work else- and get paid again. The public has heard for years that big publishers have abandoned art for commerce. Apparently they're good at neither. DAVID GALEF
Oxford, Miss., June 29, 1997

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To the Editor:

Your June 27 front-page article speaks of HarperCollins's "history of nurturing authors from Mark Twain to Howard Stern." That does not go back far enough. In 1836, a time of virulent anti-Catholicism, the publisher James Harper, later New York's first Know-Nothing Mayor, published, through a dummy corporation, Maria Monk's "Awful Disclosures of the Hôtel Dieu Nunnery."

In the words of the historian Ray Allen Billington, it became "the most influential single work of anti-Catholic propaganda in America's history." It sold 20,000 copies within a few weeks and was a best seller until the appearance of "Uncle Tom's Cabin" in 1852. E. LEO MCMANNUS
Venice, Fla., June 28, 1997

The Times welcomes letters from readers. Letters must include the writer's name, address and telephone number. Those selected may be short- for space reasons. Fax letters to (212) 556-3622 or by electronic mail to letters@nytimes.com, or by regular to Letters to the Editor, The New York 1 229 West 43d Street, New York, N.Y. 10036-3959.

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Idling Limos Pollute

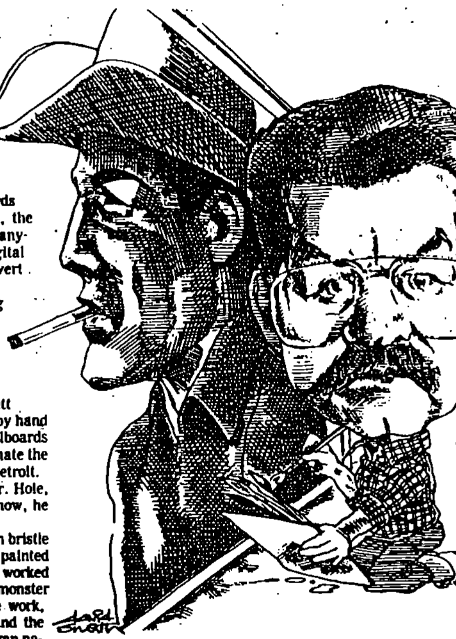
To the Editor:

"Limo Life, From the Front Seat" (news article, June 24) reminded me of a continuing crisis in New York: air pollution. How often do we see limos gathered, with engines running while drivers chat on the sidewalk? When informed of a law that limits engine idling to three minutes, most drivers claim ignorance. And enforcement is nonexistent.

This is a cause of pollution. Are you listening, Police Commissioner Safir? PAUL AN

Marlboro's Billboard Man May Soon Ride Into the Sunset

By SALLY GOLL BEATTY
Staff Reporter of THE WALL STREET JOURNAL



Dan Hole paints his landscapes at an unusual studio: an airy paint-splattered warehouse in a business park in Murrieta, Calif. Inside, half-completed paintings of giant cowboys and horse heads hang on the walls. Outside, even bigger Western tableaux—the ones that don't fit inside—hang on enormous steel hooks.

Mr. Hole is the nation's leading painter of Marlboro billboards, a job with precious little security at the moment. A landmark tobacco settlement proposes to ban all cigarette billboards and all ads with human characters. Meanwhile, the billboard industry is in the throes of automation anyway, with human artists being replaced by big digital painting machines that scan images and convert into blasts of paint.

All that makes Mr. Hole one of a vanishing breed of "pictorial artists" who paint billboards the old-fashioned way—using a brush and oil paint on plywood sections that, combined, create images the size of small apartment buildings. His employer, family-owned Outdoor Media Group, is under contract with Leo Burnett Co., an ad agency for Philip Morris Cos., to paint by hand some of the biggest and best-known Marlboro billboards —towering commercial artworks that dominate the skylines of cities stretching from Los Angeles to Detroit.

"The future looks pretty cloudy," concedes Mr. Hole, a 55-year-old former studio-art teacher. But for now, he says, "we're just painting away."

Working with standard four-, two- and three-inch bristle house-painting brushes, Mr. Hole figures he has painted 300 Marlboro billboards in the 11 years he has worked at Outdoor Media. That works out to about one monster artwork every two weeks. "It's a little like stage work, where every day you're challenged to perform and the performance has to be a good one," says the Michigan native. "Whatever I do is right there for everybody to see."

Mr. Hole's latest subject is a 60-foot-by-35-foot cowboy destined for the Louvre of the billboard world—Sunset Boulevard in Los Angeles. Up close, this Marlboro cowboy looks more like a garish painted lady than a macho man. Reds, creams and deep red browns have been blended together across a 10-foot-wide expanse of plywood to provide an exaggerated view of rugged facial features.

Mr. Hole mixes about 25 to 30 different colors to paint each billboard. The distinctive Marlboro red is achieved by mixing Transparent Rubine Red, Fire Red and Day Glo Red. Intense color is necessary to make the Marlboro men look natural to motorists who are 500 yards away, speeding by at 55 miles an hour.

The logistics involved in applying so much paint to such huge spaces are daunting. First, Mr. Hole and his team must convert the original ad sent out by Leo Burnett into a series of charcoal lines that will form the foundation of the finished painting. The sketch is then scaled to about 50 times its original size. After dark, the scaled drawing is flashed on the billboard and traced. Finally, Mr. Hole fills in the blanks, painting from a precarious perch atop a hydraulic lift 30 feet in the air that sways whenever he dips his brush in the paint.

Mr. Hole learned the billboard craft from his mentor, the late Marv Gunderson, Outdoor Media's founder. Mr. Gunderson landed his first Marlboro assignment in 1973. Back then, the job required Mr. Gunderson and an assistant to fly to Chicago to paint a 90-foot-by-42-foot Marlboro billboard on a site overlooking Chicago's Dan Ryan Expressway. It was the dead of winter, recalls Mr. Gunderson's son, Chuck, Outdoor Media's vice president. Each morning, his father scrambled up the 75-foot ladder only to find that his paints had frozen during the night. An assignment that would have taken two weeks in a studio stretched out into three months.

After that first Chicago winter, Mr. Gunderson assembled a set of steel scaffolds and wooden catwalks. The scaffolding allowed Outdoor Media to divide the billboards into a series of more manageable parts. Finished products were packed in trucks and driven cross country to billboard sites in Detroit, Chicago, Dallas and Phoenix, among other cities.

Back in Marv Gunderson's day, artists worked on wooden swings that moved up and down billboards using a system of weights and pulleys. Over the course of his career, Mr. Gunderson suffered half-a-dozen falls. He finally quit painting the Marlboro billboards at age 65, after surgery to correct a rotator cuff in his shoulder that had been worn out from 40 years of painting.

Today hydraulic lifts have made billboard painting easier and safer. But Mr. Hole insists there's a lot more to billboard art than painting by numbers. "We're making hundreds of decisions constantly," he says. "How big, how small, what color, what tone, how sharp, how soft, how subtle, how overt." Mr. Hole won't divulge his salary, but skilled billboard painters are paid $25 to $35 an hour.

Mouths are the hardest facial feature to get right, Mr. Hole says. "It's always changing, it's in different positions—they're open, they're closed. If you mess it up it looks funny." The trick, he says, is to remember that "the lower lip picks up the light and is a little fatter and wider," while "the upper lip is often in shadow."

Eyes are also tricky. "It's easy to mess up and have one eye looking in one direction and the other eye looking in another direction," he says. To make sure that doesn't

Please Turn to Page B8, Column 2

Continued From Page B1

happen, he ntly compares the two eyes to each other – and to the original art work—often lowering his lift to the ground, where he steps off and checks his work from a ce.

Mr. Hole's favorites from his oeuvre are the billboards that posed a special challenge – such as a cowboy drinking from a canteen. "That was kind of interesting, creating the illusion of water running down his cheek," Mr. Hole recalls. Another sported a giant face that measured 48 feet from ear to ear – "the biggest face I've ever done; it had a nose 10 feet long." A third featured a technically difficult scene of cowboys on horseback crashing through a river bed. The trick to getting water is to apply paint "layer by layer, keeping the color clean," Mr. Hole says.

There aren't a lot of young artists rising through the business any more. "There may be a few more out there, but not of this quality," says Jon Gunderson, Outdoor Media's president and another son of Marv. "Usually it's just somebody they keep on staff to do touch-ups."

If the tobacco settlement becomes law and cigarette billboards are banned, Outdoor Media, which gets 10% of its e from Marlboro, hopes to paint billboards for other big advertisers. Meanwhile, Mr. Hole will have few mementos on to remind him of his Marlboro work. After three or four months on display, Mr. Hole's billboards are shipped back to Murrieta and white-washed, clearing their surfaces for the next billboard. "It's like Rembrandt doing his work, putting it on display in a museum and then taking it back and repainting it," Chuck Gunderson says.

"That's why I like to take a lot of photographs," Mr. Hole says. "When they're gone, they're really gone."

It's 'Judgment Day' in U.K. Tobacco Case

Court Will Decide if First Class-Action Suit Can Proceed

By Ernest Beck

Staff Reporter of The Wall Street Journal

LONDON — The battleground in the global tobacco wars shifts to a British High Court today, where the future of Europe's first class-action suit against the tobacco industry could be determined.

At a crucial hearing, the court will decide if 47 lung-cancer sufferers can proceed with their case against the United Kingdom's two largest cigarette manufacturers, or whether there is insufficient evidence or merit to go to trial.

Following the landmark proposal in the U.S. to settle its tobacco-liability cases, the U.K. action, against Imperial Tobacco PLC and Gallaher Group PLC, is being closely watched. If it clears today's hurdle, the case could become a test of strength between Europe's nascent antismoking movement and the tobacco industry.

Trial Would Be Far Away

"This case could be judgment day," says Julian Fulbrook, a lecturer in law at the London School of Economics, who has followed the case. Still, if the court lets the suit proceed, a trial date could be up to two years away.

Still, it's far from certain that antitobacco advocates will prevail, even with the industry on the defensive following the U.S. settlement. Indeed, industry critics have won no legal victories in the U.K.; the few, individual antismoking cases have been lost or dropped by plaintiffs.

Having been coached by attorneys in the U.S., Martyn Day, the British plaintiffs' lawyer, believes growing sentiment against the tobacco industry will help his case. Moreover, the U.S. settlement proves the industry isn't invulnerable.

The plaintiffs argue that the tobacco companies ignored their "duty to care" and were therefore negligent for selling a product they knew caused death or injury. Cigarette warning labels were introduced in the U.K. only in 1971, compared with 1965 in the U.S. The plaintiffs also intend to focus on consumer-protection statutes, though unlike in the U.S., product liability is largely uncharted territory in the U.K. Mr. Day and his team will argue that a company is liable if a product it sold caused injuries, even if the company didn't know at the time the product was dangerous.

The suit would also break legal ground, as there is little U.K. case law involving medical and environmental liability.

Briefings With U.S. Smoking Foes

By any measure, Mr. Day is a maverick, compared with the conservative British legal establishment. He even advertised in newspapers for cancer victims to join the case, an unusual step in the U.K. And he has taken the case on a no-win, no-fee basis, which is new to U.K. legal practice.

"I enjoy cases on the cutting edge of the law . . . [and] there's definitely a need for justice here," says Mr. Day, who has traveled to the U.S. as many as four a year for the past four years for briefings with lawyers and state attorneys general working on the U.S. tobacco litigation.

Still, while the plaintiffs enter the fray buoyed by the success of the U.S. antismoking litigants, analysts say the tobacco firms aren't likely to settle.

"We will defend ourselves," says Gallaher spokesman Ian Birks. "A U.S. settlement is for the U.S." The industry won't budge even though the plaintiffs are asking for a moderate £50,000 ($83,225) each. That compares with the U.S. settlement of $385.6 billion, and total annual sales by Imperial and Gallaher of £11.5 billion in the U.K.; each company has annual pretax profit of about £350 million. But the companies fear a settlement could lead to a rash of cases in the U.K. and Europe.

THE WALL STREET JOURNAL
TUESDAY, JULY 1, 1997

Virginia Sees Opportunity In Wake of Tobacco Deal

State Is Key to Ratification, Official Says

By Mike Allen
Washington Post Staff Writer

Virginia, one of only 10 states that shunned negotiations with tobacco companies, is trying to get back in the game by demanding its of the settlement money and lobbying Congress to add relief for f

State Attorney General Richard Cullen (R) contends Virginia has "maximum leverage" because the states involved in the negotiations will need the support of tobacco-belt congressmen to win ratification of the agreement.

"Tactically speaking, it was a stroke of genius for Virginia not to be a signatory to any settlement," Cullen said. "If we had been a signatory, our role would be to swallow it. Now, our role is to get Congress to improve upon it."

But public-health groups, Demo- and some farmers say Virginia officials should have spoken

The agreement, announced 20, bans many forms of cigarette advertising and requires manufacturers to pay $368.5 billion to states to compensate them for the cost of treating smoking-related diseases.

A spokesman for Attorney General Mike Moore of Mississippi, who led the states' negotiating during the talks, said any settlement enacted by Congress would apply to all 50 states. But the spokesman, Trey Bobinger, said the 40 states that bore the risk and expense of suing may get more than those that did not, although he said that has not been resolved.

Republican gubernatorial candidate James S. Gilmore III, who resigned as attorney general last month, had resisted calls for Virginia to join the talks and instead said he was "in ongoing communication with key members of the [U.S.] House and Senate."

Analysts have said the proposed agreement would ensure the long-term solvency of the nation's cigarette companies but could cause a

See TOBACCO, B2, Col. 3

TOBACCO, From B1

rise in taxes and a fall in demand that squeeze farmers.

Last week, after the settlement was announced, Gilmore went on the attack by sending letters to the heads of three major cigarette manufacturers, chastising them for failing to include provisions protecting family farmers.

"That decision was wrong," Gilmore wrote. "Because the negotia- while they were continuing, were highly delicate, I not want to disrupt matters by commenting publicly on this issue. Now that the Congress will soon begin its deliberations, I must speak out."

A spokeswoman for Gilmore's Democratic opponent, Lt. Gov. Donald S. Beyer Jr., called Gilmore a "Jimmy-come-lately."

"A day late and millions of dollars short, he's trying to cover his tracks with these letters," said the spokeswoman, Page Boinest.

Both candidates have tried to make hay from tobacco. Beyer, like Gilmore, was opposed to the idea of a state lawsuit against the tobacco industry. But he has emphasized his support for federal regulation of nicotine, a popular stance in Northern Virginia. Gilmore won points downstate for filing a court brief on behalf of cigarette companies when he was attorney general.

Matthew L. Myers, executive vice president of the Campaign for Tobacco-Free Kids, who represented the public-health community at the negotiating table, said little was said about farmers during the talks.

"There were plenty of opportunities for public figures from tobacco-growing states to weigh in on behalf of farmers while the discussions were going on," he said.

Gilmore plans to dramatize his support for farmers today with a trip through Southside Virginia, where he will hold a news conference at a tobacco warehouse in Danville and tour tobacco farms in Chatham and the village of Republican Grove.

"We have consistently stood up for their jobs, and they know that," he said in an interview.

Gilmore said he did not participate in the talks because that would have required joining the suit against cigarette manufacturers.

"I've been working on this for years," Gilmore said. "This has always been the game plan—not to be tied down to a bargaining table with attorneys general whose states are not involved in this industry."

Tobacco farmers are giving Gilmore's strategy mixed reviews. Ron Waller, 41, who lives on Golden Leaf Road in Republican Grove, plans to take a break from cultivating his tobacco this afternoon to show Gilmore his barns and fields.

"He seems to be a down-to-earth guy," Waller said. "He understands the problems we're having politically now."

Claude S. Whitehead, a dentist who farms 30 acres of tobacco in Chatham, said some farmers think Gilmore waited too long to go public with his demand that farmers be included in the settlement.

"It's like bolting the after the has left the barn," he said.

Displacement Banned Under Welfare Law

Glendening Bars Md. Companies From Using Hires to Cut Payroll

By Robert E. Pierre
Washington Post Staff Writer

Maryland Gov. Parris N. Glendening (D) yesterday signed an executive order designed to ensure that employers don't hire government-subsidized welfare recipients as a tactic to trim payroll costs and force low-wage and seasonal workers out of their jobs.

The order prohibits businesses from hiring welfare recipients for positions in which other employees have been fired or put temporarily out of work during the summer, such as school cafeteria workers. Employers also are barred from reducing the hours of other employees to hire workers whose salaries are partly paid by taxpayers.

In either case, the directive states that "displacement" would have occurred. Glendening set up a shortened and simplified grievance process through which employees can challenge their dismissal in suspected displacement cases.

"It clearly makes no sense to reduce the welfare rolls if we are increasing the unemployment rolls," Glendening said during an Annapolis news conference yesterday.

"When an employer acts to create a vacancy in an existing job, it is simply wrong to allow them to gain access to a subsidy."

Glendening's order makes Maryland one of the first states to outline specific protections to prevent low-wage workers from losing jobs as the result of altered welfare approaches, although many others are considering such action. Labor unions and advocates for the poor said the federal ban on displacement is vague and allows employers too much discretion, arguing instead for stricter guidelines.

"There's nothing in the new federal law that prevents unfilled vacancies from being converted into workfare slots," said George W. McEntee, national president of the American Federation of State, County and Municipal Employees, representing 1.3 million employees nationwide. "What the governor has done is filled a void."

In early May, the Maryland Industrial Areas Foundation, a statewide coalition of religious institutions and labor unions, secured a pledge from Glendening to address the issue.

"This is indeed a milestone," said the Rev. Grady Yeargin, co-chairman of the foundation and pastor of City Temple Baptist Church in Baltimore, where Glendening made the pledge. "This order protects thousands of seasonal workers from losing their jobs."

Currently, there are 83 welfare recipients in Maryland with taxpayer-supported jobs, but advocates said the law also is needed to protect thousands of seasonal, low-wage workers such as Patricia Alston, a bus aide in Baltimore. Alston works nine months a year and feared that she might be jobless in the fall.

"As a single woman, I have nothing to fall back on," she said. "This order is a victory for all working people in Maryland."

But Champe C. McCulloch, president of the Maryland Chamber of Commerce, said he does not believe that displacement is occurring. It's too costly, he said, for employers to train employees in exchange for a subsidy.

"I don't think displacement is a serious issue," McCulloch said. "If it occurs at all, it's an aberration. It doesn't make any economic sense."

