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FOLDER TITLE:
Tob - Farmers Lugar, Rhichard

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wr10814

RESTRICTION CODES

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

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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]

Rube Darphin

Sub letter

Possible Compromises

I. Pro-Public Health Compromise

Options:

A. Reduce buy-out from $8 to $6. Reduces cost from $16 billion to $12: saves $4 billion over ten years in Ford.

B. Reduce amount of money in Ford for development from $500 million a year to half that: saves $2.5 billion over ten years.

C. Maintain program (with permit option in flue-cured) but have it fully funded by industry.

D. Appoint panel to evaluate consequences of ending program on economic and public health grounds to report to USDA and Congress.

Advantages:

* Saves XX over Lugar, Y over Ford

* Money could be redirected to health or other farm groups.

* Maintains program put has a study mechanism to determine whether it continues to be in public interest.

Disadvantages:

* Lowering amount paid for buying out quota will upset many in tobacco states.

* Stretching out payments will be controversial as well.

* Niether ending the program not guaranteeing it may also satisfy niether side.

II.

A. Reduce Ford Buy-out time from 10 years to 6.

B.

I. Buy-Out Length

Buy-out over 6 years. Lugar buys out over 3 years, Ford over ten years.

II. Amount of money for public health

1

Ford provides 2.1 billion of spending a year for ten years. Reduce the development money to $200 million a year, increase the

THE WHITE HOUSE

WASHINGTON

Tobacco Frames
Ford / Lugar
Side by Side

DOMESTIC POLICY COUNCIL

FACSIMILE FOR: Bruce Reed

DATE: 5-19-98

TELEPHONE:

FAX:

FACSIMILE FROM: MARY SMITH

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NUMBER OF PAGES (INCLUDING COVER):

COMMENTS: (1) Side-by-side prepared by USDA (with handwritten updates to reflect Mgr's Amendment)
(2) shorter side-by-side I prepared
(3) Talking points on Lugar from Ford's office

SIDE-BY-SIDE COMPARISON OF THE VARIOUS SECTIONS OF THE MCCAIN BILL, LUGAR BILL, AND CURRENT TOBACCO LEGISLATION

Sections in McCain Bill	McCain Provision	Lugar Provision	Current Tobacco Legislation
1002 - Definitions	Defines: (1) participating tobacco producer, (2) quota holder, (3) quota lessee, (4) quota tenant, (5) tobacco importer and manufacturer, (6) tobacco warehouse owner, (7) Secretarial oversight, and (8) Trust Fund. Farmer acct	Defines similar entities and funds for buyout program administration.	Similar definitions or uses.
1011- Establishment of Trust Fund	Provides for the establishment of the "~~Tobacco Community Revitalization Trust Fund~~" and its operations including sources of revenue and disbursement levels. Disbursements are limited to: (1) section 1021- buyouts and lost tobacco quota - $1.65 billion annually through 2023. (2) section 1022 - USDA administrative costs. (3) section 1023 - community development grants - $375 million thru 2008, $450 million 2009 thru 2023.	Similar provisions. (1) ~~Similar but capped at~~ $~~15~~ 18 billion for FYs 1999 thru 2001. (2) No such provision. (3), (4) and (5) ~~similar~~ but with a combined capped at ~~$300 million~~ $1 Billion over ~~3~~ 5 years. Economic development for ~~from~~ $200/million 5 YRS	Not applicable.

Sections in McCain Bill	McCain Provision	Lugar Provision	Current Tobacco Legislation
1011- continued	(4) section 1031 - worker transition program - $25 million for 10 fiscal years (FY) (5) higher education grants ranging from $42.5 million in 1999 to $72.5 million 2023. Constitutes budget authority in advance of appropriations.		Not applicable.
1012 - Contributions by Tobacco Product Manufacturers and Importers.	Provides and obligates manufacturers and importers for contributions to the Trust Fund of: (1) $2.1 billion for FYs 1999 thru 2008 (2) $500 million for FYs 2009 thru 2023 (3) USDA costs associated with the tobacco program for FY 2024 and each subsequent FY.	Funding provided through National tobacco settlement.	Not applicable.

FUNDING PROVIDED THRU National Tobacco Settlement

Sections in McCain Bill	McCain Provision	Lugar Provision	Current Tobacco Legislation
1021- Payments for lost tobacco quota. Payments for lessees & tenants at Rate of $2/lb with lifetime limit of $4/lb	Sets base levels for quota holders, quota lessees and quota tenants for all kinds of tobacco. Provides for payments for lost tobacco quota for ~~all types of~~ NON-flue cured tobacco ~~except flue-cured~~. Provides: (1) quota holders a 1-time option to relinquish quota for $8 per pound paid over 10 years. 25 year ban on acquiring quota. (2) for relinquished quota to be reallocated to quota holders or tenants, if applicable, or to other farms in the county ~~or State~~. (3) payments for lost quota from the base levels for quota holders, lessees and tenants at the rate of $~~4~~2 per pound with a lifetime limit of $~~8~~ per pound. (4) for continuation of most provisions of current tobacco program after redistribution of quota. (5) for accelerated payments if national quota is less than 50 percent of the 1998 quota for 3 consecutive years or certain legislative changes are made.	Contains similar base level provisions. (1) Provides for a complete buyout of all kinds of tobacco over 3 years. (2) Abolishes quotas and permits anyone to produce tobacco. (3) Provides for transition payments to former producers at 40 cents per pound for each of 3 years. (4) Entirely eliminates quota for 1999 crop year. (5) Not applicable.	Not applicable.

