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February 5, 1998  
**VIA HAND-DELIVERY**

*to Gail  
for news - ew*

Mr. Bruce N. Reed  
Assistant to the President for Domestic Policy  
Executive Office of the President  
The White House  
2<sup>nd</sup> Floor, West Wing  
1600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20500

Dear Mr. Reed:

As you know, I represent Philip Morris Companies Inc., R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company.

In response to a request made to Andy Schindler, CEO of R.J. Reynolds Tobacco Company, the cigarette companies named above are sending to interested members of Congress the enclosed example of one way in which the legitimate and important concerns of growers may be addressed in the context of legislation implementing the terms of the June 20 Proposed Resolution. The attached example will, I believe, offset any adverse economic impact to both quota owners and tobacco growers that may result from implementation of the Proposed Resolution.

The companies emphasize that this is not a specific industry proposal — it is simply one sensible way to resolve these issues. The industry remains committed to working with growers, members of Congress and the Administration to identify grower concerns and to discuss how those concerns should be accommodated.

As always, we would be happy to meet with you to discuss this or any other issue.

With kindest regards.

Sincerely,

A handwritten signature in cursive script that reads "Phil Carlton".

J. Phil Carlton

Enclosure

**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.**

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- Tobacco - farmers - ECU

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