Arnie Graf, a regional director of the Industrial Areas Foundation, said he doesn't buy McCulloch's argument. The workers most likely to be displaced—including dishwashers, housekeepers and janitors—are not difficult to train, resulting in large profits for employers who take the subsidies.

"Our contention is that welfare reform is a massive subsidy transfer from poor people to entrepreneurs and corpora- Graf said.

Effect of tax plans on two families

President Clinton has joined the House and Senate in proposing a cut in on capital gains, which are profits from stocks, bonds, real and other investments. How two families with stock profits would fare under each plan:

Family with taxable income of $110,000 sells a stock (held for more than one year) and makes a $10,000 profit. They are in the 31% tax bracket.

Tax owed on that profit under current law	$2,800 (28%)
Tax owed on that profit under Clinton plan	$2,170 (21.7%)
Tax owed under House plan	$2,000 (20%)
Tax under Senate plan	$2,000 (20%)

with taxable income of $300,000 sells stock (held for more than one and makes a $100,000 profit. They are in the 39.6% bracket.

Tax owed on that profit under current law	$28,000 (28%)
Tax owed on that profit under Clinton plan	$27,700 (27.7%)
Tax owed on that profit under House plan	$20,000 (20%)
Tax on that profit under Senate plan	$20,000 (20%)

ection, it projects a revenue gain in he short run. Archer counts a net gain of $2.7 billion over the first five years from the capital gains tax cut, before costs begin to rise.

rative advocates argue that reducing capital gains rates actually will bring the government more not less, in the long run y spurring the economy.

That assertion once was the source of a raging battle in Washington, but it is less of one now. Since winning majority control of Congress, Republicans have concluded that it is easier to win the tax fight by sticking with accepted economic scorekeeping methods.

But no one disputes a cut in capital gains taxes will bring at least a temporary surge in sales of stocks and other investments to realize capital gains at a new lower rate.

When the previous for capital gains was eliminated in 1986, t paid on capital gains jumped as people took their profits in anticipation of the change. Tax from capital gains rose from $26.5 lion in 1985 to $49.7 billion in 1986. ey fell to $32.9 billion in 1987 and in't $40 billion until 1995.

The eliminated the ference in between ordinary and capital gains as a way of ducing tax dodges and making the stem more fair. A rate differential vites taxpayers to find ways of fting into capital gains as way of sheltering it from taxes.

"A capital gains tax cut ... could revitalize the tax-shelter industry," says Robert McIntyre, head of the liberal Citizens for Tax Justice and an opponent of any capital gains cut.

Support has been growing

Under current law, ordinary income is taxed at a maximum rate of 39.6%, while capital gains have a maximum rate of 28%.

Republicans made cutting capital gains an integral part of their Contract With America campaign pledge in 1994. Clinton vetoed the tax-cut bill the GOP Congress approved in 1995. But support for a capital gains tax break has been broadening. And it's not just a Republican idea.

Moderate Democrats in both the House and Senate joined GOP colleagues this year in proposing an array of broad-based capital gains reductions. Clinton opened the door to a capital gains cut weeks ago, well before he put his plan on the table.

One reason for the growing support for a cut is that capital gains are becoming more of an issue to middle-income people. The stock market boom has left many investors with paper profits, and not all of them are held by the wealthy.

A Congressional Budget Office (CBO) study concludes that more than 76% of U.S. families own assets that could produce capital gains. Nearly two-thirds of tax returns reporting capital gains are filed by people with incomes under $50,000 a year, the CBO said.

"The constituency for it has broadened substantially," Beach says.

USA TODAY ·
TUESDAY, JULY 1, 1997

Tax bills: How they stack up

Here is a comparison of the highlights of the tax changes proposed Monday by President Clinton and the tax bills passed last month by the Senate and House.

CAPITAL GAINS

Clinton: Would allow taxpayers to exclude 30% of their long-term capital gains from taxes. Those are profits from stocks and other investments held for more than one year. The remaining 70% would be taxed at ordinary income tax rates. Taxpayers in the top income tax bracket (39.6%) would pay a tax equal to 27.7% of their capital gains, down slightly from the current capped rate on capital gains of 28%. Taxpayers in the 28% income tax bracket would see their rate on capital gains fall to 19.6% from 28%. Clinton would not allow taxpayers to exclude the portion of their gains that is due to inflation from taxes.

Clinton also would provide a $500,000 exclusion for capital gains on home sales for couples, $250,000 for single filers.

House: Would cut the top individual capital gains rate from 28% to 20%. Also would cut the corporate rate to 30% from 35%. Beginning in 2001, individual investors could avoid paying tax on profits due to inflation (indexing). Individuals would be allowed to shelter from tax the first $500,000 gain on the sale of a home.

Senate: Similar to House, but no reduction in corporate rate and no indexing for inflation. Commercial real estate investors would be taxed at a maximum 24% rate on gains.

CHILD CREDIT

Clinton: Would provide an annual tax credit for each child 16 and under, rising to age 18 and under in 2003. Amount begins at $400 in 1998, rising to $500 in 1999 and thereafter. It would phase out for families making $60,000 to $75,000, rising in 2001 to incomes of $80,000 to $100,000.

Unlike the House and Senate versions, the credit is refundable for working families who have no income tax liability due to the Earned Income Tax Credit but pay Social Security payroll tax.

Taxpayers could contribute the credit plus an additional $500 in after-tax dollars to a new Kidsave Account for education, first-time home purchase or retirement. Earnings would accumulate tax-free.

House: An annual credit for children 16 and under, starting at $400 in 1998 and increasing to $500 in 1999. It would phase out for couples earning more than $110,000, singles earning more than $75,000.

Lower-income families who use the Earned Income Tax Credit to avoid paying income tax would not receive the child credit.

Senate: Similar to House, but the age of eligible children would rise to 17 in 2003. In 1997 only, the credit would be $250 per child and apply only to children 12 and under. For children 13 and older, taxpayers would have to deposit the credit in an education savings account or prepaid tuition program.

ESTATE TAX

Clinton: Has proposed a new $900,000 exclusion in the value of an estate subject to taxation for family owned businesses and farms, in addition to the existing $600,000 per person exclusion for all individuals.

House: The $600,000 exclusion would rise to $1 million by 2007.

Senate: Similar to House, but family owned businesses and farms would get a $1 million exemption beginning in 1998.

EDUCATION

Clinton: Would provide a maximum annual tax credit of $1,500 per year for two years for higher education expense (100% credit for the first $1,000 of tuition and expenses, and 50% credit for next $1,000). The credit would phase out for joint filers earning $80,000 to $100,000. The credit would rise to $2,500 in 2003.

For third- and fourth-year students, graduate students and continuing education for working people, there would be a 20% credit on the first $5,000 of tuition and fees. After 2001, the credit would rise to 20% of the first $10,000 in tuition and fees. Same income phase-out levels as other education credit.

Also, Clinton would allow penalty-free withdrawals from Individual Retirement Accounts for undergraduate and graduate expenses and first-time purchase of a home.

House: Would provide a tax credit of 50% on the first $3,000 of tuition and expenses, for singles earning up to $40,000 and couples earning $80,000.

Also, a deduction of up to $10,000 on interest used for tuition and expenses on money placed in an Education Investment Account similar to an IRA, or paid into pre-paid tuition plan.

Senate: A tax credit of 75% of tuition and expenses up to $2,000 for community college.

Also, Education Investment Accounts established with withdrawals tax-free if used for tuition and expenses.

TOBACCO

Clinton: Would increase the federal tax on tobacco by 20 cents per pack of cigarettes, from current 24 cents. The money would be earmarked for a trust fund for expanding health coverage for children and other children's programs.

House: No provision.

Senate: Would increase the federal tax 20 cents a pack, with part of money going for expended child health care.

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Problem Questions

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Meet the Press

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Tobacco fairness — EW

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COVER SHEET PLUS 3 PAGES

TO: Tom Freedman / Mary Smith

FAX # 456-7431

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FROM: Dave Carlin

USDA - OFFICE OF CONGRESSIONAL RELATIONS
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(202) 720-7095

REMARKS:

U.S. Department of Agriculture

DATE: FEB - 6 1998

FROM: Dallas Smith
Deputy Under Secretary
Farm and Foreign Agricultural
Services

DS

TO: Dave Carlin
Assistant Secretary
Office of Congressional Relations

Risk Management and Specialty Crops Subcommittee Hearing on February 3, 1998, paper is attached for your information.

cc: Bruce Reed
The White House

Charlie Rawls

Attachment

tobacco - farmers

THE WHITE HOUSE
WASHINGTON

From the Office of:

The Domestic Policy Council

Elena Kagan
Deputy Assistant to the President for Domestic Policy

TO: Tom Freedman

FAX: 67431

PHONE:

PAGES: 5

MESSAGE:

Please call (202) 456-5584 if there are any problems with the transmission.

North Carolina Department of Justice
PHONE: ~~(919) 733-3377~~ 919-716-6400
FAX: ~~(919) 733-7491~~ 919-716-6750

TO:	Bruce Lindsey
FROM:	Mike Easley
FAX:	202-456-2983
PHONE:	
DATE:	8-15-97
ATTENTION:	

Bruce:

The difference in the $1.40billion (first 50 per cent of the quota) and the second 50 per cent of the buyout of $2.08 billion is a result of a gradual decrease of 6.25 per cent over the first eight years.

Thanks for all your help.

Mike

Rush

Tom -

Could you take a look at this and come talk to me about it ASAP.

Elena

1996 Quota

Base Line of 873 million lbs. 6 cents per year

	Year	Dollars		Transition Payment
	1996	$1.8300 per lb.	=	0.00
	1997	1.8300 per lb.	=	0.00
6¢	1998	1.7700 per lb.	=	52.38 million = 873 mill/lbs x 6¢
12¢	1999	1.7100 per lb.	=	104.76 million
18¢	2000	1.6500 per lb.	=	157.14 million
24¢	2001	1.5900 per lb.	=	209.52 million
30¢	2002	1.5300 per lb.	=	261.90 million
36¢	2003	1.4700 per lb.	=	314.28 million
42¢	2004	1.4100 per lb.	=	366.66 million
48¢	2005	1.3500 per lb.	=	419.04 million
				$1,885.68 billion

60% decrease in Quota

6.25% decrease over 8 Years

Quota	$4 x Quota Loss			
873	1998	54.56 million lbs. x 4	=	$218.24 million
818.44	1999	51.15 million lbs. x 4	=	$204.60 million
767.28	2000	47.95 million lbs. x 4	=	$191.80 million
719.33	2001	44.95 million lbs. x 4	=	$179.80 million
674.38	2002	42.14 million lbs. x 4	=	$168.56 million
632.23	2003	39.51 million lbs. x 4	=	$158.04 million
592.73	2004	37.04 million lbs. x 4	=	$148.16 million
555.69	2005	34.73 million lbs. x 4	=	$138.92 million
				$ 1,408.12 billion

To retire all quota 520.96 million lbs. x $4 = $2,083.84 billion

$2,083.84 billion	$1,408.12 billion			
$1,408.12 billion	$1,885.68 billion			
$1,885.68 billion	$3,293.8 billion	+ 8	=	$411.725 million per year
$5,377.64 billion		+ 8	=	$672.205 million

THE TOBACCO SETTLEMENT PAYMENT MAZE

($ Billions)	Upon Enactment	12/31 of: Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Years 12+
Lump Sum Cash Payment	10.0	—	—	—	—	—	—	—	—	—	—	—	—
Public Health Funds													
Smoking Cessation	—	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
HHS smoking initiative	—	0.125	0.125	0.125	0.225	0.225	0.225	0.225	0.225	0.225	0.225	0.225	0.225
FDA enforcement	—	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
State and Local ASSIST	—	0.075	0.075	0.1	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
Research	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
NASCAR, Rodeo	—	—	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075	—
Counter-Advertising	—	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unallocated	—	—	—	—	—	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.25
SUBTOTAL	—	2.1*	2.175	2.2	2.325	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Tort Fund	—	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
"Public Health Trust"	—	2.5	2.5	3.5	4.0	5.0	2.5	2.5	2.5	—	—	—	—
Medicaid Payments to States	—	—	0.825	1.8	3.675	3.0	5.5	5.5	5.5	8.0	8.0	8.0	8.0
TOTAL	10.0	8.5	9.5	11.5	14.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0

*First Year number for Public Health Funds is supposed to be capped at 2.0

Amounts do not include: (1) additional liability payments not covered by tort fund (up to an additional $1 billion per year),
(2) youth smoking reduction penalties (up to $2 billion per year); or
(3) attorneys fees

Proposal on Negotiated Settlement On Behalf of Flue-Cured Tobacco Producers

1. **Continue Current Program**

   A. Contractual commitment by manufacturers to annually purchase a minimum of 585 million pounds (90% of 650 million).

   B. Continue current price support program.

   C. Complete 1994 buyout agreement.

   D. USDA shall continue to administer the tobacco program.

   E. No net cost assessments and other costs to administer the program shall continue as under the current program.

2. **Transition Payments and Quota Compensation**

   In the event the tobacco program is eliminated or phased out by congressional action, or manufacturers fail to meet purchase agreements, transition payments and/or quota compensation shall be made to tobacco producers as follows:

   A. **Transition Payments** -- The 1996 market price average shall be the base for transition payments. If prices for 1998 and subsequent years (up to eight years) average less than the 1996 beltwide market average, producers will receive a transition payment that will bring that year's average up to the 1996 market average.

   B. **Quota Compensation** -- When purchase agreement is not fulfilled and purchases fall below 585 million pounds and requires a quota reduction, the quota reduced shall be retired and quota owner paid $4.00 per pound for lost quota. If quota is reduced below 50% of the 1996 basic quota, the remaining quota is immediately retired and quota owner paid at $4.00 per pound.

Funds to cover transition payments and quota compensation shall be allocated as a part of the 368.5 billion dollar settlement agreement.

It is anticipated that 5.5 billion dollars should be allocated for flue-cured tobacco to cover the 8-year transition payments and quota retirement.

List of Suggested Farmers for Tobacco meeting

BURLEY TOBACCO

Tom —
FYI —
Barbara

JOHN BELL

3520 Paris Rd., Georgetown, KY 40324
KY - Congressman Baesler
Grower

MIKE BURCHETT

Rt. 3 Box 117, Benton, KY 42025
KY - Congressman Whitfield
Grower

DAVID CHAPPELL

Rt. 2, Owenton, KY 40359
Tel: (502) 484-5387
KY - Congressman Bunning
Grower

RICHARD FELLOWS

Rt. 1, Nabbs, IN 47147
Tel: (812) 293-3456
IN - Congressman Hamilton
Grower

JOE FOSTER

Patriot Star Route, Box 94, Gallipolis, OH 45631
Tel: (614) 379-2321
OH - Congressman Strickland
Grower

STAN HOLDER

Rt. 2, Halltown Rd., Hartsville, TN 37074
Tel: (615) 374-2794
TN - Congressman Gordon
Warehouseperson

MS. PAT HORBACK

Rt. 4, Box 158AA, Shelbyville, KY 40065
Tel: (502) 633-5077
KY - Congressman Bunning
Grower

CURTIS CONGLETON, JR.

Rt. 3, Box 360, Versailles, KY 40383
KY - Congressman Baesler
Grower/Warehouseperson

MS. BILLIE C. BORTHICK

5566 Hwy 431 North, Springfield, TN 37172
Tel: (615) 384-7695
TN - Congressman Clement
Grower/Dark Tobacco Grower/Warehouseperson

MARK PASCALL

Rt. 4, Box 122, Murray, KY 42071
Tel: (705) 753-5265
KY - Congressman Whitfield
Grower/Dark Tobacco Grower

CAMPAIGN for TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

Facsimile Transmission

Number of pages:

TO: Tony F

FROM: Scott Ball

DATE:

SUBJECT:

Farmers — CFTFK logos 5/15 —4w

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

MAY-14-98 11:30 FROM:TOBACCO-FREE KIDS ID:2022965427 PAGE 2/5

CAMPAIGN for TOBACCO-FREE Kids

May 13, 1998

The Honorable Charles S. Robb
SR-154 Russell Senate Office Building
United States Senate
Washington DC 20510-4603

Dear Senator Robb;

This letter is in response to an inquiry by your office as to the position of numerous health groups on the continuation of a supply limiting tobacco program. There seems to be some questions being raised as to whether the public health community supports or does not support the continuation of some sort of a supply limiting tobacco program. Let me attempt to reiterate what we have said.

As you may know more than 40 tobacco producers organizations and public health groups signed and released a set of **Core Principles** which we hope will be used as guidance in the enactment of the tobacco farm provisions of any national legislation. While these Principles should be read in their entirety let me point out the principle related to the need for the continuation of supply limiting program.

> **That a tobacco control program which limits supply and which sets minimum purchase price is in the best interest of the public health community and the tobacco producer community...**

In an effort to explain our position on this issue, we have also developed a backgrounder on why we support the continuation of some type of program. That backgrounder, entitled "Why Some Sort of Tobacco Program is Supported by the Public Health Community " is attached.

Those public health groups who signed the **Core Principles** remain committed to the principles outlined in them including maintenance of a supply limiting tobacco program.

NATIONAL CENTER FOR TOBACCO-FREE KIDS
1707 L STREET, NW • SUITE 800 • WASHINGTON, DC 20036
PHONE (202) 296-5469 • FAX (202) 296-5427

I hope this helps clarifies our position. If I can be of any further assistance please feel free to contact me.

Sincerely,

Scott D. Ballin
Senior Policy Consultant
Campaign for Tobacco Free Kids

WHY SOME SORT OF TOBACCO PROGRAM IS SUPPORTED BY THE PUBLIC HEALTH COMMUNITY

On March 16th, public health organizations and tobacco producers released a set of core principles. These principles are designed to identify areas of common ground, where tobacco producers and health groups have reached an understanding and consensus. One of the principles recognizes that there should be some type of program retained in the future that limits supply, stabilizes prices, and establishes health, safety and other quality controls. The core principle speaks of "a" program not "the" program. This is an important distinction and reflects the position of the public health community that while a some sort of stabilizing control program is important to the welfare of current tobacco growers and their communities, it must be one that will meet the needs of the future, not preserving the "status quo" of the past. Some questions have been raised as to the reasons why the public health community has taken such a position. This backgrounder is designed to provide some answers.

- First and foremost the public health community (and well as the tobacco producers) believes that the federal government should not continue to fund the administration or management of any tobacco program. Funding should be provided through other private sector means.