Sections in McCain Bill	McCain Provision	Lugar Provision	Current Tobacco Legislation
1021 - continued.	For flue-cured tobacco, provides: (1) all quota holders must relinquish quotas for $8 per pound paid over 10 years. (2) payments for lost quota from the base levels for quota lessees and tenants at the rate of $~~4~~ 2 per pound $2 per pound with a lifetime limit of $~~8~~ 4 per pound $4 per pound (3) that quota lessees and tenants may relinquish quotas and receive $~~8~~ 4 per pound paid over 10 years. (4) for accelerated payments if national quota is less than 50 percent of the 1998 quota for 3 consecutive years or certain legislative changes are made.	Same as above (no differentiation between kinds of tobacco).	Not applicable.
1022 - Industry payments for all Department costs associated with tobacco production.	Provides that all costs of the Department associated with tobacco, other than the operation of the current No-Net-Cost (NNC) loan program, be covered from the Trust Fund.	Not applicable.	USDA administrative costs are not covered in NNC legislation.

Sections in McCain Bill	McCain Provision estimated $10 Roughly ~~$8~~ billion over 25 YRS	Lugar Provision	Current Tobacco Legislation
1023 - Tobacco Community Economic Development Grants.	Provides for grants to States to carry out economic development initiatives in tobacco-growing communities. To be eligible, a county must have in excess of $100,000 in income from the production of tobacco during 1 or more of the 1995 thru 1997 marketing years. Provides that 6 percent of grant funds in a State must be used to compensate tobacco warehouse owners.	Similar provisions but funded at substantially lower level (~~$300~~ million over ~~3~~ years). $1 Billion over 5 YRS	No such provision.
1024 - Flue-Cured Tobacco Production Permits to conform w/ existing law	[Adds a new section 317A to the Agricultural Adjustment Act of 1938 which calls for a referenda for redistribution of quotas (production permits). If disapproved, NO marketing quotas are in effect.] In general section 317A: (1) redistributes quotas (permits) to principal (actual) producers of flue-cured tobacco based on status during the 1997 crop year. (2) prohibits quota holders who were not principal producers from receiving a permit for 25 years.	Marketing quotas are eliminated - no such provisions.	Production permits would operate similar to current marketing quotas except all permit transfers are prohibited except to direct descendants.

Sections in McCain Bill	McCain Provision	Lugar Provision	Current Tobacco Legislation
1024 - continued Conforming Chg	(3) forfeited, relinquished, or surrendered quota (permits) may be reallocated to principal producers within the county. [Production Cntl] (4) provides for similar quota and price support determination from current program including updating national average yield goal, individual permit yields, and expanded county forfeiture (production) pool. (5) prohibits all forms of permit transfers except transfers to direct descendants. (6) modifies tillable cropland to a 1 to 1 basis (was 50 percent). (7) requires that individual production permits be assigned to one or more farms in a county.		

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Sections in McCain Bill	McCain Provision	Lugar Provision	Current Tobacco Legislation
1025 - Modifications in Federal Tobacco Program. ~~to~~ for account for reduction in lease costs	Modifications include: (1) referenda on lease and transfer of marketing quota within a State. (2) substantial increases in manufacturer penalty for failure to meet purchase intentions (105 percent of market price). (3) elimination of 1 percent tobacco marketing assessment (TMA). (4) authority for Secretary to adjust flue-cured price support levels, (5) increase in transfer limitations, adds a 2 out of 3 planting requirement, and modifies no-net-cost assessment provisions for fire-cured and dark air-cured tobaccos.	(1) Not applicable. (2) Not applicable. (3) ~~Not applicable.~~ ~~Maintains~~ Continues TMA (4) Price supports reduced for all kinds tobacco by 25 percent in 1999, and additional 10 percent reduction in 2000 and 2001. (5) Not applicable.	(1) Currently limited to the State of TN. (2) Twice the NNC assessment rate on purchasers of tobacco. ~~Currently, a minimal amount.~~ (3) Current legislation provides for TMA through 1998 crops. (always renewed) (4) Limited authority (3%). (5) ~~Similar provision in other kinds of tobacco.~~ Not applicable
1031 - Tobacco Workers Transition Program.	Provides for transition payments for tobacco workers, industry wide. Administered by Secretary of Labor.	[NO PROVISION] Any funding for this program would be covered in the general ~~$300 million~~ $1 Billion transition fund. $1 Billion	Not applicable.
1032 - Farmer Opportunity Grants.	Provides for higher education - farmer opportunity grants for tobacco farm families.	[NO PROVISION] Any funding for this program would be covered in the general ~~$300 million~~ $1 Billion transition fund. $1 Billion	Not applicable.
1041 - General Immunity for Tobacco Producers and Tobacco Warehouse Owners.	Provides for general immunity for tobacco producers, grower associations and tobacco warehouse owners and employees against failure of any tobacco manufacturer, distributor, or retailer to comply with the National tobacco settlement.	~~No such provision.~~ Immunity provision (doesn't immunize coops) Immunizes those who own or produce tobacco	Not applicable.
		seems to be more limited	