- The public health community believes that as consumption declines it is important that producers are given options for having their quotas bought out at a fair value and that there should be as part of national legislation significant economic development funds that will allow these tobacco dependent communities the opportunities to restructure their economic structures and maintain economic viability into the 21st century. As with efforts to reduce consumption of tobacco products we know that things cannot and will not change overnight in the production of tobacco. Keeping controls over production as we move towards reducing tobacco communities dependence on tobacco will be essential.

- The present tobacco program which retains the "status quo" should be modified and substituted with a program that takes into account and is able to adjust to what the public health community hopes will be significant declines in the consumption of tobacco in the United States over the next decade.

- The public health community believes that 'retaining' some sort of a program will stabilize these tobacco producing communities as change takes place. Legitimate concerns have raised that in the absence of some sort of program that tobacco production may in fact increase, that tobacco will be grown in other states that presently do not produce tobacco, that the tobacco companies and the tobacco leaf dealers will gain control over the production and move to contract production, keeping tobacco farmers and their communities at risk.

- Just as it is critical to control the manufacture, sale, distribution, labeling, and marketing of tobacco products, it is equally important to have in place a system of controls that oversee and regulate the production of both domestic and foreign tobacco. If the growing and production of tobacco is to remain legal then it is important that we do whatever we can to control its production including establishing and maintaining health, safety and quality controls.

- And finally, this provision of the core principles must be looked at from the context of the entire document. Tobacco producers have committed themselves to extensive and effective public health efforts that will if implemented significantly reduce the use and consumption of tobacco products. They are willing to accept such declines but ask that we help assure some stability for their communities as changes take place.

FLUE CURED TOBACCO

JOHN ASHE

2106 Ironworks RD, Reidsville, N.C. 27320
Tel: (910) 349-9495
Black Male - Late 20's
Grows approximately 30 acres of Flue Cured tobacco (some owned and some rented)
Family operation
FSA Committee/Tobacco Growers Association

KEITH PARRISH

1326 County Line Road, Renson, N.C. 27505
Tel: (910) 897-5482
White Male - Late 40's
Grows approximately 75 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
Tobacco Growers Association

PENDER SHARP

5161 HWY 581, Sims, N.C. 27880
White Male - 46 years' old
Grows 200 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
FSA State Committee/Tobacco Growers Association/Farm Bureau

DAVID HINNANT

5704 HWY 581, Kenly, N.C. 27542
Tel: (919) 284-4878
White Male - 45 years' old
Grows 125 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
Farm Bureau/Tobacco Growers Association

NANCY STRADER

914 Dickerson Rd, Ruffin, N.C. 27328
Tel: (910) 939-7164
White Female - Mid 40's
Grows approximately 70 acres of Flue Cured Tobacco (some owned and some rented)
Family operation

HOWARD ROUSE

5949 NC HWY 135, Madison, N.C. 27025
Tel: (910) 427-0065
Black Male - Mid 50's
Grows approximately 25 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
Graduate of A&T University/also owns a retirement home

ROGER OXENDINE

5671 NC 130, East Roland, N.C. 28383
Tel: (910) 628-6238
Native American - Male
Grows approximately 500 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
NCDA Agriculture Board/Migrant Labor Board/Farm Bureau/Tobacco Growers Association

AMY DALRYMPLE

625 Dalrymple Farm Road, Sanford, N.C. 27330
Tel: (910) 258-6695
White Female - Mid 30's
Grows 150 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
School Teacher/Farm Bureau/County Young Democratic President 1992

KENNETH JONES

Route 1, Box 171, Pink Hill, N.C. 28572
Tel: (919) 568-3820
White Male - about 60 years' old
Family operation
Tobacco Growers Association/Farm Bureau

BRUCE FLYE

P.O. Box 159, Battleboro, N.C. 27809
Tel: (919) 446-9694
Owns and operates a family tobacco farm with a son
President of Flue Cured Tobacco Stabilization Corp.

DONALD SMART

6827 Rushfork RD, Clyde, N.C. 28721
Tel: (704) 456-3061
White Male - Late 40's
Grows 40 acres of Burley Tobacco (some owned and some rented)
Family operation
Farm Bureau/Tobacco Growers Association

WILLIE ARMSTRONG

8673 Orchard Road, Elm City, N.C. 27822
Tel: (919) 236-4989
Black Male - Mid 50's
Grows approximately 20 acres of Flue Cured Tobacco (some owned and some rented)
USDA Tobacco Grader/Farmer

JERRY WEST

1365 NC 222, East Fremont, N.C. 27830
Tel: (919) 242-5239
White Male - 51 years' old
Grows 135 acres of Flue Cured Tobacco (some owned and some rented)
Family operation
FSA State Committee/Tobacco Growers Association/Grange/Farm Bureau

JAKE PRICE

5370 NC 111 South, Seven Springs, N.C. 28578
Tel: (919) 658-5963
White Male - Mid 50's
Grows approximately 200 acres of Flue Cured Tobacco (some owned and some rented)
Farm Supply Business

CARROLL COLEMAN

7368 Rock Ridge School RD, Kenly, N.C. 27542
Tel: (919) 237-0437
White Male - 80 years' old
Operates farm supply and farm manage business
Owns and share crops - some flue cured allotment that is personally owned
Manages and share crops and leases large number of tobacco farms for others
Farm Bureau/Tobacco Growers Association

BILLY SAULS

P.O. Box 3055, Eureka, N.C. 27830
Tel: (919) 242-5346
White Male - 60 years' old
Retired banker (Farm Management & Trust Department)
Owns Flue Tobacco Allotment and share crops with a tenant

tobacco
— farmers

Maria Echaveste 02/03/98 04:00:41 PM

Record Type: Record

To: Barbara D. Woolley/WHO/EOP

cc: Fred Duval/WHO/EOP, Mickey Ibarra/WHO/EOP

Subject: Gov Patton

Barbara--fyi, do we have a view, should we have view, perhaps you should talk to Fred. Thanks.

---------------------- Forwarded by Maria Echaveste/WHO/EOP on 02/03/98 03:58 PM ---------------------------

Fred Duval 02/02/98 03:24:11 PM

Record Type: Record

To: Maria Echaveste/WHO/EOP

cc: Mickey Ibarra/WHO/EOP

Subject: Gov Patton

As you know, the Governorts arrive for their annual meeting Feb 21. Each Gov will have a minute or two with the President . Gov Patton (D-Kty) will bring up a proposal he made in writing a few months ago to the President. He wants the President to call and host a Farming Summit in Kentucky (to include small and family farmers from around the region.). I passed along his materials but if you need them let me know. He is pressing me to know what we think of the issue - and he plans to promte it with the President. I would like to get to a yes and for the President to tell him when he sees him, or get to a no and me tell him beforehand.

What do you think?

CAMPAIGN for TOBACCO-FREE Kids

tobacco farmers

STATEMENT OF SCOTT D. BALLIN
SENIOR POLICY CONSULTANT

on behalf of

THE NATIONAL CENTER FOR TOBACCO- FREE KIDS

Before the

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Concerning

THE FUTURE OF TOBACCO PRODUCING COMMUNITIES

SEPTEMBER 11, 1997

NATIONAL CENTER FOR TOBACCO-FREE KIDS
1707 L STREET, NW • SUITE 800 • WASHINGTON, DC 20036
PHONE (202) 296-5469 • FAX (202) 296-5427

Mr. Chairman and members of the Committee, I am Scott D. Ballin, a Senior Policy Consultant with the National Center for Tobacco Free Kids, an organization comprised of over 100 members dedicated to reducing the use of tobacco products by this nations children.

The National Center and many of its members before its establishment have worked diligently over the last decade to bring about changes in the way in which we as a nation treat and deal with the tobacco industry and the sale and marketing of their deadly products. And it has not been easy as is evidenced by the four decades of control that the tobacco companies have had over this Congress, past presidential administrations, the courts, and our regulatory agencies. The tobacco industry has initiated--to use their own words-- a successful "holding strategy" that has kept their products virtually unregulated and their profits high. And they have done so through the withholding and suppression of facts and information that is after decades now coming back to haunt them. Their tactics can be described as nothing less than keeping Americans addicted to not only their products but to their money as well. This includes, the millions of Americans who smoke, and the 3,000 children who take up this deadly habit each day. It includes politicians who have for years allowed tobacco companies to influence their decisions by accepting enormous campaign contributions. It includes wholesalers and retailers and advertising companies who have also become dependent on the tobacco companies. **And** it includes the tobacco farmer, the tobacco farm family and the communities in which they live. They are from my own encounters with them hard working, sincere, family and community oriented people. They have unfortunately found themselves in between a rock and a hard place and have been used as pawns by the tobacco companies. Probably more than anyone else they have had little in the way of choices or alternatives.The reality is that when it comes to profits made off tobacco, the farmer is at the bottom of the list getting 3-5% while the tobacco companies are profiting somewhere in the range of 40-60%.

Today Mr. Chairman we come to ask, that with your leadership and the leadership of this Committee, we embark on a road of change that will give the tobacco farming communities in this country the opportunity to reduce their dependence on tobacco while at the same time ensuring them of the economic stability that they will need in an environment in which fewer and fewer people use tobacco. I hope also that we have seen the last of the days when the tobacco companies "disinformation campaigns" have been used to frighten and scare the farmers as was done by the companies when they inaccurately told the farmers that FDA regulation of tobacco meant FDA agents seizing their farms their crops and their machinery.

We have had in this country what I would describe as the " tobacco paradox". We are a country that knows and realizes that this deadly addictive product takes the lives of over 420,000 Americans each year, and that it addicts one million children each and every year. We are a country that knows that the tobacco companies have preyed on our children for decades bombarding them with seductive advertising and marketing tactics that have resulted in over a million new underaged customers each year.

And yet we also are a country that has had tobacco as a part of its culture, its heritage - a country that has many people who depend on tobacco for their livelihood and in many cases as the only way to make a living. One tobacco farmer recently said to me, "don't forget we're people too". We sympathize, but I also told him, remember that the addiction, disease and death caused by this product is also a "people issue", that every day over 1,000 people die due to tobacco and that each day 3,000 children take up this deadly addictive habit.

We believe that this decades old "paradox" can be solved, the we can in fact over the short term and long term find solutions that allow us to not only reduce the use of tobacco products in our society and the disease and death that these products have caused but that we can also reduce the tobacco farmer and his community's dependence on tobacco and protect the farmer in the interim. We in the public health community are in effect trying to end what has been decades of failing to work with the tobacco farmers and are actively talking and dialoguing with them about their future and the future health of this nation's children-- including their children. This is being done not only from the national level but more importantly at the state and local level where public health groups are themselves entering into active dialogues with the farming organizations.

Many of this nation's health and religious groups, at both the national level as well as in each of the major tobacco growing states have signed a resolution committing themselves and their organizations to working with the tobacco growing communities to bring about fundamental change. This resolution includes former President Jimmy Carter as well as such major organizations as the American Heart Association, American Cancer Society, and the American Lung Association. And the list is growing. I request that this resolution be a made a part of the record.

While we are optimistic that we can in fact over the next several decades begin to look at ways of rebuilding the economic infrastructures (agriculturally as well as nonagriculturally) of the tobacco growing communities we know that these issues are extremely complex. The situation and the challenges that these tobacco growing communities face varies from state to state, region to region, farmer to farmer. As just one example as to the complexities of the issue, there are many who suggest that a "buy out" of the farmers is the best way of dealing with situation. But others fear that a mere buyout will do little in the way of ensuring that the funds are reinvested into the community and that while a buyout would benefit the allotment holder, it will do nothing for the farmer who leases the land and who does not own the allotment.

In one community that I had the opportunity to visit in south central Virginia, I heard concerns being raised that tobacco was one of the few things that kept the community afloat, that there were other problems in the community such as no interstate highways to bring business into the community, that old established business were dying out, that there was poor level of education, as well as a high level of unemployment to name a few. But what struck me Mr. Chairman was the fact that tobacco had become the community's "crutch", the only thing that many felt they had left. What also struck me Mr. Chairman was that like all of the other businesses before that had folded in their communities over decades that tobacco was now threatened to go the same route. It may be the reality of our times not unlike other industries that have faced similar challenges or problems during the course of this nation's history, such as the blacksmith who lost his livelihood because of the automobile, or the candle industry who saw their decline because of the electric light bulb or the asbestos industry that was put out of business their products caused cancer. The choices to be made are to stick with tobacco until it too possibly goes the route of many other failed businesses, or to take a new look at a unique opportunity to begin to plan and build for the future, while at the same time continue using tobacco, not as a "crutch", but as a means to help stabilize the economies of these communities as changes are made.

We believe Mr. Chairman that **with or with out a settlement** the time is ripe for taking opportunities to make a real difference if we wish to take it. But it will require involvement not only here at the federal level but at the state and community level as well. In order to effect change we need to better understand what the issues are that these communities are facing. We need to educate these communities about the situation and to allay their fears that somehow they are going to be put out of business overnight. Some of the proposals that have surfaced as part of the settlement talks would ensure that the tobacco companies guarantee that they will buy a certain amount of tobacco for the next 25 years. But we believe that merely throwing billions of dollars to the farmers to keep them growing tobacco is not the solution, not if we truly want to see these communities prosper in to the 21st century. It simply maintains the "status quo" presenting no options or opportunities for those farmers and their children, and their communities, who want to plan for their futures to really do so, whether it's now or ten years from now. And that's what we think is the key----finding and providing a menu of Agricultural and nonagricultural **options** so that the growth of tobacco is reduced gradually and systematically as we also begin to rebuild these infrastructures, to provide new opportunities, to provide better education, transportation systems, job training and other economic assistance. There is strong sentiment from the public that this is the way to go. In a random telephone survey of 1,000 respondents recently conducted by the Center (August 15-17) we found that:

> Opinions were evenly divided as to whether or not farmers should receive money from the settlement. Thirty-four (34%) percent favored using money from the settlement to help farmers, while thirty seven (37%) percent opposed it. Twenty-nine(29%) percent took no position. When this is broken out for tobacco states (6 major states) vs. nontobacco states the results were 45% in favor (tobacco states) with 32 % opposed.

But what is most noteworthy in the survey is the fact that when asked if money were to be allocated where should it go,

> **Over three-fourths (77%) said that it should be used for programs to encourage and help farmers develop alternatives to**

> **tobacco farming as sources of income. Only 11% said it should be used to help ensure that farmers continue to grow tobacco profitably.**

And of those surveyed in the six largest tobacco growing states:

> **a significant 69% said that they believed that the money should be used to encourage and help farmers develop alternatives to tobacco farming as a source of income. Twenty one percent (21%) indicated that they believed the money should be used to support efforts to help ensure farmers to continue to grow tobacco profitably.**

These opinions are mirrored and supported by a number of editorials appearing in many of the tobacco growing state newspapers.

Key to making this all happen is a process by which tobacco farmers, their families and their communities become an active part of the solution and that we stop viewing and seeing them as part of the problem. Therefore because of that we are supportive of the recommendations contained in the Koop/Kessler Advisory Report, that calls for the establishment of a high level blue ribbon panel, or commission, as one way, that will look at a wide spectrum of issues surrounding the growing and production of tobacco. Its primary task should be to develop and recommend short term and long term strategies that seek to reduce and or eliminate the production of tobacco in tobacco growing states while ensuring economic stability and development. We believe that Commission should as part of its mission:

- undertake a thorough review of the tobacco program
- undertake a thorough review that tobacco production has played and is playing in tobacco growing states, focusing on the major six states
- undertake a thorough review and make projections on the future production and sales of tobacco and tobacco products in the United States

- undertake a thorough review of the international production of tobacco and tobacco products including the activities and operations of US tobacco companies and US leaf dealers and its ramifications on domestic tobacco production

- undertake a thorough review of economic models, demonstration and pilot projects that might be used for providing tobacco growing states with alternatives to growing tobacco and or other uses for tobacco

- undertake a thorough review of what may be necessary to assist tobacco growing communities with rebuilding their economic infrastructures by providing options and opportunities for change (agricultural as well as nonagricultural), as well as for removing barriers that might exist.

Work done by Dr. David Altman and his colleagues at the Bowman Gray School of Medicine in which extensive interviews were conducted earlier (January) this year with 1,200 growers highlights, I think, just why and how important the establishment of such a commission is. There are not only very differing opinions amongst the farmers themselves but there is also a need for providing them with more reliable information and a better understanding of what the issues are that face them in the future. And I would suggest that these opinions have changed just over the last several months as discussion of a settlement has taken place and as we in the public health community have done more to open up avenues of dialogue and discussion. For example:

- Over 80 % of the farmers interviewed have done little in the way of seeking out information or materials or asking for assistance in supplementing their tobacco income.

- Yet when asked to what extent the farmers interviewed were interested in trying other on-farm activities and alternatives to supplement their tobacco income 60 % indicated that they were interested. Approximately 40% said they were not.

- Farmers were also asked to rate what they saw as barriers to supplementation. They identified such things as : no place to sell products (66.6%), lack of capital for new business (64.2 %), lack of low interest loans or grants for new business venture(63.3%), low supply of quality labor (82.4%), lack of processing plants near farming communities(72.2%), the need for additional skills(48.8%), lack of support from communities (48.7%), regional or state leaders(48.7%), nothing as profitable as tobacco(87.7%).

- Over 80% of the farmers interviewed thought that 10 years from now they would still be growing tobacco with about 9% indicating that they would not.

- When asked if they would recommend to their children that they should continue growing tobacco in the future, approximately 60% said they would while 34 % indicated that they would not.

- Over three quarters of the farmers interviewed believe that tobacco companies are interested in expanding foreign growing and manufacturing operations overseas and that the purchase of foreign tobacco by US companies poses a threat to the future of US farmers.

- Over three quarters of the farmers interviewed believe that the elimination of the tobacco program poses risks to tobacco farmers and tobacco farming communities.

- When asked if the tobacco program should be ended through a buyout in which allotment owners and renters would be paid a lump sum of money, about 50% opposed such proposal while about 34 % supported it.

- And finally when asked if they thought the public health groups and the medical community were interested in putting them out of business, about 83% said yes.

Mr. Chairman the most critical aspect of the Commission's activities will be to ensure that its conducts extensive hearings at the community level and provides opportunities for the tobacco growing communities to be heard. The Commission must be composed of the necessary qualified experts who understand agriculture, economics, tobacco, growing capital investment, and small business. In the several months that I have been working on this issue, the one thing that is imminently clear is that there are as many solutions as there are problems. We have to make an effort to sort these complex issues out and to develop solutions to fit the needs of these communities.

If the settlement does move forward and there are moneys available to the tobacco farmers and their communities, then, we believe, that there needs to be careful consideration of how that money is to be spent. It may be that in the first several years of the 25 year settlement period that the majority of the money should go to guaranteeing that the tobacco companies buy a set amount of tobacco, with a smaller amount going into an economic development fund. This in time should however, be reversed so that the bulk of the money by the 25th year of the agreement is allocated to nontobacco activities. This gradual transition would allow for the commission we are proposing being established to do its work, to report back to Congress the administration and state policy bodies with specific recommendations that could both be funded and implemented. It also ensures that these communities remain economically and psychologically stable as changes occur. We want to assure farmers that we are not suggesting or advocating that their livelihoods be terminated over the next several years but that we are suggesting that options be provided for implementing viably economic changes that will in fact bolster their communities over the next several decades. I want to also point out that even without a settlement the public health community has long supported and continues to support an earmarking of a portion of a tobacco excise tax to be used for the purposes we have outlined today.

Mr. Chairman, in closing let me emphasize that I do not come here on behalf of the public health community and many other organizations who have expressed an interest in this issue as an expert on the complexities of the issues. I come here because we see opportunities for change that must be taken. It would be easy for us to sit back and move forward with our public health agenda which seeks to obviously reduce tobacco use in this country, and ignore the farming communities in this country and let the future determine their fate. But, as public health organizations and religious and other organizations that have the interests of "people" at stake we cannot and should not ignore the farmer. They are not the ones who deceived the public, they are not the ones who targeted our children, they are not the ones who have reaped excessive profits at the expense of addiction disease and death.

But I would hope that the tobacco farmers and their leaders would see today's environment as the unique opportunity that it is and that they will look to the future and not a merely retaining the "status quo".

Thank you.

Summary of Polling on Farmers and the Settlement

Methods

A random telephone survey of 1,000 respondents was conducted August 15-17, 1997. We asked three questions (see attached) regarding help for tobacco farmers from settlement funds.

Awareness of Settlement Provisions Re: Farmers

- A slim majority (53%) of Americans correctly believe that the settlement does not provide any money to help farmers who might be affected by decreases in tobacco sales resulting from the settlement. A large proportion (34%) don't know whether it does, and just 13 percent believe the settlement provides money for farmers.

- Interestingly, respondents in the six largest tobacco producing states (NC, VA, KY, SC, TN, GA) are only slightly more likely (56% v. 53%) than those in the other states to know that the settlement does not provide funds for farmers. As with the total sample, about a third of each group does not know whether farmers receive funds from the settlement.

Opinion on Whether Farmers Should Receive Help

- Opinions are evenly divided on whether farmers should receive money from the settlement. Thirty-four percent favor using money from the settlement to help farmers, while 37 percent oppose it. Twenty-nine percent say they neither favor nor oppose using settlement funds for farmers or don't know.

	%
Favor (Net)	34%
Strongly Favor	14%
Somewhat Favor	20%
Neither Favor nor Oppose/Don't Know	29%
Oppose (Net)	37%
Somewhat Oppose	11%
Strongly Oppose	26%
(Number of Respondents)	1004

- Demographic differences in opinion on the issue are not pronounced for the most part, but there are some differences.

⇒ Respondents in the six largest tobacco producing states (NC, VA, KY, SC, TN, GA), are more likely than those from other states (45% v. 32%) to favor using money from the settlement to help tobacco farmers. Conversely, those in the other states are more likely than those in the six tobacco states to oppose using funds for farmers (38% v. 31%) and to be undecided (30% v. 24%).

⇒ Respondents in the South (40%) were most likely to favor help for farmers, followed by those in the Northeast (36%), Midwest (32%), and West (25%).

⇒ The oldest (older than 65) respondents (21%) were very unlikely to favor help for farmers, and the youngest (younger than 25) were also relatively less likely (29%) to favor help for the farmers.

<u>Type of Help That Should be Provided</u>

- All respondents, even those opposing help for farmers from the settlement, were asked what form the help should take if it were provided. Over three-fourths (77%) said it should be used for programs to encourage and help farmers to develop alternatives to tobacco farming as sources of income. Just 11 percent said it should be used to help ensure that farmers continue to grow tobacco profitably. Seven percent volunteered that it should not be used for either type of program, while less than one percent volunteered that it should be used for both. Five percent of the respondents said they did not which type of program should be supported.

- Though not as strongly as those in other states, respondents in the six largest tobacco growing states preferred programs encouraging alternatives to tobacco (69%) to those helping farmers to continue growing tobacco (21%). In other states, programs for alternatives to tobacco were preferred by 78 percent, while 9 percent preferred programs to help farmers continue to grow tobacco.

- Among those who favor using money from the settlement for farmers, 76 percent believe it should be used to help farmers develop alternatives to tobacco; 20 percent think it should be used for programs to ensure that farmers can continue to grow tobacco profitably.

SURVEY QUESTIONS

Recently, several states suing the tobacco industry reached an agreement with the industry that would settle the lawsuits against the industry and provide some immunity from future lawsuits. In return, the tobacco industry agreed to accept strict advertising and marketing restrictions and to pay roughly $370 billion over the next 25 years for various purposes. The proposed agreement is now being reviewed by the Congress and the White House who are considering legislation to enact it into law.

1. To the best of your knowledge, does the proposed agreement provide any money to help tobacco farmers who might be affected by decreases in tobacco sales that result from the agreement.

   Yes
   No
   Don't Know

2. What is your opinion of using money from the settlement to help tobacco farmers affected by decreases in tobacco sales. Do you strongly favor, somewhat favor, neither favor nor oppose, somewhat oppose, or strongly oppose using settlement funds to help tobacco farmers?

   Strongly Favor
   Somewhat Favor
   Neither Favor Nor Oppose
   Somewhat Oppose
   Strongly Oppose

3. If money were used to aid tobacco farmers, which of the following types of programs should be supported.

   Randomize

   Programs to help ensure that farmers continue to grow tobacco profitably,

   OR

   Programs to encourage and help farmers develop alternatives to tobacco farming as sources of income.

   Do Not Read
   Both types of programs

   Neither Type

Resolution of Mutual Understanding Between Organizations and Individuals Interested in Working Cooperatively to Reduce Tobacco Use While Ensuring Economic Stability and Opportunities in Tobacco Growing States

Whereas the public health community recognizes that the production of tobacco plays a significant role in the economic maintenance of many American families living in tobacco states,

Whereas the tobacco producing community recognizes that tobacco use is a major contributor of disease,

Whereas the public health community is sensitive to the uncertainties that tobacco growers and their families have about their future and being able to make a living and provide for their families,

Whereas the public health community recognizes that eliminating the tobacco program without significant changes to support the economic infrastructures of tobacco growing communities, will not reduce the use and consumption of tobacco,

Whereas the tobacco producing community realizes and accepts the fact that more needs to be done to curtail tobacco use by minors and that adults should be given full and complete information about tobacco in order to make informed choices as to whether they smoke or not,

Whereas the public health community and tobacco producing communities agree that there are opportunities for working cooperatively to meet both the public health objectives as well as ensuring economic stability in tobacco growing states,

Whereas the public health community will actively work for providing tobacco producing communities viable economic options for diversification as well ensuring assistance for economic development,

Whereas the tobacco producing communities will support meaningful and fair standards governing the manufacture, sale, distribution, labeling and marketing of tobacco products,

Be it Resolved that we the undersigned individuals and organizations commit to working together in an open and honest fashion that will seek to find solutions to the health problems caused by tobacco use domestically and internationally as well as developing, and providing tobacco growing communities with new opportunities that give farmers options for ensuring future economic stability and productivity independent of tobacco production.

INDIVIDUALS

President Jimmy Carter – Plains, Georgia
Congressman Jim Cooper (D-TN - RTD)
Michael Terry - Memphis Tennessee
(son of Surgeon General Luther Terry, MD)
Dr. Pat Robertson - Christian Broadcast Network (CBN), Virginia Beach,Virginia

NATIONAL HEALTH AND OTHER ORGANIZATIONS

National Center for Tobacco-Free Kids
American Heart Association
American Cancer Society
American Lung Association
American Public Health Association
Americans For Non-Smokers Rights
American Association of Respiratory Care
The Carter Center - Atlanta Georgia

RELIGIOUS ORGANIZATIONS

Christian Broadcast Network (CBN)
Washington Institute
Inter-religious Coalition on Smoking Or Health

TOBACCO STATE ORGANIZATIONS

American Heart Association (Virginia Affiliate)
American Lung Association (North Carolina)
American Cancer Society, North Carolina Division, Inc.
- ACS Metrolina Division
- ACS Eastern Region
- ACS Triad Region
- ACS Triangle Region
- ACS Western Carolina Region
- ACS Wilmington Region

American Heart Association, North Carolina Affiliate, Inc.
North Carolina Society for Respiratory Care
National Black Leadership Initiative on Cancer (North Carolina)
Richmond County Healthy Carolinians 2000 (North Carolina)
Coalition for Health and Agricultural Development (Kentucky)
American Lung Association (Kentucky)
Kentucky Cabinet for Health Services
Kentucky Smokeless States Project
Center for Sustainable Systems, Berea, KY
Kentucky Action:

- American Cancer Society (K Division)
- American Heart Association (KY Affiliate)
- American Lung Association of Kentucky
- Kentucky Dental Association
- Kentucky Medical Association
- Kentucky Nurses Association
- Kentucky Parent-Teacher Association
- Kentucky Society for Respiratory Care
- American Academy of Family Physicians
- Appalachian Regional Healthcare
- Barren River District Health Department
- Bluegrass West, Regional Prevention Center
- Bourbon County Health Department
- Brown Cancer Center
- Bullitt County Health Department
- Communicare Pace, Regional Prevention Center
- Comprehend Incorporated Regional Prevention Center
- Cumberland River, Regional Prevention Center
- Cumberland Valley District Health Department
- Diocese of Covington
- Eastern Kentucky University Department of Psychology
- Fivco District Health Department
- Floyd County Health Department
- Franklin County Health Department
- Green River, Regional Prevention Center
- Hopkins County Health Department
- Jefferson County Health Department
- Johnson County Health Department
- Kentucky Association of School Nurses
- Kentucky Cancer Program
- Kentucky Chemical Dependency Counselor's Board
- Kentucky Department of Education
- Kentucky Department for Health Services
- Kentucky Division of Substance Abuse
- Kentucky Health Department Association
- Kentucky Hospital Association
- Kentucky Pharmacists Association
- Kentucky Public Health Association
- Kentucky River District Health Department
- Kentucky River Regional Prevention Center

- Kentucky School Boards Association
- Lake Cumberland District Health Department
- Lexington-Lafayette County Health Department
- Lifeskills Incorporated, Regional Prevention Center
- Lifestyles Incorporated,Regional Prevention Center
- Lincoln Trail District Health Department
- Madison County Health Department
- Mountain Comprehensive Care,Regional Prevention Center
- Northern Kentucky District Health Department
- Oldham County Health Department
- Pennyrile District Health Department
- Prevention Research Institute
- Professional Consultant Associates Danville, Richmond
- Resolutions, regional Prevention Center
- Rockcastle County Health Department
- Saint Joseph Hospital
- Seven County Services
- The Adanta Group, Regional Prevention Center
- University of Kentucky, Center for Prevention Research
- University of Kentucky, Department of Family Practice
- University of Kentucky, Pulmonary Division
- University of Louisville College of Medicine
- Veterans Administration Medical Center
- Western Kentucky Regional Prevention Center
- Western Kentucky University School of Public Health

As of September 10,1997

CRITIQUE of Ford-McConnell

LEVEL 1 - 3 OF 22 STORIES

The Courier-Journal (Louisville, KY.)

August 17, 1997, Sunday MET:METRO

SECTION: FORUM Pg.02D

LENGTH: 716 words

HEADLINE: Kentucky's farm future

SOURCE: STAFF

BODY:

IF CONGRESS and the President agree to any global settlement with the **tobacco** industry, **farmers** must be among the beneficiaries of the settlement. Otherwise, as Sen. Wendell **Ford** said last month when members of Congress attacked **tobacco** on another front, ''**farmers** go out of business, and whole communities in the South die.''

That is not the result the attorneys general were seeking when they began their negotiations with tobacco companies last spring. Yet, when they finished their work earlier this summer, the farmers had been left out. That first-draft agreement contained provisions for compensating smokers and state health-care budgets, but not a dime had been set aside to help tobacco states make the transition to a new economy.

Sens. **Ford** and Mitch **McConnell** have done every Kentuckian a favor by drafting a proposal that would give farmers and farm communities up to $ 17.2 billion in aid over the next 25 years. Emissaries for both men emphasize that the proposal at this point is just a draft - that whatever document exists today will be out of date tomorrow.

But there is a philosophy that is central to the document that doesn't seem likely to change, and that philosophy concerns us. The goal of the senators - and of the farm organizations that have been working with them - seems to be to preserve what **tobacco farmers** have right now.

Instead, the priority should be to use this opportunity for an economic windfall to wean Kentucky from its dependence on tobacco and to move our agricultural economy to a more secure future.

That's not to say farmers will not, at some point, need cash help. But the senators are in danger of creating a new entitlement program when they propose that **farmers** be guaranteed the income they received from their **tobacco** crops in 1996 for the next 25 years.

That pretty much eliminates the incentive to try something new, or to prepare for the day 25 years from now when the entitlement disappears.

The senators would set aside $ 500 million a year to give farmers a guaranteed income. Meantime, only $ 50 million would be set aside for grants to agricultural organizations for pilot projects to help farmers diversify.

If Sens. **McConnell and Ford** have their way, another $ 250 million would go to the states annually for job development in tobacco counties, but, as Amy Barkley of the Coalition for Health and Agriculture Development says, ''What our rural communities need more than more underwear factories is a plan for preserving the family farm.''

Yet what we're seeing in the Kentucky senators' plan and what we're hearing from other members of tobacco state delegations is that their priority is to hold onto the tobacco program a little longer.

As Rep. Scotty Baesler recently told Courier-Journal reporter Mike Brown, his goal was ''to make sure the (tobacco) program is solid, the price is solid, the quota is stable.'' Where's a vision of the future in that?

A lot of folks are reluctant to oppose the senators' approach, especially since the money to fund this new entitlement program wouldn't come from taxpayers but from the tobacco industry itself.

But Kentucky's farm communities probably will never get another infusion of money like this, so choices on how to spend it must be made carefully.

And there should be no rush to decide, as former FDA chief David Kessler and former Surgeon General C. Everett Koop have pointed out. They are advocating that a commission address the issue of what help tobacco-growing communities will need, then report back to Congress and President Clinton.

''For farmers, the sky is not falling,'' points out Scott Ballin, a senior policy consultant to the Campaign for Tobacco Free Kids. ''Decisions on how to appropriate the money don't need to be made overnight.''

There is no agreement on a settlement at this time, and if one eventually is reached, it will be years before the FDA decides what form regulation should take. It will be more time still before those regulations have an impact.

This pot of money that Sens. **McConnell and Ford** want to deliver to Kentucky represents a unique opportunity for farm communities. Taking full advantage of it will require some truly innovative thinking. Unfortunately, that is absent from the plan so far.

LANGUAGE: English

LOAD-DATE: August 19, 1997

CRITIQUE
of Ford-McConell

TF

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LANGUAGE: English

LOAD-DATE: August 19, 1997

GENERAL
Compensation + Ford. McConell

LEVEL 1 - 2 OF 22 STORIES

The Cincinnati Enquirer

August 18, 1997, Monday, KENTUCKY EDITION

SECTION: METRO, Pg. B01

LENGTH: 664 words

HEADLINE: **Tobacco farmer** has defenders
Legislators promise good deal, or no deal

BYLINE: PAUL BARTON

SOURCE: Enquirer Washington Bureau

DATELINE: WASHINGTON

BODY:

The proposed tobacco settlement could run into serious roadblocks in Congress unless steps are taken to protect **tobacco farmers**, members and political observers alike agree.

In fact, Rep. Jim Bunning, R-Southgate, is adamant about it.

"Until we can get that, I don't think we can get any kind of settlement through Congress," Mr. Bunning said. "I don't think the settlement's got a chance unless the tobacco states are for it."

When asked whether Republican leaders such as House Speaker Newt Gingrich and Senate Majority Leader Trent Lott supported doing something for **tobacco farmers**, Mr. Bunning said, "Absolutely. They are going to protect the growers more than anyone else."

Mr. Bunning's comments come as Sens. Wendell **Ford**, D-Owensboro, and Mitch **McConnell**, R-Louisville, continue talking to farmers and working on proposed legislation that's designed to protect growers from some of the disruptions that the $ 368 billion settlement could cause for the industry.

Mr. Bunning said the **Ford-McConnell** product is "probably going to be a rallying bill for all of the Kentucky delegation."

Mr. **Ford's** office said Friday the senator is confident there will be plenty of support in Congress - and among anti-tobacco factions with an interest in the settlement - for protecting **tobacco farmers** in Kentucky and other states.

"The senator has expressed his concerns about the farmers being taken care of to a variety of factions. He feels his message is being heard. He feels most groups also agree that the farmer has to be taken care of," said **Ford** staffer Meg Conlon.

Sarah Binder, a political analyst at the Brookings Institute, said she can

easily envision scenarios where farm-state members could block the settlement in the Senate unless they thought their constituents were protected.
Senate rules make it far easier than in the House for a small number of members to hold up legislation.

She cited North Carolina Republicans Jesse Helms and Lauch Faircloth as among those most likely to raise a protest against the settlement, although Mr. **Ford** and Mr. **McConnell** have made their intentions well-known.

"Their ability to obstruct the Senate would make it easier to ensure a package for **farmers** would be included," Ms. Binder said of **tobacco**-state senators.

Different tactics in House

In the House, however, much would depend on how votes on the settlement are structured. If relief for **tobacco farmers** is a stand-alone amendment, **tobacco**-state members may have a harder time, she said.

A spokesman for Mississippi Attorney General Mike Moore, a central figure in the tobacco settlement, said Mr. Moore expected lawmakers would want to do something for farmers.

"We assumed all along that in the congressional process, the farmers would become part of the debate," said Trey Bobinger, assistant attorney general in Mississippi. "We have no objection to the farmers having input into the congressional process."

Mr. Bobinger said farmers were not part of the settlement negotiations because they were not one of the named parties in the litigation that led to the agreement.