Payments to Tobacco Farmers Under Proposed Legislation		
	Ford Proposal	**Lugar Proposal**
Total Spending	$2.1 billion per year for the first ten years, $500 million for years 11-25, for a total of $28.5 billion. • Annual payments to tobacco farmers capped at $1.65 billion annually for first ten years. • Economic development grants capped at $8 billion annually over 25 years. • Assistance for dislocated workers capped at $25 million annually for first ten years.	$17.6 billion over a 3-year period (which is 40% of entire annual payment for entire tobacco legislation for the 1st 3 yrs) • Economic development grants at $200 million per year for five years
Buy-out	**Burley:**Optional one-time buy-out at $8/lb over 10 yrs or less **Flue-cured:** Mandatory buy-out of all quota holders at $8/lb over 10 yrs or less	Mandatory buyout for all quota holders at $8/lb over a three year period

	Ford Proposal	Lugar Proposal
Those who remain in program --quota or permit	**Burley:** Those who do not take the optional buy-out retain their existing quota **Flue-cured:** Active producers will be issued a permit at no cost -- changing the old quota system to a new permit system for flue-cured tobacco, and allowing only active producers to stay in program. Permits may not be sold or leased, but may be transferred to descendants	.No program remaining
Payments to remaining quota holders who remain in system	**Burley:** Remaining quota holders get payments to the extent quota falls equal to \$4/lb for every pound quota drops, with a lifetime limit of \$8/lb times the entire quota **Flue-cured:** No remaining quota holders	No quota holders remaining
Lessees (burley), renters (flue-cured), and tenants (essentially sublessees)	**Burley:** Lessees and tenants get (1) option to acquire relinquished quota (if any), and (2) payments to the extent quota falls equal to \$2/lb for every pound quota drops, with a lifetime limit of \$4/lb times the entire quota **Flue-cured:** Renters and tenants get (1) permits to produce future crops, and (2) payments to the extent national quota falls equal to \$2/lb for every pound quota drops, with a lifetime limit of \$4/lb times the entire quota	\$4/lb payable over a 3-yr period

	Ford Proposal	Lugar Proposal
Economic Development Grants	Block grants to tobacco states will be made annually for rural business enterprise grants, farm ownership loans, initiatives to create farm and off-farm employment, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to warehouse owners. The program is authorized for $375 million. At least 20 percent of the funds must be spent on agricultural activities, 4 percent on long-term technical assistance, and 6 percent on warehouse owners.	$1 billion over a 5-year period (or $200 million per year for five years)
Dislocated Workers	Up to $25 million annually for 10 years will be made available to provide benefits based on the NAFTA displaced workers program. This program will be administered by the Secretary of Labor.	
Farmer Opportunity Grants	Quota holders and active tobacco producers and their families are eligible for higher education grants of up to $1,700 per academic year, adjusted upward every five years by $300. Academic eligibility is modeled after Pell grants, and the program is administered by the Secretary of Education.	

FAX TRANSMISSION

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To:	Mary Smith	**Date:**	May 19, 1998
Fax #:	(202) 456-7431	**Pages:**	3, including this cover sheet.
From:	Jim Low		
Subject:	Lugar Bill		

COMMENTS:

THE FACTS ON THE LUGAR PLAN FOR TOBACCO FARMERS

1. The Lugar plan requires enormous up-front money, at least $18 billion in the first 3 years. This is at least 40% of the entire annual payment under the McCain bill, money that will have to come from public health accounts

2. It runs counter to the public health goal of settlement bill – limiting the supply of tobacco – by killing the tobacco program.

- **The public health community supports a tobacco program.** Almost 60 farm, public health, economic development groups and public officials (see attached list) have endorsed a tobacco program. Public health groups recently joined with tobacco farmers to say that " a tobacco production 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."

- The program operates at **no net cost to the taxpayer** and does not encourage consumption.

- The program has the support of 98% of the tobacco farm community

3. The Lugar plan provides too little assistance to tobacco communities. The bill provides only $200 million per year for five years to help tobacco communities replace a critical part their economies. **In Kentucky this would provide just 15 cents for every dollar of income tobacco brings the state's farmers.**

4. Lugar's plan forces tobacco farmers out of the business.

- **Most tobacco farmers are small, family farmers with just a few acres of tobacco.** The Lugar plan would provide the average Kentucky farmer with just $16,000 with which to find an entirely different way to make a living.

- With no program, the price of a pound of tobacco will drop dramatically, putting small farmers -- again, the majority of tobacco farmers – out of business. Agriculture economists tell us that, **of the 60,000 tobacco farmers in Kentucky, as few as 10,000 would remain.**

- Although the Lugar bill eliminates the program, it **forces farmers to continue to pay the "Tobacco Marketing Assessment"** which raises over $30 million annually.

- Finally, the Lugar bill **pays no transition payments to a farmer** who, for whatever reason, was unable to produce a crop for any year from 1995-1997

5. Tobacco farmers and the tobacco program are not comparable to other commodities and the Freedom to Farm model.

- Tobacco is purchased by just four companies domestically. The program levels the playing field for the nations 124,000 tobacco farmers.

- Because the program is a no-net cost program, taxpayers will not save one government dollar. But **eliminating the program will save tobacco companies about $1 billion per year**, all out of the farmer's pocket in the form of lower prices. While this will devastate the rural Southeast, it won't do anything to reduce youth smoking.

- Freedom to Farm is based on the concept that commodity producers will shift from growing under a program to growing under a free market. **But tobacco farmers will be expected to shift from growing tobacco to not growing tobacco.** The Lugar bill will put tens of thousands of small farmers out of business.