"If anyone should have represented the **farmers**, it seems the **tobacco** industry should have - protecting their source," he said.

When asked whether Mr. Moore would object to something's being done for farmers, Mr. Bobinger said, "We are going to defer to Congress on that issue."

Vote long way off

Ms. Binder, the Brookings political analyst, said the settlement is one instance where **tobacco farmers** and the industry may have different goals. "I don't think their interests are necessarily entirely aligned," she said.

Mr. Bunning said he doubts Congress will finish work on the settlement in 1997. "But that doesn't mean it can't get done in the 105th (Congress)," he said.

Mr. Bunning added: "I don't see it's got an excellent chance of passing as it is, even if there is protection (for farmers). It is a hodgepodge of a lot of things right now."

LOAD-DATE: August 19, 1997

MEMORANDUM

TO: TOM FREEDMAN, MARY SMITH

FROM: JULIE MIKUTA

RE: TOBACCO NEGOTIATIONS ON BEHALF OF PRODUCERS

DATE: AUGUST 19, 1997

THE NEGOTIATIONS

Jerry

There are two approaches to the negotiations on behalf of the tobacco producers. First, to leave the program as it is. The only difference may be that net cost assessments and other administrative costs will be discontinued. It is difficult to tell based on the wording of the fax whether these costs are currently paid, or if they have already been discontinued.

The second approach is to plan a reaction in case Congress eliminates the current tobacco program, or manufacturers fail to meet purchase requirements. Two plans are being made. According to the faxed proposal, these payments will come out of the $368.5 billion settlement agreement.

1. **Transition Payments:** If the prices fall, the 1996 market price average will be used as the baseline price, and farmers will receive a payment to bring up the deflated cost to the 1996 price. The faxed table of transition payments is based on the estimate that prices will fall 6 cents per year; over the course of the next 8 years, it will cost $1.886 billion to make transition payments to the farmers. This estimate assumes that the quota level stays at 873 million pounds.

2. **Quota Compensation:** If manufacturers do not meet purchase requirements, the tobacco that should have been bought by manufacturers will be 'retired' and the farmers will be paid $4.00/lb for it. The second table on the page titled "1996 Quota" assumes that 6.25% of the quota will not be purchased each year for the next 8 years. The 8-year sum of payments to farmers will be $1.408 billion.

3. **Quota Compensation if all quota is retired:** After 8 years, 50% of the 1996 quota will have been 'retired' (i.e. 6.25% of the quota will be retired each year, which equals 50% after 8 years). Based on the proposal, at that point (when the quota is less than 50% of the 1996 level), the remaining quota is retired and immediately bought by the government at $4.00/ lb. After eight years, 520.69 million pounds will be bought-- a $2.083 billion purchase.

MEMORANDUM

TO: BRUCE REED, ELENA KAGAN

CC: JERRALD MANDE, ELIZABETH DRYE

FROM: TOM FREEDMAN
MARY SMITH
JULIE MIKUTA

RE: TOBACCO GROWERS AND THE SETTLEMENT

DATE: JULY 15, 1997

SUMMARY

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

I. JULY 16, 1997 MEETING ATTENDEES

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

II. TOBACCO PRODUCTION STATISTICS

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

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

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

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

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

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

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

- Tobacco is the 6th largest cash crop.

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

III. HOW THE GOVERNMENT PROGRAM WORKS

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

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

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

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

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

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

IV. EXPECTED EFFECTS OF THE SETTLEMENT ON GROWERS

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

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

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

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

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

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

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

V. SOME PROPOSALS

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

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

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

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

1. Protect the current tobacco program.

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

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

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

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

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

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

These are the recommendations offered by Rep. Baesler:

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

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

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

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

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

VI. THE SETTLEMENT'S MENTIONS OF TOBACCO GROWERS

Tobacco

President Clinton's Plan for Comprehensive Tobacco Legislation to Protect America's Children

Today, President Clinton challenged Congress to pass sweeping tobacco legislation to reduce teen tobacco use significantly. The President announced that he will invite Congressional leaders in both parties to the White House in the coming weeks to launch a bipartisan effort to enact federal tobacco legislation. That legislation will build on the extraordinary efforts of the nation's attorneys general, who helped create an historic opportunity for progress in reducing smoking, especially by youth.

In August 1996, the Clinton Administration announced a landmark rule by the Food and Drug Administration to protect children from the harm caused by tobacco products, which was upheld by a federal judge in North Carolina earlier this year. Those victories for the public health, along with the aggressive efforts of the attorneys general and leaders of the public health community, drove the tobacco companies to the bargaining table and extracted concessions that would have been unimaginable just a short time ago.

Since a proposed national settlement was announced June 20, the Administration -- led by Vice President Gore, Secretary of Health and Human Services Donna Shalala, and Domestic Policy Advisor Bruce Reed -- has been working with the public health community, the attorneys general, members of Congress, tobacco farmers, and others to develop a comprehensive tobacco policy.

Today, the President announced five key elements that must be at the heart of any national tobacco legislation:

1. **A Comprehensive Plan to Reduce Teen Smoking, Including Tough Penalties If Targets Are Not Met.** Every day, 3,000 young people start smoking regularly, and 1,000 of them will die early as a result. The central goal of tobacco legislation must be a comprehensive, nationwide effort to reduce teen smoking. The Administration is calling for:

   - **Tough Penalties and Price Increases to Reduce Teen Smoking:** The Administration believes tobacco legislation must include stiff penalties that give the tobacco industry the strongest possible incentive to stop targeting kids. Legislation should set ambitious targets to cut teen smoking by 30% in 5 years, 50% in 7 years, and 60% in 10 years, and impose severe financial penalties that hold tobacco companies accountable to meet those targets. The Administration supports penalties that are non-deductible, uncapped, and escalating -- so that the penalties get stiffer and the price goes up the more that companies miss the targets. Reducing youth smoking is the Administration's bottom line, and now it must be the industry's bottom line.

Transition Payments Based on Decreasing Quota

Baseline of 6 cents per year

	Year	Quota	Transition Payment (in millions)
$0.00	1998	873	$52.38
$0.06	1999	818.44	$98.21
$0.12	2000	767.28	$138.11
$0.18	2001	719.33	$172.64
$0.24	2002	674.38	$202.31
$0.30	2003	632.23	$227.60
$0.36	2004	592.73	$248.95
$0.42	2005	555.69	$266.73
		Total	$1,406.94

TOTAL COST OVER 8 YEARS
Dollars in billion

Transition Payments	$1,406.94	$1,406.94
Quota Payments	$1,408.12	$1,408.12
Cost of Retiring all Quota in 8yrs	$2,083.84	
Total Cost of Payments	$4,898.90	$2,815.06

ANNUAL COST PER YEAR
For quota payments and transition payments: $351.88 million per year

For quota payments, transition payments, and retiring all quota after 8 years $612.36 million per year

tobacco farmers

PROPOSAL - NEGOTIATED TOBACCO SETTLEMENT

BURLEY TOBACCO GROWERS COOPERATIVE ASSOCIATION

August 13, 1997

SUMMARY OF FARMER PROPOSAL

I. <u>Legislative Initiative</u>

- Creation of Tobacco Community Revitalization Fund

- Funding <u>MUST</u> come from existing $368.5 billion in tobacco settlement

- Fund will pay for:

  Costs Incidental to the Tobacco Program

  Up to $500 million annually for Farmer Supplemental payments
  Up to $100 million annually for displaced tobacco industry workers
  Up to *$100 million* annually in agricultural development grants
  Up to $200 million annually in rural economic development grants

- Immunity for Farmers

- Authority for Tobacco Program changes

- Private Property Rights protection if FDA phases out nicotine

II. <u>Non-legislative Initiative</u>

- Side Agreement on Purchase Intentions

- Side Agreement on 1994 Buyout

- Side Agreement on Loan Stocks

August 13, 1997

TOBACCO COMMUNITY PROTECTION INITIATIVES

I. LEGISLATIVE INITIATIVE

A. CREATION OF TOBACCO COMMUNITY REVITALIZATION FUND

- Funding: Over the first 8 years of the agreement, one-half of the unallocated amount in the tobacco settlement under the heading "Public Health Trust" will be contributed into the Tobacco Community Revitalization Fund (for an 8 year total of $12.5 billion); in addition, the unallocated portion of the "Public Health Funds" amount in the tobacco settlement will be contributed into the Tobacco Community Revitalization Fund ($175 million in years 5 through 11, and $250 million annually thereafter). In total, less than 5 percent of the $368.5 billion will be earmarked for the Fund.

- Spending Authority: The Tobacco Community Revitalization Fund will be administered by the Department of Agriculture, *advised by a producer Board of Directors*. Up to $1 billion may be spent annually, and this amount will not be subject to appropriations. The Fund will be used for the following purposes:

  ◊ Costs Incidental to the Tobacco Program: The Fund will cover administrative costs, crop insurance, cooperative extension service costs relative to tobacco, grading costs, *tobacco marketing assessments*, and loan association administrative costs, all of which will be calculated annually by the Secretary of Agriculture. Program would remain a function of USDA at zero cost.

◊ <u>Farmer Supplemental Payments:</u> The Secretary shall make Farmer Supplemental Payments for a period of 25 years. Payments which will not exceed $500 million in any calendar year, nor will they exceed within any state the share of $500 million which corresponds to the share of 1996 national tobacco income for such state. Payments will be make to active tobacco producers whose income in any given year from the production of tobacco is less than their 1996 income from tobacco production. Total payments will be limited to an amount equal to the average price per pound received for the prior crop year for such kind of tobacco times the amount by which the quota for a given year is less than the 1996 quota, but in no case will total payments to all producers exceed the aggregate limitations on payments to growers for such state.

◊ <u>Benefits for Displaced Tobacco Industry Workers:</u> Up to $100 million annually will be available to provide benefits to displaced workers for a period of 25 years. The benefits program will be modeled after section 3161 benefits available for displaced defense industry workers.

◊ <u>Agricultural Development Grants:</u> *$100 million* annually will be available for grants to Agricultural Organizations for the purpose of promoting, facilitating, and ensuring the long-term viability of family farms in tobacco growing communities. The grants may only be used for projects that will facilitate the production, harvesting, storing, curing, transporting and/or marketing of local farm produced commodities.

◊ Rural Economic Development Grants: Of any remaining amounts, but not to exceed $250 million annually, grants will be made to states based on the prior year share of national tobacco farm income. States may use any such funds, in any county with more than $_____ in tobacco farm income in 1996, to fund economic development initiatives. Any such initiative must result in the direct creation of long-term employment in such county.

B. IMMUNITY

- Tobacco farmers, grower associations, and warehouse employees will not be subject to liability for any failure by tobacco manufacturers, distributors, or retailers to comply with the terms of the tobacco settlement.

C. TOBACCO PROGRAM CHANGES

- Purchase Intention Penalty: The penalty on manufacturers for failing to purchase at least 90 percent of their stated annual purchase intentions will be increased to a penalty rate equal to 105% of the prior year market average for such type of tobacco. Penalty payments will be deposited into the *Farmer Supplemental Payment Fund and shall be in addition to $500 million paid by manufacturers*. Adjustments of the 90% may be allowed on a pro rata basis should growers fail to produce less than the basic quota.

D. PRIVATE PROPERTY RIGHTS

- Growers to be paid by U.S. Government for property (real property, equipment, quota, facilities) condemnation by virtue of FDA or other regulatory encroachment causing devaluation of said property.

II. NON-LEGISLATIVE INITIATIVE

A. PURCHASE INTENTIONS

- As either (1) part of the process of negotiating consent decrees by tobacco producing states described in the tobacco settlement, or (2) through individual contracts between tobacco manufacturers and grower cooperatives, a minimum level of manufacturer purchase intentions at *700 million pounds flue, 500 million pounds burley* will be required over the next 25 years, *with or without the tobacco program.*

B. COMPLETION OF BUYOUT AGREEMENT

- As either (1) part of the process of negotiating consent decrees by tobacco producing states described in the tobacco settlement, or (2)through individual contracts between tobacco manufacturers and grower cooperatives, manufacturers will be required to complete obligations under the 1994 buyout contracts.

C. PURCHASE OF LOAN STOCKS

- As either (1) part of the process of negotiating consent decrees by tobacco producing states described in the tobacco settlement, or (2) through individual contracts between tobacco manufacturers and grower cooperatives, manufacturers will be required to purchase all current tobacco cooperative growers association loan stocks.

SUMMARY of Ford - McConnell

tobacco farmer

(1) DV - police

costs

for (2) procedure to include div. of tobacco

LEVEL 1 - 5 OF 22 STORIES

The Courier-Journal (Louisville, KY.)

August 14, 1997, Thursday KY:KENTUCKY

SECTION: NEWS Pg.02B

LENGTH: 548 words

SOURCE: STAFF

BODY:

Plan would take steps to aid **tobacco farmers**

MIKE BROWN, The Courier-Journal

Here is a summary of the settlement proposal drafted by the offices of Sens. Wendell **Ford** and Mitch **McConnell:**

- Creation of a ''Tobacco Community Revitalization Fund'' administered by the U.S. Department of Agriculture but not subject to the congressional appropriation process.

The fund could spend up to $ 1 billion annually with the money coming out of the $ 368.5 billion the tobacco companies have agreed to pay over 25 years to settle outstanding lawsuits. The fund would:

- Cover costs related to the tobacco program that are now paid by the federal government, including the cost of program administration, tobacco crop insurance, extension service tobacco activities, and grading.

- Make ''supplemental payments'' totaling up to $ 500 million a year for 25 years to active tobacco producers whose income from the crop in any year is less than in 1996. A state's share of the $ 500 million would be limited by its share of the nation's 1996 tobacco income.

- Pay up to $ 100 million a year in benefits to cigarette-factory workers who lose their jobs, much as displaced defense-industry workers are now helped.

- Provide $ 50 million a year in ''agricultural development grants'' to farm groups to encourage the growing of so-called supplemental crops and for other initiatives.

- Use any remaining money, up to $ 250 million a year, for ''rural economic development grants'' to tobacco states to create long-term employment opportunities in tobacco-growing communities.

- In addition to the fund, compensation for decreased property values if nicotine levels are cut.

Property owners would be entitled to payments equal to the decline in the

To Farmers

TOBACCO SETTLEMENT LEGISLATION
OFFERED BY REPRESENTATIVE SCOTTY BAESLER

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

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

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

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

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

MOST RECENT ARTICLE on Ford McConell

LEVEL 1 - 1 OF 22 STORIES

The Courier-Journal (Louisville, KY.)

August 19, 1997, Tuesday KY:KENTUCKY

~~SECTION: NEWS~~ Pg.01B

LENGTH: 689 words

HEADLINE: Baesler reassures **tobacco farmers**
Settlement need not be a disaster, he tells them

BYLINE: AL CROSS, C-J Political Writer

SOURCE: STAFF

DATELINE: FRANKFORT, Ky.

BODY:

Farmers worried about the proposed **tobacco** settlement should see it as an opportunity, not a calamity, 6th District U.S. Rep. Scotty Baesler of Lexington said yesterday.

''I think this settlement will give us the opportunity to lock in the future for the **tobacco farmer,**'' Baesler told the legislature's **Tobacco** Task Force.

But he told the lawmakers that Congress won't act on the settlement this year, and in an interview he said Congress probably won't approve it in its current form because both pro- and anti-tobacco forces are seeking changes.

Baesler also said he expects his fellow tobacco growers to get help from President Clinton, who angered them by regulating nicotine as a drug - one of the issues that makes the settlement dependent on congressional approval.

Meanwhile, representatives of 15 states and Puerto Rico met yesterday in Indianapolis to discuss ways to divide the proposed $ 368 billion tobacco settlement negotiated by tobacco manufacturers and attorneys general of the states that had sued to recoup the cost of tobacco-related health care.

The deal has left tobacco growers ''very, very discouraged,'' Democratic Rep. Tom McKee of Cynthiana told Baesler, a fellow grower. ''A lot of them think that it's over, and I try to emphasize that I don't think it's over, and I think you're telling us that.''

McKee said growers' apprehension about the future of their crop, and this year's bad weather, has been felt at Wal-Mart in Cynthiana, where the manager told him, ''Business is terrible.''

''He said, 'We had a staff meeting this morning, and we concluded that it's the uncertainty of the future of tobacco - and at this time we hadn't had any rain - and the uncertainty of the size of the crop.' Farmers haven't spent anything except what they have to.''

Baesler replied, ''I am bullish on the tobacco market'' - so much that he recently bought additional quota. ''I'm bullish on it because I think this settlement will give us the opportunity to lock in the future for the **tobacco farmer.**''

Baesler, a Democrat running for the U.S. Senate, repeated what has become an article of faith for tobacco-state lawmakers - that no settlement will pass without protection for growers, which could put an end to the congressional battles over the government help they get.

In the interview, he said chances of the settlement's passing in its current form are ''50-50 or less'' because anti-tobacco forces ''are really going after it'' as inadequate.

Just what protection growers will get is far from decided, partly because different kinds of growers want different things.

Large North Carolina growers of flue-cured tobacco are interested in selling their quotas as part of the settlement, but that has little appeal in Kentucky, where burley farmers are more numerous but have smaller quotas and are more interested in guaranteeing a stable market for their crops.

''Flue-cured growers could buy a Winnebago'' with a buyout check, while ''we could maybe buy some gas to go in it,'' Danny McKinney, chief executive of the Burley Tobacco Growers Cooperative Association, told the task force.

However, McKinney suggested that the growers would eventually find common ground. He said four or five proposals have been floated and ''I don't see any of us that far apart.''

Baesler said he and 14 other House Democrats from tobacco states have met with Clinton administration officials to discuss ways to protect growers and will make a proposal by the end of next month.

He said the plan is likely to resemble one offered by Kentucky Sens. Wendell **Ford** and Mitch **McConnell,** which includes various economic guarantees for growers and changes in the federal tobacco program.

Baesler said that - based on assurances from Agriculture Secretary Dan Glickman, Health and Human Services Secretary Donna Shalala and Clinton's domestic-policy director, Bruce Reed - he thinks Clinton will support such a plan.

Clinton said when he issued the nicotine regulations almost a year ago that those who favored them had an obligation to help farmers who would be hurt by the regulations.

LANGUAGE: English

LOAD-DATE: August 20, 1997

fair market value of their tobacco-producing property if all three of the following occurred:

- A drop in a grower's tobaccoproduction income to less than 60 percent of the 1996 level.

- A drop in the fair market value of the tobacco-producing portion of the property to less than 60 percent of the 1996 value.