ENDORSEES OF THE LEAF ACT (43)

Western Dark Fired Tobacco Growers Association
The Council For Burley Tobacco
Burley Tobacco Growers Cooperative Association
Burley and Dark Leaf Tobacco Association
Stemming District Tobacco Association
Missouri Council for Burley Tobacco
Burley Auction Warehouse Association
Georgia Tobacco Warehouse Association
Flue-Cured Tobacco Cooperative Stabilization Corporation
Eastern Dark Fired Tobacco Growers Association
Virginia Dark Fired Tobacco Grower Marketing Association
Sun-Cured Tobacco Marketing Cooperative
Virginia Tobacco Growers Association
Concerned Friends for Tobacco

Kentucky Farm Bureau Federation
Kentucky Fertilizer and Agricultural Chemical Association
Louisville Agriculture Club
Federation of Southern Cooperatives
South Carolina Farm Bureau
Community Farm Alliance
Kentucky Minority Farmers
The Fertilizer Institute
National Farmers Union
Commodity Growers Association
Georgia Department of Agriculture
Southern States
Colonial Farm Credit
Virginia Farm Bureau
Governor Paul Patton
National Family Farm Coalition
Attorney General Ben Chandler (KY)
Attorney General Charles Condon (SC)
Attorney General Mark Early (VA)
Attorney GeneralThurbert Baker (GA)
Attorney General John Walkup (TN)
Southern Crop Protection Association
Billy Ray Smith, Commissioner of Agriculture (KY)

Mountain Assistance for Community Economic Development
Rural Advancement Foundation International
University of Tennessee
University of Kentucky, College of Agriculture
Center for Sustainable Systems
KY Appalachian Ministry/Disciples of Christ

ENDORSEES OF A TOBACCO PROGRAM (17)

National Governors Association
Southern Governors Association
Campaign for Tobacco-Free Kids
American Heart Association
American Cancer Society
Americans for Nonsmokers Rights
American Association for Respiratory Care
American College of Cardiology
American College of Chest Physicians
American School Health Association
Interreligious Coalition on Smoking or Health
Oncology Nursing Society
Partnership for Prevention
National Hispanic Medical Association
Indiana Tobacco Growers Association
Farm Credit Services
Virginia Agricultural Growers Association

Lugar - McConnell

back on the farmer." Owen: "It will devastate Kentucky's small tobacco farmers and our rural communities." Henry: "At the most critical time in the last 50 years ... he walked away." Bunning: "[I am] firmly committed to doing everything humanly possible to preserve the tobacco program" (5/20). Lexington *Herald-Leader*'s Muhs and Brammer report that Owen accused McConnell of "playing for national attention" with his proposal. Baesler continued to "emphasize his background as the only tobacco farmer in Congress" (5/20).

McConnell's Gamble

McConnell's "retreat on a government program long considered sacrosanct in Kentucky" is "one of the biggest gambles of his political career." McConnell's "bombshell infuriated leaders of the state's leading tobacco-growing group, who predicted rural Kentucky voters will punish" GOPers in the '98 elections "for McConnell's abandonment of the tobacco price-support program in a time of peril." Dems, "who for years have been on the defensive" on national issues in KY, "clearly sensed an opening." All three Dems "excoriated McConnell" and "laid plans for to keep hammering on the issue in the final week of their primary race." But McConnell "insisted he was acting" in KY's interests. He cast himself as "a political realist and straight shooter." McConnell: "[It is] politically impossible to keep the program." More McConnell: "You have to ask yourself, 'If there isn't a corn program, will there be a tobacco program?' I think the answer to that is no" (Garrett, *Courier-Journal*, 5/20). *Herald-Leader*'s Gibson reports that "while McConnell argues that the death of the price-support program is imminent in today's anti-tobacco political environment," retiring Sen. **Wendell Ford** (D) "thinks it can be preserved for years to come." The McConnell-Ford split "marks a first in the history of tobacco policy debates," as "no two Kentucky Senators have ever been on opposite sides of this issue" (5/20).

How It's Smoldering

From a *Courier-Journal* editorial: "McConnell seems certain to pay a political price if he seeks re-election in 2002. But his decision ... seems to us a reasonable and defensible course -- even if it's not the one we would have chosen. The issue today is not how to keep the Tobacco Program going in perpetuity. It's how to keep it going long enough to enable tobacco farmers in Kentucky, and elsewhere, to make the transition to other crops or to get out of farming entirely ... Sooner or later, a way of life in Kentucky is going to end, and it's going to be painful" (5/20). *Herald-Leader* editorial: "In purely pecuniary terms," McConnell "may be right ... But McConnell's dollars-and-cents calculation ignores the inevitable losses. The greatest of these losses would be farming as we know it in Kentucky" (5/20).

Hey, Rex The Bullets, Err Wizards, Need Ya

Henry began airing a new radio spot today featuring former UK Wildcat netman **Rex Chapman**. From the ad: "This is Rex Chapman. I played for Kentucky and now I play for the Phoenix Suns. And when a game gets rough, somebody ha to call a foul. And that's what I'm doing in the U.S. Senate Race. I've known Dr. Steve Henry for a long time, we grew up together in Western Kentucky. And Steve Henry is running a strong, positive campaign for the Senate. But Steve Henry's opponents are using negative politics and that's wrong" (release, 5/20). (Back to Contents)

▶ GOVERNOR REPORT

20 FLORIDA: Bush Hits MacKay Over Oil Money

Almost two weeks after LG **Buddy MacKay** (D) criticized '94 nominee **Jeb Bush** (R) and the GOP "for tapping into oil interests," the Bush camp is firing back over $10K in oil contributions MacKay received while running for Congress and the Senate in the 80s. Bush manager **Sally Harrell**: "It looks a little hypocritical. Maybe Buddy MacKay should stop his gusher of negative attacks against Jeb and clean up his own oil spill." MacKay

ALLOCATION OF SPENDING UNDER S.1415

If Title Ten Stays in the Bill:		If Title Fifteen Stays in the Bill:	
State Litigation Settlement Account	**40%**	**State Litigation Settlement Account**	**40%**
Public Health Allocation Amount	**22%**	**Public Health Allocation Amount**	**7%**
Smoking Cessation 25-35%		Smoking Cessation 25-35%	
Indian Health Service 3-7%		Indian Health Service 3-7%	
Education and Prevention 50-65%		Education and Prevention 50-65%	
Enforcement 17.5-22.5%		Enforcement 17.5-22.5%	
Health and Related Research	**22%**	**Health and Related Research**	**7%**
Natl. Inst. Of Health Research 75-87%		Natl. Inst. Of Health Research 75-87%	
CDC/AHCPR 12-18%		CDC/AHCPR 12-18%	
NSF 1%		NSF 1%	
Other $1.5 mil.		Other $1.5 mil.	
Farmers Assistance	**16%**	**Farmers Assistance**	**46%**
Funds Title Ten		Funds Title Fifteen	
TOTAL ALLOCATION OF $$$	**100%**	**TOTAL ALLOCATION OF $$$**	**100%**

Talking Points on Tobacco Settlement Legislation

- A possible compromise position between the LEAF Act and the Lugar bill is to break the buyout payments down into categories to non producing quota holders, producing quota holders and renters/lessees or tenants and providing for the elimination of permits to grow or quotas over a five year period.

- <u>Non producing quota holders</u>. Buyout quotas immediately at $8 per pound and redistribute quotas or permit to grow to actual producers for all kinds of tobacco. Payments could be made over a seven year period instead of a ten year time frame, which would address some of the concern of growers that payments are over too long a period in LEAF and concerns that funds will not be accumulated in the Lugar three year payout period. Payments would be equivalent to more than twice the annual rental value of the quota to the owners. This transitional period also coincides with the seven year transition period in the Farm Bill for other crops. (Note: Burley growers would probably oppose because this makes buyout of quotas and elimination of the program mandatory)

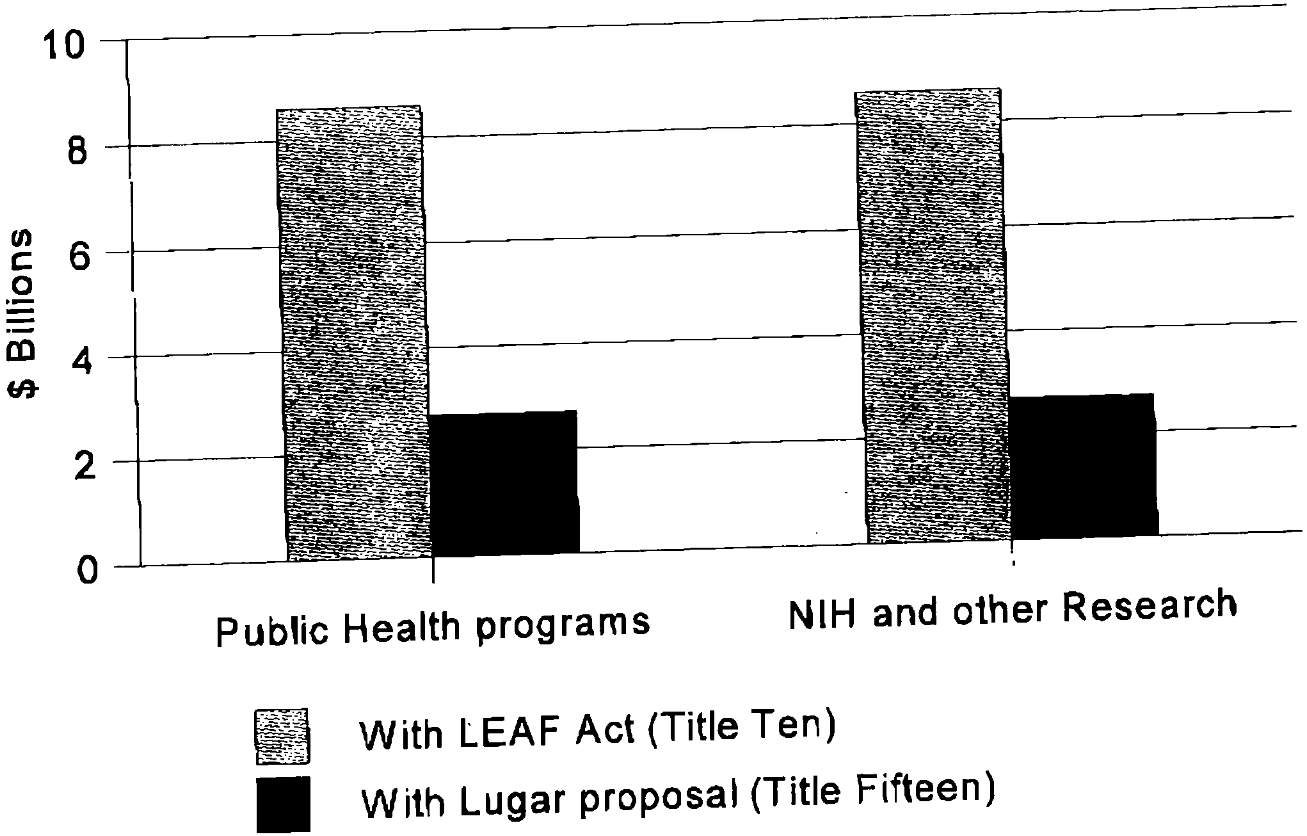
- <u>Producing quota holders</u>. Delay payments until the legislation actually negatively impacts the producers. Eliminate the quotas and/or permits to grow at the end of five years. In the interim transitional period these producers will receive the forfeited quota from the category one producers and it is anticipated that they will have a sufficient increase to accommodate or offset any reduction due to drop in demand. Therefore these producers would likely be held harmless as far as the size of their quota is concern. Should a producers over the five year period experience a drop quota then compensation could be provided at $4 per pound, not to exceed a life time eligibility of $8 per pound. To avoid double payments on quota, the producer will only be compensated for quota lost below that farms base quota (1995-97). Adopt LEAF Act provisions on lease and sale of quotas. Pay to producers at the end of five years $8 per pound for any quota forfeited upon termination of the program. This way the large pay outs will not start until after the fifth year of the buyout period. During this time period the companies will have been paying into the Tobacco Trust Fund for five years. (Note: No analysis has been done at this time on the flow of contribution by the tobacco companies into the fund and expected flow out to health and tobacco farmers needs)