- Implementation of a Food and Drug Administration rule reducing nicotine in tobacco products.

The draft does not specify the source of the compensation.

- Changes in the tobacco program:

- A new referendum system for determining the rules on the sale, lease and transfer of quotas and other aspects of production.

A petition by more than five percent of the active producers of a particular type of tobacco in a state would be enough to force a vote, and the proposed change would take effect if approved by a simple majority.

- Increased penalties on the cigarette companies for failure to meet at least 90 percent of their stated tobacco-buying intentions, with the money going into the tobacco-community revitalization fund.

- Immunity for farmers, grower co-ops and warehouse employees from liability if the tobacco manufacturers, distributors or retailers fail to comply with terms of the deal.

- Non-legislative items to be worked out with the manufacturers:

- A requirement for the companies to buy a minimum amount of domestic tobacco over 25 years.

- A requirement for them to complete their buyout of old surplus tobacco agreed to in 1994, and to purchase all current surplus.

LANGUAGE: English

LOAD-DATE: August 15, 1997

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GENERAL Compensation + Ford McConnell

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LEVEL 1 - 2 OF 22 STORIES

The Cincinnati Enquirer

August 18, 1997, Monday, KENTUCKY EDITION

SECTION: METRO, Pg. B01

LENGTH: 664 words

HEADLINE: **Tobacco farmer** has defenders
Legislators promise good deal, or no deal

BYLINE: PAUL BARTON

SOURCE: Enquirer Washington Bureau

DATELINE: WASHINGTON

BODY:

The proposed tobacco settlement could run into serious roadblocks in Congress unless steps are taken to protect **tobacco farmers,** members and political observers alike agree.

In fact, Rep. Jim Bunning, R-Southgate, is adamant about it.

"Until we can get that, I don't think we can get any kind of settlement through Congress," Mr. Bunning said. "I don't think the settlement's got a chance unless the tobacco states are for it."

When asked whether Republican leaders such as House Speaker Newt Gingrich and Senate Majority Leader Trent Lott supported doing something for **tobacco farmers,** Mr. Bunning said, "Absolutely. They are going to protect the growers more than anyone else."

Mr. Bunning's comments come as Sens. Wendell **Ford,** D-Owensboro, and Mitch **McConnell,** R-Louisville, continue talking to farmers and working on proposed legislation that's designed to protect growers from some of the disruptions that the $ 368 billion settlement could cause for the industry.

Mr. Bunning said the **Ford-McConnell** product is "probably going to be a rallying bill for all of the Kentucky delegation."

Mr. **Ford's** office said Friday the senator is confident there will be plenty of support in Congress - and among anti-tobacco factions with an interest in the settlement - for protecting **tobacco farmers** in Kentucky and other states.

"The senator has expressed his concerns about the farmers being taken care of to a variety of factions. He feels his message is being heard. He feels most groups also agree that the farmer has to be taken care of," said **Ford** staffer Meg Conlon.

Sarah Binder, a political analyst at the Brookings Institute, said she can

easily envision scenarios where farm-state members could block the settlement in the Senate unless they thought their constituents were protected.
Senate rules make it far easier than in the House for a small number of members to hold up legislation.

She cited North Carolina Republicans Jesse Helms and Lauch Faircloth as among those most likely to raise a protest against the settlement, although Mr. **Ford** and Mr. **McConnell** have made their intentions well-known.

"Their ability to obstruct the Senate would make it easier to ensure a package for **farmers** would be included," Ms. Binder said of **tobacco**-state senators.

Different tactics in House

In the House, however, much would depend on how votes on the settlement are structured. If relief for **tobacco farmers** is a stand-alone amendment, **tobacco**-state members may have a harder time, she said.

A spokesman for Mississippi Attorney General Mike Moore, a central figure in the tobacco settlement, said Mr. Moore expected lawmakers would want to do something for farmers.

"We assumed all along that in the congressional process, the farmers would become part of the debate," said Trey Bobinger, assistant attorney general in Mississippi. "We have no objection to the farmers having input into the congressional process."

Mr. Bobinger said farmers were not part of the settlement negotiations because they were not one of the named parties in the litigation that led to the agreement.

"If anyone should have represented the **farmers,** it seems the **tobacco** industry should have - protecting their source," he said.

When asked whether Mr. Moore would object to something's being done for farmers, Mr. Bobinger said, "We are going to defer to Congress on that issue."

Vote long way off

Ms. Binder, the Brookings political analyst, said the settlement is one instance where **tobacco farmers** and the industry may have different goals. "I don't think their interests are necessarily entirely aligned," she said.

Mr. Bunning said he doubts Congress will finish work on the settlement in 1997. "But that doesn't mean it can't get done in the 105th (Congress)," he said.

Mr. Bunning added: "I don't see it's got an excellent chance of passing as it is, even if there is protection (for farmers). It is a hodgepodge of a lot of things right now."

LOAD-DATE: August 19, 1997

Reuters

Tob. to Jones

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Tuesday February 3, 7:45 pm Eastern Time

Tobacco 'buyout' lures growers, U.S. lawmakers

By Charles Abbott

WASHINGTON, Feb 3 (Reuters) - The idea of a ``buyout'' is popular in parts of the Tobacco Belt, farm group leaders said Tuesday, but they called on U.S. lawmakers to fight to keep the decades-old tobacco program.

There was wide agreement during a House Agriculture subcommittee hearing that growers should be compensated if Congress approves the $368.5 billion proposed tobacco settlement. One of its likely effects would be smaller demand for cigarettes and the tobacco used to make them.

However, a couple of lawmakers raised the possibility that lengthy defense of the tobacco program might block the chance to get a share of the settlement. The program sets the minimum price for tobacco and limits output.

``Do we continue to fight...and miss that opportunity? Here in Washington, you don't get something for nothing,'' said Representative Ron Lewis, Kentucky Republican. ``The rank and file farmers have told me they want a buyout.''

Georgia Republican Saxby Chambliss also pointed to the possibility of eventual loss of the program but Scotty Baesler, Kentucky Democrat, said: ``The only way we'll lose the program is for us to destroy it'' by backing a substitute.

Wayne Dollar, president of the Georgia Farm Bureau, said ``the Georgia grower is in favor of a buyout.'' But, he said his group did not endorse any of three Senate plans -- an outright buyout of quota rights to end the tobacco program, compensation for lost sales but retention of the program, and privatization of it.

The Kentucky Farm Bureau said it wanted to keep the tobacco program with compensation as a complement.

Other groups said it was vital to retain some mechanism to limit tobacco output. The Virginia Farm Bureau favored privatization of the tobacco program. The Flue-Cured Tobacco Cooperative Stabilization Corp, a grower group, backed compensation to farmers coupled with retention of the current program.

Farm-state Republicans pointedly noted that President Clinton had included nothing in his proposed fiscal 1999 budget for tobacco growers.

While farm groups favored retention of the tobacco program, some economists say the program eventually would collapse due to shrinking U.S. tobacco use and the rising volume of foreign tobacco used in making cigarettes.

Related News Categories: US Market News, options

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tobacco
- farmers - company

DISCUSSION DRAFT
DATE: 2/5/98

Principles:

A) **Economic Development Payments: Provide resources to tobacco-growing communities to help them adjust to the economic impact any legislation incorporating the terms of the June 20 Proposed Resolution may cause.**

- For the first 10 years after the Proposed Resolution is enacted into national legislation, economic assistance would be provided to tobacco-dependent communities in an amount equal to 2% of the industry's total annual payments contemplated by the Proposed Resolution.
- Eligible states would receive block grants to (1) establish a tobacco worker transition program to assist workers displaced from tobacco warehousing, processing, and manufacturing operations; and (2) carry out non-tobacco economic development initiatives in tobacco-dependent communities.
- Recipient states would determine the areas within their borders most in need of economic assistance and the form of assistance that will be provided.

B) **Tobacco Program Operating Costs: Operate the program at no net cost to the taxpayers.**

- The tobacco companies would assume all administrative costs of the program, crop insurance, and extension service fees relating to tobacco. The companies would continue to pay their share of the assessment for the no-net-cost fund and the tobacco marketing assessment, as required under existing law.
- Tobacco farmers would continue to pay their share of the assessment for the no-net-cost fund and their share of the tobacco marketing assessment, as required under existing law.

C) **Deficiency Payments: Protect tobacco quota owners and tobacco growers from economic loss resulting from reduced demand and consumption of tobacco products.**

- For a period of 25 years after the Proposed Resolution is enacted into national legislation, payments would be made to tobacco growers to compensate for lost income resulting from a decline in the "base quota."

- For each year in which the quota declines from the "base quota," payments would equal: [(base quota) - (current year quota)] x (average net profit/lb.)

- During the first 5 years after enactment of the Proposed Resolution, "base quota" would be calculated by averaging the quotas for the 1996 through 1998 marketing years.

- Every five years after enactment of the Proposed Resolution, excess quota would be bought out from quota owners at $8/lb. and the "base quota" from which income deficiency payments are calculated would be readjusted and reduced by the amount of the quota purchased.

- Buyout payments would be spread equally over a 5-year period. For example, payments for buyout at the end of year 5 would be made in years 5, 6, 7, 8, and 9. However, the buyout payment in year 25 would occur at the end of year 25.

- In exchange for a buy-out payment, the quota owner would be required to agree permanently to relinquish that portion of his or her quota.

D) **Payments contemplated by this proposal would be treated as all other payments contemplated by the Proposed Resolution (pp. 34-35) (e.g., subject to 12/31 payment commencement date, inflation protection for annual payments, adjustment for volume decrease (adult volume only) or total volume increase, payment protection, pass-through, and tax treatment). However, the duration of these payments would continue for a period of 25 years (not in perpetuity), except with respect to community development payments, which would continue for a period of 10 years.**

E) **Implementation of this proposal is contingent upon the enactment of national legislation incorporating the terms of the Proposed Resolution, including the civil liability protections.**

Fairness
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Farmer What

AMENDMENTS TO CHAIRMAN'S MARK TO S. 1415

Tab

1. **McCain** - Chairman's mark to facilitate implementation of the settlement reached between the Attorneys General of the several States and manufacturers of tobacco products, and for other purposes [dist. 3/30].

   McCain (Burns)- To assist vending machine companies severely affected by lost sales due to elimination of cigarette vending machines [e-mailed 3/31, 12:24pm].

2. **Burns**- To provide for the permanent extension of income averaging for farmers [e-mailed 3/31, 10:10am].

   Burns- To ban the sale of tobacco products through the use of vending machines and to compensate the owners and operators of tobacco vending machines(with spending) [e-mailed 3/31, 10:10am].

   Burns- To ban the sale of tobacco products through the use of vending machines and to compensate the owners and operators of tobacco vending machines(without spending) [e-mailed 3/31, 10:10am].

   Burns- To transfer certain settlement proceeds to the Black Lung Disability Trust Fund, and for other purposes.

3. **Gorton**- To provide equity by requiring Indian tribes to collect state taxes on tobacco [e-mailed 3/31, 1:33pm].

   Gorton- 2nd amdt. re. Indian tribes [hc 3/31].

4. **Hutchison**- To maintain state funding for those states that have separate settlements [e-mailed, 1:30pm].

   Hutchison- To ensure that funds distributed to states by this Act are expended in accordance with state law and processes. [e-mailed, 1:30pm].

   Hutchison- To permit states that have reached separate settlements with tobacco companies to opt in the global settlement. [e-mailed, 1:30pm].

   Hutchison- To ensure that manufacturers who are compelled to share technology with their competitors are compensated fair market value for their property [e-mailed, 1:30pm].

Hutchison- To preserve limitation on liability independent of penalties assessed for failure to reach smoking cessation targets [e-mailed, 1:30pm].

Hutchison- To ensure that tobacco manufacturers bound by this act and meeting its requirements are not penalized for legal challenges brought by parties not bound by this Act [e-mailed, 1:30pm].

Hutchison- To ensure that Congress has the ability to review all regulations promulgated under this Act pursuant to its authority under the Congressional Review Act [e-mailed, 1:30 pm].

Hutchison- To require that a determination of attorneys fees by an arbitration panel under this Act offset any potential state liability for attorneys' fees [e-mailed, 3:02pm].

5. Snowe- To codify provisions relating to advertising and marketing [e-mailed 3/31, 3:08pm].

   Snowe- Sense of the Senate that proceeds of this Act may be used for purposes [e-mailed 3/31, 2pm; replacement e-mailed, 7:50pm].

6. Ashcroft- To delete all references to limitations of liability in the Chairman's mark [e-mailed 3/31, 12:31pm].

   Ashcroft- To provide legal standards and procedures for suppliers of raw materials and component parts for medical devices [e-mailed 3/31, 1:01pm].

   Ashcroft- To provide uniform standards for the awarding of compensatory and punitive damages in a civil action against a volunteer or volunteer service organization, and for other purposes [e-mailed 3/31, 1:01pm].

   Ashcroft- To establish legal standards procedures for product liability litigation [e-mailed 3/31, 1:01pm].

7. Frist- To establish a compliance bonus fund for states and retailers [e-mailed 3/31, 1pm].

8. Brownback- To provide for certain limitations on attorneys' fees under any global tobacco settlement [e-mailed 3/31, 12:14pm].

9. Hollings- To provide for the apportionment of the annual payment [e-mailed 3/31, 12:59pm].

Hollings- To strike subtitles A, B, and C of Title XI [hc, 3:32pm].

10. Inouye - To provide for the establishment of a Tobacco Asbestos Trust Fund [e-mailed 3/30].

Inouye - Amdt. to above amendment to provide for the establishment of a Tobacco Asbestos Trust Fund [e-mailed 3/31, 7:24pm].

11. Rockefeller - Sense of the Senate amdt. - reimbursing the VA for veterans' tobacco-related illness care and compensation [e-mailed 3/31].

Rockefeller- Re. Part VII-Recovery of Compensation Costs for tobacco-related disability or death, Chapter 91-Tort Liability for Disability or Death due to tobacco use [hc].

12. Kerry- To increase the industry payments to ensure that the payments are based on an average national retail price of a pack of cigarettes of $1.50 [e-mailed, 5:29pm].

Kerry- To increase the per-pack cost of cigarettes and reduce youth smoking [e-mailed, 5:11pm].

Kerry- (2nd) to increase the per-pack cost of cigarettes and reduce youth smoking [e-mailed, 5:11pm].

Kerry- To provide funds for certain child care programs, for asbestos-related injuries, and for vending machine manufacturers [e-mailed, 5:11pm].

Kerry- (2nd) to provide funds for certain child care programs. [e-mailed, 5:29pm].

Kerry- (3rd) to provide for the use of funds for certain child care programs [e-mailed, 5:11pm].

Kerry- (4th) to provide for the use of funds for child care and child development [e-mailed, 5:11pm].

Kerry- To assist in meeting the youth tobacco use reduction targets in this Act by strengthening the youth access compliance requirements for States to ensure that youths do not have access to tobacco products at retail outlets. [e-mailed, 5:11pm].

Kerry- Civil liability, Sec. 701 definitions.

13. Bryan- To strike provisions relating to credits for tort liability [e-mailed 3/31].

14. Dorgan (Rockefeller) - To provide liability limitations with respect to government claims for tobacco-related costs [rec'd hc, but wasn't e-mailed...computer failure].

Dorgan- To permit States to opt out of the liability limitations with respect to government claims for tobacco-related costs [rec'd hc, but wasn't e-mailed...computer failure].

Dorgan- To exclude punitive damage awards from the liability limitation cap [rec'd hc, but wasn't e-mailed...computer failure].

Dorgan- To strike the credit provision of the liability title [e-mailed 1:31pm].

Dorgan To strike the limited antitrust exemption [e-mailed 1:31pm].

Dorgan- To provide that the limitations on liability cease to apply in any year in which the non-attainment percentage exceeds 10% [e-mailed 1:31pm].

Dorgan- To disallow deductions for payments pursuant to trust agreement [rec'd hc, but wasn't e-mailed...computer failure].

Dorgan- To provide for the establishment and funding of a National Institutes of Health Trust Fund for Health Research [e-mailed 6:07pm].

15. Wyden- To strike provisions that permit States to opt out of the requirements relating to involuntary exposure to environmental tobacco smoke [e-mailed 6:15pm].

Wyden- To modify provisions relating to required reductions in the underage use of tobacco products [e-mailed 6:15pm].

16. Ford - #1 -To reduce annual payment amounts to those contained in June 20th agreement [e-mailed 6:10pm].

Ford - #2 - To reduce annual payment amounts to those contained in Clinton budget [e-mailed 6:10pm].

? Ford - #3 - To treat the sale tobacco products overseas in the same manner as the sale of medical devices overseas [e-mailed 6:10pm].

Ford - #4 - To limit FDA authority to ban "new" tobacco products to those making therapeutic claims [e-mailed 6:10pm].

Ford - #5 - To strengthen the ban on FDA authority to regulate farms [e-mailed 6:10pm].

Ford - #6 - To give Congress more than 2 years to act on FDA banning nicotine in tobacco products [e-mailed 6:10pm].

Ford - #7 - To expand international restrictions to all devices, including those used by children [e-mailed 6:10pm].

Ford - #8 - To strike ban on cigarette sales in duty-free shops [e-mailed 6:10pm].

Ford - #9 - To make lookback penalties tax deductible [e-mailed 6:10pm].

Ford - #10 - To allow states longer period to opt out of second-hand smoke provisions [e-mailed 6:10pm].

Ford - #11 - To strike the second-hand smoke title, since the non-preemption [e-mailed 6:10pm].

Ford - #12 - To provide funding to small businesses to construct separately ventilated facilities [e-mailed 6:10pm].

Ford - #13 - To clarify the meaning of an advertising industry lawsuit [e-mailed 6:10pm].

Ford - #14 - To strike brand-specific penalties, which impose absurd penalties on manufacturers of brands with de minimum youth market shares [e-mailed 6:10pm].

Ford - #15 - To clarify chart on p. 103 to read "Required percentage reduction as a percentage of base incidence percentage in Underage Cigarette Use." [e-mailed 6:10pm]

Ford - #16 - To clarify chart on p. 104 to read "Required percentage reduction as a percentage of baseg incidence percentage in Underage Smokeless Tobacco Use" [e-mailed 6:10pm]

Ford - #17 - To allow states to use grant money for new Synar enforcement requirements [e-mailed 6:10pm].

Ford - #18 - To strike broad powers to sue of new super commission (p. 73-4; pp. 127-8) [e-mailed 6:10pm].