- <u>Lessees/Renters/Tenants.</u> This group of producers would be treated the same as the LEAF Act except that at the end of five years they too would forfeit their quotas to be compensated for the lost. This group would have invested in infrastructure to support the production and marketing of tobacco during the interim with a shorten life span to recoup this investment. A question could be raised as whether $4 per pound would be adequate compensation for the lost of the quotas at the end of the interim period. However, if payments where to be made at the $8 per pound, one could argue that we have paid twice for the lost of the same quota; $8 to the non producing quota holder in the first year and $8 to the Lessee/Renter/ Tenant at the end of the fifth year.

- **<u>Price Support</u>**. Provide for continuation of the price support for five years but reduce the support by five percent per year. Eliminate price support at the end of five years. This would end quotas and price support at the same time.

- **<u>Concerns.</u>** During the interim period that is not protection build into the legislation to prevent the tobacco companies from building up the Cooperative Loan Pools with the expectation that the tobacco will be disposed of at the end of the five year transition at a considerable discount. (Government sales of price supported loan stocks would be sold to the tobacco companies in competition with tobacco produced in a free market presumable at prices substantially below the support price during the first years of the interim period.)

LEAF Act v. Lugar plan: Impact on Health Programs



W — Please copy this and file under ~~tobacco~~ tobacco farmers Lugar

Cong not support production tobacco

THE NEW YORK TIMES **OP-ED** TUESDAY, APRIL 7, 1998

A Good Time to End Tobacco Quotas

By Richard G. Lugar

WASHINGTON

Several anti-smoking groups, including the Campaign for Tobacco-Free Kids, the American Cancer Society and the American Heart Association, have recently taken a position that is at odds with their goals. They want the comprehensive tobacco legislation, currently being debated in Congress, to preserve a Federal program that regulates the amount of tobacco that can be grown and the price at which it is sold.

Currently only farmers with Government-granted quotas may grow tobacco, and they profit heavily from this control. Anti-smoking groups believe that this system keeps the price of cigarettes higher than it would be otherwise.

But maintaining the Federal Government's sponsorship of tobacco production, marketing and warehousing is wrong — both morally and economically.

Ending the program would have a negligible impact on the price of cigarettes. True, cutting quotas would cause the price of leaf tobacco to fall. But only six cents of the approximately $2.00 cost of a pack of cigarettes is attributable to the tobacco itself.

Economists testifying in Senate hearings estimated that ending quotas would cause the price of domestic leaf tobacco to drop by about 25 percent, as more and more farmers entered the market, increasing supply.

> Anti-smoking groups are wrong to oppose the end of price supports.

This would translate into only about a 1.5-cent difference in the price of cigarettes. Nobody can reasonably argue that a penny and a half would have any effect on teenage behavior or consumer demand. Moreover, if Congress passes the comprehensive tobacco bill it is considering, the price of cigarettes might rise as high as $3.50 per pack. In that event, the one-and-a-half-cent difference would amount to less than one-half of 1 percent of the price of a pack of cigarettes.

Health groups are also concerned that the drop in the price of tobacco will raise the profits of cigarette companies. But with Congress about to pass legislation that would raise cigarette prices by as much as $1.50 per pack, why would we use a byzantine Federal program to protect 1.5 cents of the current price? Would it not make far more sense to offset the drop in tobacco prices in whatever legislation Congress may pass?

As everyone involved in the debate over smoking recognizes, we cannot end the price supports for tobacco unless the tobacco bill not only raises the cost of cigarettes and limits advertising to children, but also forces cigarette companies to pay hundreds of billions of dollars in smoking-related health care costs. Otherwise, there would be no money to buy out the tobacco farmers.

As chairman of the Senate Agriculture Committee, I have introduced a bill that would be part of the comprehensive tobacco legislation. It would buy out the tobacco quotas of farmers at $8 per pound. This one-time cost of $15 billion would end Federal price supports, while fairly compensating farmers who have depended on these quotas.

Many farmers want out of tobacco farming, but cannot afford to abandon it without help. Continuing the current program would not only trap the Federal Government into aiding the production of tobacco, it would trap many individual farmers as well.