Ford - #19 - To ensure equitable treatment for small tobacco companies [e-mailed 6:10pm].

Ford - #20 - To add Secretary of Agricultre as Trustee of Trust Fund [e-mailed 6:10pm].

Ford - #21 - To add tobacco farmer representative as 5th member of Trust Fund Advisory Board [e-mailed 6:10pm].

Ford - #22 - To limit multiple labeling requirements in countries with their own labeling requirements [e-mailed 6:10pm].

Ford - #23 - Strike International Policing provisions of Title XI, Subtitle A [e-mailed 6:10pm].

Ford - #24 - To strike new criminal penalties (sec. 1103) [e-mailed 6:10pm].

Ford - #25 - To strike rewaqrd of criminal fine (sec. 1104) [e-mailed 6:10pm].

Ford - #26 - To limit eligibility of Depository Board Members to objective criteria [e-mailed 6:10pm].

Ford - #27 - To pay for creation of Depository out of settlement funds [e-mailed 6:10pm].

Ford - #28 - To apply existing penalties related to FDA in the event of the unauthorized release of documents received form the Depository [e-mailed 6:10pm].

Ford - #29 - To strike "no previous offense" language for exporters [e-mailed 6:10pm].

Ford - #30 - To strike sections 1144-5 creating new layer of permits [e-mailed 6:10pm].

Ford - #31 - To strike requirement that military installations charge highest possible price [e-mailed 6:10pm].

Ford - #32 - Remove language from Findings that stigmatizes smokers [e-mailed 6:10pm].

Ford - #33 - Conform finding on Tobacco Farmers to reflect that the bill will impact farmers and their communities [e-mailed 6:10pm].

Ford - #34 - Prohibits actions that would raise the minimum age to purchase and use tobacco products above the minimum age to purchase and use alcohol [e-mailed 6:10pm].

Ford - #35 - To provide that the relief for violations of the "Involuntary Exposure to Tobacco Smoke" title be to provide corrective action [e-mailed 6:10pm].

Ford - #36 - To limit FDA authority overseas to the proper labeling of tobacco products [e-mailed 6:10pm].

Ford - #37 - To provide equal treatment for all products made with child labor [e-mailed 6:10pm].

Ford - #38 - To strike manufacturer licensing provisions [e-mailed 6:10pm].

Ford - #39 - To limit funding for international initiatives to the general fund and to such sums as are provided through annual appropriations bills [e-mailed 6:10pm].

Ford - #40 - To remove limitation on USTR's authority to take action against discriminatory trade barriers [e-mailed 6:10pm].

Ford - #41 - To delete provisions related to export promotion and USTR authority [e-mailed 6:10pm].

Ford - #42 To delete federal labeling requirements [e-mailed 6:10pm].

Ford - #43 - Federal labeling of tabacco products for domestic use and for export; pricing of tobacco products on military installations [e-mailed 6:10pm].

Ford - #44 - To ensure that duty-free sales are governed by the same regulations as retail sales [e-mailed 6:10pm].

Ford - #45 - To limit "real" annual payments to $506 billion over 25 years, as the legislation has been publicly described [e-mailed 6:10pm].

Ford - #46 - To limit "real" annual payments to $506 billion over 25 years, as the legislation has been publicly described [e-mailed 6:10pm].

Ford - #47 - To eliminate requirements for black and white tobacco packages [e-mailed 6:10pm].

"~~(E) Additional payments to quota holders exercising option to relinquish quota ._If the amount made available under paragraph (1) exceeds the sum of the amounts determined under paragraphs (3), (5), and (6) for a marketing year, the Secretary shall distribute the amount of the excess pro rata to quota holders that have exercised an option to relinquish a tobacco farm marketing quota or farm acreage allotment under paragraph (2) by increasing the amount payable to each such holder under paragraph (3).~~"

Section 1021 (e) (7) (E) --

"~~(E) Additional payments to quota holders exercising option to relinquish quotas or permits, or to quota lessees or quota tenants relinquishing permits ._If the amount made available under paragraph (1) exceeds the sum of the amounts determined under paragraphs (3), (4), and (5) for a marketing year, the Secretary shall distribute the amount of the excess pro rata to quota holders by increasing the amount payable to each such holder under paragraphs (3) and (5).~~"

30. **Sec. 1139 -- Anti-Smuggling Fees**: revise to ensure that collection and spending of these fees are subject to appropriations.

"SEC. 1139. FUNDING.
(a) License Fees._ The Secretary may, in the Secretary's sole discretion, set the fees for licenses required by this chapter, in such amounts as are necessary to recover the costs of administering the provisions of this chapter, including preventing trafficking in contraband tobacco products.

(b) Disposition of Fees._ Fees collected by the Secretary under this chapter shall be deposited in an account with the Treasury of the United States that is specially designated for paying the costs associated with the administration or enforcement of this chapter or any other Federal law relating to the unlawful trafficking of tobacco products. ***To the extent provided in advance in appropriations acts,*** the Secretary is authorized and directed to pay out of any funds available in such account any expenses incurred by the Federal Government in administering and enforcing this chapter or any other Federal law relating to the unlawful trafficking in tobacco products (including expenses incurred for the salaries and expenses of individuals employed to provide such services). None of the funds deposited into such account shall be available for any purpose other than making payments authorized under the preceding sentence."

(c) Collection and Spending Subject to Appropriations: To the extent and in the amounts provided in advance in appropriations acts, the fees authorized by this chapter shall be collected in each fiscal year and shall be available for purposes of this chapter.

Tom - these are OMB's recommended technical/policy corrections to McCain's manager's amendment.

Here are the farmers provisions - please get any feedback to me by mid-day.

Thanks.

-Cynthia D

Tobacco - farmers - [illegible]

public facilities, the area is maintained at negative pressure in a manner that is as or more protective of the public health as the regulations promulgated by the Assistant Secretary;"

26. **Sec. 1011 -- Inconsistent Authorization of Appropriation - Farmers**: delete section 1011 since there is already an authorization for appropriations in section 451(d).

> "~~SEC. 1011. AUTHORIZATION OF APPROPRIATIONS.~~
> ~~There are appropriated and transferred to the Secretary for each fiscal year such amounts from the National Tobacco Trust Fund established by section 401, other than from amounts in the State Litigation Settlement Account, as may be necessary to carry out the provisions of this title.~~"

27. **Sec. 1012 -- Clarification of Farmer Allocation Expenditures**: revise so that spending takes place within the Farmers Assistance Allocation Account.

> "SEC. 1012. EXPENDITURES.
> ***From funds allocated to the Farmers Assistance Allocation Account pursuant to section 451 (d) (2),*** the Secretary is authorized~~, subject to appropriations,~~ to make payments under_
>
> (1) section 1021 for payments for lost tobacco quota for each of fiscal years 1999 through 2023, but not to exceed $1,650,000,000 for any fiscal year except to the extent the payments are made in accordance with subsection (d)(12) or (e)(9) of section 1021;
>
> (2) section 1022 for industry payments for all costs of the Department of Agriculture associated with the production of tobacco;"

28. **Sec. 1013 -- Budgetary Treatment of Farmer Allocation Expenditures**: delete this section since it is inconsistent with direct spending treatment.

> "~~SEC. 1013. BUDGETARY TREATMENT.~~
>
> ~~This subtitle constitutes budget authority in advance of appropriations Acts and represents the obligation of the Federal Government to provide payments to States and eligible persons in accordance with this title.~~"

29. **Sec. 1021(d)(8)(E) and 1021(e)(7)(E) -- Additional Payments to Quota Holders:** remove current provisions that would accelerate payments to quota holders.

Section 1021 (d) (8) (E) --

McConnell backs end to tobacco support

Historic split puts Ford plan in jeopardy

By Gail Gibson
HERALD-LEADER WASHINGTON BUREAU

WASHINGTON — Sen. Mitch McConnell said yesterday he will back a plan to end the 60-year-old tobacco price-support program, creating a historic split between Kentucky senators over tobacco policy.

Then, in a related move, the Senate's Republican leadership opened last night's debate on sweeping anti-smoking legislation with a last-minute procedural change putting that plan on equal footing with Sen. Wendell Ford's competing grower-protection proposal.

Seemingly caught by surprise, an angry Ford complained on the Senate floor that the move was unfair. In effect, it makes it easier for Sen. Richard Lugar to win Senate approval for his grower plan over Ford's, which would keep the price-support program in place.

At a midday press conference, McConnell said he still believes in the tobacco program, which has kept prices for raw tobacco high and small farms active for generations.

But McConnell said the pro-

See TOBACCO, A2

TOBACCO: 'This is not a personal thing': McConnell

From Page One

gram is doomed in Washington, so growers should act now to secure an $8-per-pound buyout of their tobacco allotments, as proposed by Lugar, an Indiana Republican and a devoted free-trade proponent.

"I reluctantly see the tobacco program's end. It's not by any means my first choice," said McConnell, R-Louisville. "But it's a recognition on my part of the political reality that is all around us to observe, for even the most casual observer of this issue."

McConnell's decision marks the first time two Kentucky senators, regardless of party affiliation, have split on any key tobacco policy issue.

"I think it's time to get the hound dogs out and see if we can find the senator who's supposed to be representing our tobacco farmers," Ford, D-Owensboro, said yesterday afternoon. It was a reference to McConnell's first Senate race in 1984, when he used hound dogs in a clever ad campaign to contend that incumbent Democrat Walter D. Huddleston was too often missing in action.

Lugar's plan would pay farmers $8 per pound to buy out their right to grow tobacco — known as a "quota" — while phasing out the price-support program over three years. It would mean about $18 billion for tobacco farmers and rural communities.

Ford's proposal, known as the LEAF Act, would give farmers a buyout option in as many as 10 payments, but would also keep in place the program's price and production controls. It would bring about $28.5 billion to farmers and rural communities.

McConnell had worked with Ford last summer to craft the LEAF Act, and was a co-sponsor when the bill was introduced last fall. In recent months, however, McConnell has repeatedly raised questions about the price-support program's future in a political environment where tobacco "is the darling of the attack set," as he put it yesterday.

"What will keep a candidate from a non-tobacco state from voting against tobacco, if they know it'll come back to haunt them in November?" said McConnell. He appeared at a press conference with Lugar just hours before debate began on the broad anti-smoking bill, which appears increasingly likely to win Senate approval.

The debate opened with Senate Majority Leader Trent Lott, R-Miss., announcing the move that helped Lugar gain ground against Ford's bill. Going into the debate, Ford expected Lugar's plan would have to be offered as a separate amendment to the bill and garner 60 votes to beat his own plan.

Now, the Lugar and Ford plans both are included in the legislation. That means the Senate will have to instead strike one plan out — and that takes only 51 votes. Republicans outnumber Democrats in the Senate 55-45.

Protesting, Ford complained that the work he had done in the Senate Commerce Committee gaining a tactical advantage for his plan was "out the window." And his colleague, Sen. Ernest Hollings, D-S.C., sharply declared: "The bi-partisanship has ended."

Lott defended the decision, pointing out that Lugar is chairman of the Senate Agriculture Committee and noting that Senate rules permitted the move. "I think this is a fair way to go," Lott said.

The debate will continue through this week on the bill, which is bitterly opposed by the nation's four largest tobacco companies. Votes on the bill could start today.

McConnell said he had not talked directly with Ford before publicly announcing his decision. He said Ford's devoted attention to tobacco farm issues made his decision to work with Lugar "doubly difficult."

"This is not a personal thing," McConnell said. "We both looked at the same set of facts and reached a different conclusion about what is best for our growers."

In a statement, Ford said: "When I was growing up, my parents instilled in me two things: pay your debts and keep your word ... All I can tell our farmers is I intend to keep my word."

For McConnell, his decision carries some political risk. Every leading farm group supports the LEAF Act. And amid the past year's turbulent tobacco discussions, Kentucky growers have repeatedly made plain that their first hope would be to keep the subsidy program.

Given the uncertainty over the future of the program, many quota owners have said they just want some guarantees that they will get cash payments to compensate them for losing their allotments.

Still, several Kentucky farm leaders who were in Washington yesterday to monitor the beginning of the tobacco debate were incensed by McConnell's decision.

"It's very, very bad news," said Rod Kuegel, president of the Lexington-based Burley Tobacco Growers Cooperative Association. "I certainly regret this day ever happened, and I hope that McConnell does, too, eventually."

Danny McKinney, a Rockcastle County farmer who is executive director of the burley co-op, stood up in the middle of McConnell's press conference to denounce as "hogwash" any argument that growers care more about a buyout than about preserving the program.

"I'm really disappointed to hear this announcement today. I'm really scared, and my question to you is, 'What am I going to do now? What am I going to raise that will bring my family the benefits that tobacco has brought under the program?' " McKinney asked McConnell. McConnell did not directly respond.

In Kentucky, Gov. Paul Patton and U.S. Rep. Scotty Baesler, both Democrats who support Ford's approach, were critical of McConnell's decision. If the LEAF Act does not pass, Baesler said, "this is McConnell's fault."

"He's abandoned the farmer when we need him," said Baesler, who is running to succeed Ford. "Right now is when we need a united front."

But U.S. Rep. Ron Lewis, R-Cecilia, said McConnell is "looking out for the best interest of the family tobacco farmer."

"I have listened to hundreds of tobacco farmers in the past months, and there is growing and consistent support for a buyout," Lewis said.

Herald-Leader staff writers Angie Muhs and Bill Estep contributed to this report.

HL 5-19-98

McConnell's about-face might mark end of tobacco quotas

Bill Straub

MAYFIELD, Ky. — Over the past decade, Sen. Mitch McConnell has proved himself to be the most astute politician in Kentucky and certainly one of the smartest in the nation.

Under his guidance, the state Republican Party, once a laughing stock, has emerged to not only dominate the Bluegrass congressional delegation but challenge the Democratic Party's traditional hold on Frankfort. Were it not for McConnell's touch and tactics, folks like Rep. Ron Lewis would be back selling Bibles in Salvisa.

Even when it seemed like McConnell tripped up there was a method to his madness.

He has, for instance, earned the enmity of do-gooders everywhere for his no-holds-barred opposition to campaign finance reform. Yet, as he delights in pointing out, no one has ever won or lost an election based on electoral process issues, and the GOP is reaping the benefits of his recalcitrance by pulling in contributions as if it were printing money.

This time, however, it just seems like madness.

On Monday, the Louisville Republican announced he was abandoning his support for the tobacco program and siding with Sen. Richard Lugar, R-Ind., chairman of the Senate Agriculture Committee, in seeking to have it abolished.

It could be the biggest political story of the decade. Imagine a Texas lawmaker suggesting that vehicles propelled by fossil fuels cause too much pollution and embracing a proposal to convert to cars that run on electricity. That's what McConnell has done — in spades.

Burley is Kentucky's number one cash crop, pulling in $1 billion per year. But it's more than that. It's grown on 60,000 farms, permitting uncounted numbers of men and women to retain their beloved rural way of life.

This is not Nebraska or Kansas, where thousands of acres of wheat and soybeans are grown as far as the eye can see on huge spreads. Kentucky's farms are small, family owned and operated, and the hilly and rocky terrain prohibits a lot of row crops.

That's why tobacco has proved invaluable over the decades. Folks on these small farms take city jobs but tend to a tobacco crop that brings in enough money to permit them to stay on the land. It is, in every sense, Kentucky's cultural legacy.

That heritage has been protected by the tobacco program. The amount of burley produced every year is limited by a quota system. It elevates the price and stops farmers from other states from planting their own tobacco crop from fence row to fence row.

Without the tobacco program, which operates at no net cost to the federal government, it's hard to imagine small family farms surviving for very long in Kentucky. It's that simple. There's no crop that pays enough to take its place. Folks don't earn enough in the factory to maintain their small plot of heaven without it.

McConnell insists he is acting in the interest of these farmers by killing the program. Its demise is inevitable, he says, noting that support programs for wheat, corn and other commodities have already been eliminated. Considering the anti-tobacco fervor that seems to be overwhelming Washington these days, he maintains that the responsible political position is to join in the slaughter and broker the best deal possible.

The rationale makes absolutely no sense.

For one thing, there remain some commodities, such as peanuts, that continue to operate under a support system. Many anti-tobacco activists support the tobacco program because it limits production and keeps prices higher than they otherwise might be — working as deterrent to smoking.

President Clinton, who has hopped on the anti-tobacco bandwagon with both feet, has expressed support for keeping the price-support program.

The tobacco bill that passed out of committee contained a provision offered by Senate Minority Whip Wendell Ford, the Democrat from Owensboro, Ky., that offers a voluntary buyout while keeping the price-support program.

There is absolutely no detectable groundswell to kill the program despite the continuing animus for the tobacco industry itself.

McConnell, suddenly, is leading the charge against what is arguably the most important federal program in the entire state when there is no army to lead.

But consider it politically. The Lugar plan calls for a three-year phase out at a cost of $18 billion. Each farmer, under the proposal, will receive $8 per quota pound.

What exactly has McConnell gained for Kentucky's small farmers by colluding with the senator from Indiana?

Prior to what some are portraying as McConnell's betrayal, the worst-case scenario for Kentucky farmers had the Senate killing the price support program over objections from Ford, McConnell and other tobacco state lawmakers — under the terms of the Lugar bill, which hasn't changed significantly in recent months.

McConnell's defection hasn't changed the terms of the abolition debate, only provided cover to those who may have been on the fence.

McConnell is a power in Washington these days and he generally has served in the state's best interest.

But this move is inexplicable and the Republican Party he has built and served with distinction could ultimately suffer.

Bill Straub is The Post's Washington correspondent. Readers may write him at Scripps Howard News Service, 1090 Vermont NW, Washington, D.C. 20005; or via e-mail at straubb@shns.com.

5/22
Kent. Post

Tobacco debate begins slowly

Ford-McConnell duel over aid to farmers yet to come

By JAMES R. CARROLL
The Courier-Journal

WASHINGTON — The first full day of Senate debate on comprehensive tobacco legislation bogged down yesterday in combat over money between the trial lawyers and powerful business interests.

It ended in at least a temporary victory for the attorneys.

The Senate voted 58-39 against an amendment to the tobacco bill that would have limited attorneys' fees in multibillion-dollar settlements with the states to $250 per hour.

The fees have become controversial among many opponents of tobacco legislation. But the daylong debate only skirted the central question of whether Congress is ready to impose a $516 billion settlement of lawsuits on the tobacco industry and restrict the cigarette companies' ability to advertise its products, all in the name of cutting underage smoking.