The tobacco price supports probably cannot be sustained in any case. Domestic demand for tobacco is falling, and the quality of foreign tobacco continues to improve. The tobacco legislation may be our last chance to do right by these farmers.

Comprehensive legislation would not have been possible without the work of anti-smoking groups. But if the Federal Government's anti-smoking efforts are to succeed, its policies must be consistent. The Government should not support the production of tobacco, while it spends billions of dollars on tobacco-related health care costs and anti-smoking campaigns.

This dual course is simply contradictory and wrong, and it weakens the Government's message to the public about the dangers of smoking. □

Richard G. Lugar, an Indiana Republican, is chairman of the Senate Agriculture, Nutrition and Forestry Committee.

5/19/98
6:45PM

Tobacco Farm Vote Count - SW

The following Senators offices do not know where they will be on these conflicting amendments.

Mosley-Braun
Bob Graham
Levin
Lieberman
Feinstein
Feingold
Baucus
Boxer
Wyden

The following Senators are with the Ford Amendment
Ford
Hollings
Robb
Sarbanes
Johnson
Cleland
Wellstone (Leaning)
Bryan (Leaning)
Inouye (leaning)

The other offices have calls out and we are waiting for calls back.

Harkin - Bridge - Concerned
Conrad - wants emergencies

224-8687

Lott - Ford
↓
trying to work this out
AA's

Hollings

In addition, service and support industries will be forced to migrate away from these areas or cease to exist. Further, it is unlikely that there will be substitute agriculture or manufacturing activities to replace income formerly generated from tobacco production. Other proposed bills provide for substantially greater tobacco community assistance (ranging from $3.8 billion to $8.3 billion) over a longer period of time.

Impact on Commodity Credit Corporation (CCC) and National Tobacco Settlement:

An analysis of the Lugar Bill indicates that the financial exposure of CCC and thus the National tobacco settlement is difficult to predict. In 1999, if the Lugar Bill becomes law, quotas would be abolished leaving production open-ended. Price support would be available but at substantially reduced rates. Under this scenario, price-supported tobacco production is projected to increase by about 250 million pounds in the first year, mostly from current producers. However, due to substantially lower prices (price support is reduced 25 percent in 1999), demand is expected to increase by a similar amount, leaving only a small amount to be pledged for loan under the price support program. Production could increase in subsequent years up to approximately 1.5 billion pounds for flue-cured and 750 million pounds for burley tobacco. Again, demand is expected to increase concurrently, limiting CCC loan exposure.

However, at the start of the 1999 crop, USDA will have substantial amounts of the 1997 and 1998 crops of both flue-cured and burley tobacco under loan. Because these crops were supported at the higher, pre-Lugar rates, losses equal to the difference in support rates (estimated at 45 cents if the Lugar Bill passes) times the estimated 600 to 900 million pounds to be under loan could result. With the best case scenario, losses could amount to $270 million (600 million pounds times 45 cents per pound) over a 1-year period. With what we consider as a worst case scenario, losses could amount to $405 million (900 million pounds times 45 cents per pound) over a 1-year period. Depending on the time required to dispose of these loan stocks, losses, in addition to the previously mentioned losses, could increase by as much as $50 to $75 million per year in storage and interest charges only.

Depending on the funding structure of the Lugar Bill, if cigarette manufacturers are required to cover loan losses in addition to other payments to the National tobacco settlement, loan losses could be minimal. Conversely, if loan losses are to be paid from pre-determined assessments from cigarette manufacturers to the National settlement, loan losses would not be as much of a concern to the manufacturers.

Additional concern has been raised over the large outlays required by the Lugar Bill of approximately $17 billion during the first 3 years after passage. By contrast, the McCain Bill disperses about $28.5 billion over 25 years, including $16.5 billion in producer payments over the first 10 years.

Tobacco farmers – Lugar – final

LUGAR BILL - NATIONAL TOBACCO SETTLEMENT -AS PART OF THE MCCAIN BILL

The Lugar Bill, entitled the Tobacco Transition Act and made a part of the McCain Bill, would provide market transition assistance to quota owners, tobacco producers and communities that are dependent on tobacco production, and phase out the Federal tobacco program. Under the Lugar proposal:

- Quota owners would receive $8 per pound in three equal annual payments beginning in 1999.
- Producer transition compensation to quota lessees would be equal to $4.00 per pound in three equal installments, beginning in 1999. Transition payments would be based on a farmer's average production during 1995 through 1997.
- Mandatory end to the quota program in 1999 and a three-year phase out of the price support loan program. Price supports would be reduced by 25 percent in 1999 and then by 10 percent for each of 2000 and 2001 and would end thereafter.
- Assistance to affected rural communities in economic development grants (including farm activities, off-farm activities and assistance to tobacco warehouse owners or operators) for three years totaling $1 billion.
- Transfers the no-net-cost operation of the tobacco price support program solely to purchasers.
- Administrative and related costs of the Department of Agriculture with respect to tobacco will be covered by a nonrefundable marketing assessment paid by purchasers.