The slow pace of deliberations on the bill, with the amendment on attorney fees the only one voted on among potentially dozens pending, threatens the supporters' plan to pass the legislation by the time the Senate leaves Friday for a weeklong Memorial Day break.

"I'm optimistic, but I'm always optimistic," said Sen. John McCain, R-Ariz., the tobacco measure's chief sponsor.

Others, including Sen. Don Nickles, R-Okla., an opponent of the bill, predicted final passage wouldn't come until at least mid-June.

Yesterday's debate saw Kentucky's two senators, Democrat Wendell Ford and Republican Mitch McConnell, in prominent roles. With Kentucky the nation's second-largest tobacco state, the pair are likely to take to the floor many times in the coming days.

McCONNELL, a co-sponsor of the amendment by Sen. Lauch Faircloth, R-N.C., said lawyers winning lawsuits against the tobacco companies were "making a heck of a lot more than any other worker in America."

"A sweeping federal regulatory bill cannot leave out the subject of tobacco fees," McConnell said.

He took his colleagues on what he called "the lawyer-enrichment tour" of the states that already have settled with the tobacco industry, pointing to attorneys' fees that he said compute to anywhere from $7,000 per hour to $88,000 per hour.

A $250 hourly cap on the fees would bring the costs of the settlements "back to the edge of reason," McConnell argued.

He was backed by the United States Chamber of Commerce and the National Association of Manufacturers, who fear that the court wins over the tobacco industry will embolden trial lawyers to file massive lawsuits against other industries.

But Ford, helping Sen. Ernest Hollings, D-S.C., lead the opposition to caps on fees, said that the attorneys who agreed to battle the tobacco industry signed contingency contracts, which at the time the lawsuits were filed were gambles.

"What's a contract for? Are we Big Brother that vitiates contracts? I don't think so," Ford said. "If there ever was an intrusion into private practice, private business — the Republican side I'm surprised at."

THE KENTUCKY Democrat, the Senate minority whip, was still smarting from Monday's surprise parliamentary maneuvers by Republican leaders that dealt a setback to Ford's proposal to help tobacco farmers under a national settlement.

Senate Majority Leader Trent Lott, R-Miss., had the tobacco bill printed without Ford's plan, which would keep intact the tobacco price-support program and provide assistance to tobacco-dependent communities and buyouts to farmers who chose not to grow tobacco.

Instead, Lott inserted an alternative sponsored by McConnell and Sen. Richard Lugar, R-Ind., chairman of the Senate Agriculture Committee, that would abolish the price-support program and provide buyouts to all tobacco farmers.

Lott's move came after repeated assurances by McCain that Ford's provisions would remain in the bill. The White House also supported the Ford approach. Neither Ford nor Hollings, the ranking Democrat on McCain's Senate Commerce Committee, were told about Lott's decision ahead of time, and they were outraged.

The practical effect of the Lott maneuver is to make Ford compete on equal footing for 51 votes against the Lugar-McConnell approach. Under the rules, without Lott's help, Lugar and McConnell would have needed 60 votes to get their plan into the bill.

In a half-hour Senate speech yesterday, Ford defended his proposal, called the Long-Term Economic Assistance for Farmers Act, or LEAF Act.

"I will do everything in my power to oppose attempts to undermine the LEAF Act, or attack the federal tobacco program, or threaten the ability of tobacco farmers in my state to deal with the impact of the national tobacco settlement," the senator said.

LOTT'S EFFORT to aid McConnell and Lugar "was a leadership decision," McCain said in a brief interview, adding that he still backs Ford's plan.

But the atmosphere of trust that McCain had forged to bring the tobacco bill to the floor clearly has been damaged in the eyes of Ford, Hollings and others who support the LEAF Act.

McCain said he has been unable to work out an understanding with Ford and Hollings over what happened.

Meanwhile, while the Kentucky Farm Bureau has sided with Ford, there were signs yesterday that tobacco farmers in other states are divided on which way to go.

The more suspicious observers suggested that the Lugar-McConnell measure was a ploy by the tobacco companies to put a "poison pill" into the tobacco bill that would kill it.

"It's very clear that the tobacco companies have been manipulating tobacco farmers and their related groups to oppose the bill by threatening not to purchase their tobacco this year," said Maury Lane, a spokesman for Hollings. "Everyone knows the Lugar bill is not practical and will end up destroying the legislation, thus saving the tobacco companies from taking responsibility for their actions."

It remains uncertain when the Ford-McConnell showdown over the price-support program will come.

Today's debate is expected to focus on how much the price of a pack of cigarettes should be increased to pay for the settlement.

McCain's measure calls for a $1.10-per-pack increase — the reason the tobacco companies pulled out of negotiations with Congress and the administration over tobacco legislation. Sen. Edward Kennedy, D-Mass., is proposing an increase of $1.50 per pack.

McConnell takes heat for tobacco aid plan

1/7

He says critics embrace program that's doomed

By ROBERT T. GARRETT
The Courier-Journal

In one of the biggest gambles of his political career, U.S. Sen. Mitch McConnell has sounded retreat on a government program long considered sacrosanct in Kentucky — federal controls on growing tobacco.

McConnell's bombshell infuriated leaders of the state's leading tobacco-grower group, who predicted rural Kentucky voters will punish Republicans this fall for McConnell's abandonment of the tobacco price-support program in its time of peril.

Sen. Mitch McConnell cast himself as a political realist.

Rod Kuegel, president of Burley Tobacco Growers Cooperative Association, said, "I think immediately there are repercussions for (Republican Jim) Bunning in the (Senate) race in the fall and, more long term, I think (McConnell's) willingness to deliver on a platter the tobacco farmer to Big Tobacco" could stop the GOP trend in Kentucky.

INSIDE

Conflict: Senators debate lawyers' fees. **A12**

The word: Students told athletics, tobacco don't mix. **F1**

Democrats, who for years have been on the defensive on national issues in Kentucky, clearly sensed an opening.

All three of the major Democratic candidates for U.S. Senate excoriated McConnell yesterday and laid plans to keep hammering on the issue in the final week of their primary race.

Bunning, the 4th District congressman who is the GOP's presumptive nominee for the Senate, distanced himself from McConnell. In a brief statement, he pledged "to keep working for" retention of the price-support program.

Beyond the daily war of political words, however, there was a sense yesterday that McConnell had made a fateful decision.

In breaking with fellow lawmakers from the burley-growing belt, whom he characterized as "clinging" to a program that cannot be salvaged, McConnell insisted he was acting in Kentucky's interests.

Casting himself as a political realist and straight-shooter, McConnell said in an interview that a buyout is the best deal tobacco farmers can wheedle out of a hostile Congress. Farmers, he said, have no choice but to wave

See McCONNELL
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CJ 5/20/98

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05/22/98 15:25 ☎919 821 4564 ... DOMESTIC POLICY

FACSIMILE MESSAGE

to ... ... -Haw

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: 5/22/98 **Page 1 of** 2

TO:

ATTENTION: Tom Freedman

SUBJECT:

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

Message

FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORPORATION

P. O. Box 12300
Raleigh, North Carolina 27605

Telephone: (919) 821-4560
Facsimile: (919) 821-4564

May 22, 1998

Mr. Thomas L. Freedman
The White House
Special Assistant To The President
and Senior Director For Policy Planning
Domestic Policy Council

Dear Tom:

Attached is a copy of my letter to John Hoeffel, Washington correspondent for the Winston-Salem Journal, regarding his May 21st article. I deeply regret that there was a misunderstanding between John and myself and I am truly sorry if John's misinterpretation of my comments caused you and your staff moments of concern. I have known John for several years and I am confident that he intended no malice. I can assure you that I have discussed the issue twice with him and he now clearly understands our Board's position.

I want to reaffirm our Board's support of the L.E.A.F. Act sponsored by Senator Ford and praise the Administration for its tremendous support for the nation's tobacco farm families and their communities.

Sincerely yours,

Arnold Hamm
Assistant General Manager

FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORPORATION

P. O. Box 12300
Raleigh, North Carolina 27605

Telephone: (919) 821-4560
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May 22, 1998

Mr. John Hoeffel
Winston-Salem Journal
1214 National Press Building
529 14th Street N.W. Washington, DC 20045

Dear John:

I am disappointed in the inaccurate portrayal in your May 21st article of the Flue-Cured Tobacco Cooperative Stabilization Corporation Board of Directors' position regarding legislative proposals currently being considered for tobacco farmers. I stated that most of our Board as individuals would like to receive compensation as quickly as possible because that is in the best economic interests of tobacco farmers, however, that should not be construed as our Board's preference for Senator Lugar's proposal.

I want to strongly reiterate our Board's position. The Board has endorsed the L.E.A.F. Act sponsored by Senator Ford because it conforms to the following adopted policy: compensation for tobacco quota owners, transition payments for tobacco producers, <u>the retention of a price and supply management program</u> and economic assistance for tobacco farm communities.

I am always happy to assist you whenever possible but in the future it will be necessary to review any of my statements or comments for accuracy in order to prevent misunderstandings of our Board's policy.

Sincerely yours,

Arnold Hamm
Assistant General Manager

taize to Growers 4W

MEMORANDUM

To: Tom Freedman
From: Ridge Schuyler
Re: North Carolina Tobacco Growers

May 27, 1998

When developing the flue-cured provisions of the LEAF Act, we were made aware of two issues of primary importance to the North Carolina Farm Bureau, in addition to every growers' desire to have compensation payments made as quickly as possible.

Both concerns focussed on the production-limiting permits that would be issued under the new supply-limiting program. Under the new system, a permit is to be granted to growers who were active producers in 1997. The size of the permit is based on the growers' previous three years' production. The North Carolina Farm Bureau wanted to make sure that a grower who did not produce in 1997 still be eligible, if the failure to produce in 1997 was based on a medical condition or disaster outside the control of the producer. We agreed to this "hardship" provision, and that is now in the bill.

The second concern was about whether a non-producing quota holder could be eligible for a permit. Under the provisions of the bill, a quota holder who was not an actual producer in 1997 would be barred for 25 years from growing tobacco. This provision tracks the burley buy-out provision, which states that a burley quota-holder who takes the buy-out must leave tobacco farming for 25 years. We were willing to delete the 25-year bar for flue-cured, since those quota-holders are being forced to sell their asset, rather than relinquishing them voluntarily for cash. Senator Ford's office, however, wanted to retain the bar because he felt deleting it would open us up to an avenue of attack by Senator Lugar. He was willing to eliminate the bar, however, if we could then get an endorsement from the North Carolina Farm Bureau.

THE WHITE HOUSE

WASHINGTON

May 29, 1998

6-1-98

MEMORANDUM FOR THE PRESIDENT

Copied
Reed
Kagan
Bowles

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. **Tobacco -- Senate Update:** When the Senate returns from recess, it is sche... to return to the McCain legislation and resume consideration of an amendment by ... Durbin to increase look back penalties and an amendment by Sen. Gramm to provide ... cut for married couples with income of less than $50,000 per year. Other pot... amendments include: two complete substitutes (one by Senator Nickles and one by Senators Hatch and Feinstein), additional tax proposals (possibly including a slimmed-down version of the Gramm amendment, as well as a Roth-Boxer proposal for health care tax cuts), several anti-drug measures (see our separate memo on Monday), an anti-smuggling provision authored by Senator Leahy, a provision on the deductibility of tobacco advertising costs by Senator Reed, and efforts to cut back on FDA jurisdiction. Senator McCain's strong preference is for an early cloture vote, which he believes he can win. Senator Lott opposes an early cloture vote, on the theory that his caucus will only harden if it feels jammed. Senator Daschle is still considering the question. We tend to agree with McCain, for fear that the bill will become weighed down with too many amendments and consideration of it will drag on forever. We and Larry will have further discussions of this question with the relevant Senate players this weekend.

2. **Tobacco -- Farmers:** The DPC and USDA are trying to ensure a favorable conclusion to the current dispute over providing assistance to tobacco farmers. As you know, the McCain bill now contains both Senator Lugar's and Senator Ford's proposals. The Ford measure, which we, public health groups, and most Democrats support, provides for an optional buy-out and preserves the price support program, at a cost of $28.5 billion over 25 years. The Lugar measure, which most Republicans support, provides for a mandatory buy-out and ends the price support program (creating a free market in tobacco), at a cost of $18 billion over three years. ~~USDA calculates that Lugar~~ would lead to an increase in the amount of tobacco grown in this country and a consequent decrease in its cost -- saving companies as much as $20 billion over 25 years. In addition, OMB estimates that Lugar would displace 69 percent of the research ~~and public health~~ spending in the McCain bill in the first three years, assuming spending to the states were held constant. We have distributed this information widely, especially to moderate Republicans who should be concerned about the impact of Lugar on public health. We also have made clear to both sides our willingness to broker a compromise (for example, a phase-out of the price support

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program over 10 or 15 years, or the creation of a commission to work out the best approach to this issue). As of now, however, both sides think they have the votes to defeat the other (which, in fact, they both might), and compromise discussions have not proved productive.

3. Tobacco -- Minority Caucus Concerns: DPC, OMB, and HHS will meet next week with members of the House Minority Caucuses to discuss their views of tobacco legislation -- especially the McCain bill's approach to public health spending. These members have concerns about the Senate bill's use of block grants to states for smoking prevention and cessation programs. They also are upset that the bill contains no direct grants to historically black and predominantly Hispanic colleges, universities, and medical schools. These members have sent us an alternative proposal for public health spending, but the agencies believe that it raises significant constitutional and administrative concerns. The proposal includes funding set-asides for minority groups that the Department of Justice believes run afoul of the Supreme Court's Adarand decision. In addition, the proposal's funding mechanism would create major administrative burdens for the Department of Health and Human Services. We anticipate holding several discussions with members of the Minority Caucuses to work out ways of making them more comfortable with the public health provisions of the legislation.

4. Welfare Reform -- State Use of TANF Funds: The NGA Fiscal Survey of States, released on May 27, contained some encouraging information about the way states are using welfare monies. The report showed that states are shifting funds from direct cash payments to work-related supports. Since 1996, spending for cash assistance has decreased 26 percent, while spending for child care has increased 85 percent and spending on work activities has increased 34 percent. Total welfare spending declined by 9 percent, but given caseload reductions, this figure represents increased spending per welfare recipient.

Saw mention at NGA in Milwaukee

5. Education – GAO Report on National Testing: In response to a request from Rep. Goodling, the GAO will issue a report next week on the roles played by NAGB and the Department of Education in developing the national tests in 4th grade reading and 8th grade math. The report finds that NAGB has full control over development of the tests, as required by law; it finds not a single instance of improper interference by the Department. In addition, the report finds no reason to criticize the procedures NAGB has used to award test development contracts. Although we do not expect the report to mitigate Rep. Goodling's adamant opposition to the tests, it should prevent him from making the claim that test development somehow remains under the influence of the Administration.

6. Education – Adult Education: You recently asked what the Administration had accomplished with respect to adult education and whether we need to take additional steps. The Senate and House workforce investment bills, which Congress is expected to pass by July 1, provide for the reauthorization of all federal adult education programs. Your FY 1999 budget requests a $16 million increase in grants to states for adult education programs. It also includes a request for funds to develop model English-as-a-second-language programs

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for adults, since 40 percent of adult education participants are in such programs. In addition, the Department of Education has funded a PBS series, called "Crossroads Cafe," which is a kind of "Sesame Street" for adults learning English. The program is now shown in 35 states (and 50 foreign countries) and will be expanded shortly. DPC will begin a working group with NEC and the Education Department to explore how we can best highlight the efforts we already have underway, and what additional steps would be appropriate.

7. Health -- Assisted Suicide: The Department of Justice plans on releasing a letter next week, in response to an inquiry from Senator Hatch and Congressman Hyde, concluding that the Controlled Substances Act does not give the Drug Enforcement Agency (DEA) authority to take action against physicians who assist their patients to commit suicide. Consistent with your directions, this letter will include a restatement of your longstanding position opposing assisted suicide and an indication of your willingness to consider workable legislation addressing this issue. As you know, we expect that Hatch and Hyde will respond to the Department's letter by introducing a bill authorizing the DEA to take action against physicians for assisting suicide -- a legislative approach that we believe is ill-advised. We will work closely with DOJ to roll-out its letter, and will keep you advised of legislative developments.

8. Health -- HCFA Letter to Ravenswood Hospital: The Health Care Financing Administration (HCFA) sent a letter yesterday to Ravenswood Hospital of Chicago threatening it with loss of Medicare funding for policies posing a grave threat to the health and safety of patients. The letter followed an incident in which a 15 year-old died of gunshot wounds just 35 feet from the hospital door after hospital workers refused to leave their posts or even to give police officers a stretcher to bring the young man into the hospital. The HCFA letter states that the hospital will lose funding in three weeks, unless it provides credible evidence within that time of having reformed its emergency room policies and practices. We issued a statement in your name highlighting HCFA's action, as well as urging all hospitals to follow recently released guidance by the American Hospital Association on appropriate emergency procedures.

9. Health -- Medicare Commission: The Medicare Commission will hold a meeting on Monday, most of which will be devoted to discussions among the members on the major issues of benefits, costs, eligibility, administration, and financing. (We have told our members that they should feel free to talk openly about controversial policy reforms such as benefit changes, eligibility age changes, and means-testing proposals, but should avoid at this time any serious discussion of new taxes.) In general, the Democratic members are becoming nervous that the Commission's staff is focusing exclusively on questions of program financing, while ignoring issues of program design. They will use this meeting to urge the Commission to address ways of making the Medicare program more responsive to the needs of beneficiaries, at the same time as the Commission takes up the program's financing challenges.

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10. Health -- Long Term Care: Aging and disability advocates are placing increased pressure on us to address the issues surrounding long-term care. Demographic changes will heighten the demand for these services greatly in the coming years, but cost considerations have deterred both the public and the private sectors from taking up this challenge. Although truly comprehensive approaches are politically and financially unrealistic, we can develop targeted policies that will begin to address the problem. These policies might include: requiring the Federal Employee Health Benefit Plan to offer (but not pay for) long-term care policies; informing Medicare beneficiaries that Medicare does not cover long-term care and advising them of other coverage options; giving more flexibility to States to use home- and community-based care options for elderly and disable people on Medicaid; and providing tax incentives to increase the purchase of private long-term care policies. We are setting up a working group to explore these and other ideas so that you begin to address this important issue shortly.

This is worth a
Need a good proposal to
within 2 mos.