Concerns with the Lugar Bill:

- By terminating quotas and phasing out price supports, cigarette manufacturers and leaf exporters are projected to have windfall gains of about $800 million annually. The $800 million windfall is calculated by assuming that the domestic price of flue-cured tobacco would fall from $1.72 per pound to $1.15 per pound and the price of burley would decline from $1.89 per pound to $1.35 per pound. The volume on which the windfall would occur is assumed to be the average marketings during the 1995-97 period (922 million pounds of flue-cured and 543 million pounds of burley). The current price is held artificially high by a statutory support formula. The cigarette manufacturers would continue to receive this windfall over time once the price support program is phased out. Over 25 years, this windfall could amount to $20 billion or more.
- During the 3-year transition period, price supports would be reduced by 25 percent the first year and 10 percent in each of the next 2 years. Without quotas and with reduced price

supports, overall production would probably be limited to existing curing barn capacity. Given the fact that price supports would also be terminated after 2001, producers would be reluctant to invest in additional barn capacity and lenders would be reluctant to finance barn and related equipment purchases. Larger more efficient producers would likely expand production while small inefficient producers will likely go out of business. Overall, flue-cured production might increase about 200 million pounds and burley about 50 million pounds during the 3-year transition period.

- Without quotas and price supports, coupled with other economic uncertainties, production may not meet demand until lending institutions and support industries recognize new production and demand patterns for tobacco. Tobacco manufacturers are likely to make up the short fall by increasing imports of off shore tobacco or shifting the manufacturing of cigarettes and other products to offshore plants to the extent that they have capacity to do so.

- After a transition period, production of flue-cured and burley tobaccos is projected to increase by as much as 50 percent and 20 percent, respectively. Other kinds of quota tobaccos are less likely to be significantly impacted by the Lugar Bill. This increase in burley and flue-cured tobacco production is assumed because of the expected shifts in production to larger farming operations and lowering of costs of production through efficiencies to be gained by changes in the manner in which the crop is produced and marketed. Larger farmers will be able to absorb the expected drop in price by spreading their fixed costs over larger planted acres and because tobacco currently has almost three times the crop value as the next nearest crop (cabbage production) and almost a seven fold advantage over the production of cotton. Further, the reduced price of leaf tobacco to manufacturers will have the potential of reduced prices for cigarettes, although it is acknowledged that there is very little correlation between prices paid to growers and prices received by manufacturers from the sale of cigarettes. However, lower leaf prices will provide a substantial windfall annually to tobacco manufacturers.

- Increased production with lower profit margins should be a boon to large established producers; however, the legislation would have a disproportionately adverse impact on minority and limited-resource tobacco producers and de-stabilize many of these family farming operations. In fact, 43 percent of flue-cured quotas and 31 percent of the burley quotas are owned by females. In addition, while African-American operated farms are about as likely as all U.S. farms to harvest corn and soybeans, they are twice as likely to harvest tobacco. These facts, coupled with the fact that nearly 90 percent of farms operated by African-Americans nationally have sales of less than $25,000, further highlights the impact of tobacco on minority owned farms.

- Economic development grants of $1.0 billion over three years may be inadequate to bridge the transition period. Marginal tobacco production areas are unlikely to remain economically viable. In the absence of tobacco farming, all commercial agricultural production in these areas may cease, because tobacco quotas facilitate the financing of whole farming operations including grains and vegetable crops that are grown currently on the same farms with tobacco.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. fax	DOBs & SSNs [partial] (1 page)	05/20/1998	b(6)

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

FOLDER TITLE:
Tob - Farmers Lugar, Rhichard

2015-0274-S
wr10814

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]

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

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FAX Transmittal

DATE:	May 20, 1998
TO:	Jeanne Lambrew and Barbara Woolley
COMPANY:	White House
FAX NO:	202-456-7431 and 202-456-6218
FROM:	Joy M. Horner, America's Promise
NUMBER OF PAGES (Including Cover Page)	1

MESSAGE:

[001]

Jeanne and Barbara-

I have one cancellation and three additions for tomorrow's meeting.

- Beth Dickstein will <u>not</u> be coming;
- Marsha Wilson, Burston Marsellers (b)(6) is coming;
- Elizabeth Anne Riel, GMMB, [redacted] will be coming, and;
- Anne Loretto Burns, GMMB [redacted] will be coming.

Thanks!

Joy

Jos. farmers
Ew

MEMORANDUM

To: Tom Freedman
From: Ridge Schuyler
Re: Lugar provision

May 29, 1998

Attached is a memo from the Dutko Group that is causing us some problems with our growers. The memo makes growers believe that the funds from the Lugar bill will be paid out, no matter what. The argument the growers are making, with this memo in hand, is that even if the public health community is successful in restoring the funds Lugar would cut, the federal government would still be obligated to pay farmers over the three years, and that those funds would come from the surplus.

We have explained how unlikely it is politically that the Congress and the President would adopt either scenario: paying growers from the public health and medical research funds, or alternatively paying them out of the surplus.

It would be very helpful to the grower leadership in Virginia that has supported LEAF, as well as to us, if OMB could offer a written opinion on whether the second option--paying from the surplus--is even available under the terms of the McCain bill.

Specifically, §401(d) states: "The authority to allocate net revenues as provided in this title and to obligate any amounts so allocated is contingent upon actual receipt of net revenues." It would seem that this applies to the Lugar provision as well, precluded him from going outside the bill to get revenues to pay growers.

CAMPAIGN for TOBACCO-FREE Kids

NATIONAL CENTER FOR TOBACCO-FREE KIDS

FACSIMILE TRANSMISSION

NUMBER OF PAGES:

TO: Tom F.

FROM: Scott B.

DATE:

SUBJECT:

Tom

No promises

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

tobacco farmers - Lugar EW

THE FACTS ON THE LUGAR PLAN FOR TOBACCO FARMERS

1. The Lugar plan requires enormous up-front money, at least $18 billion in the first 3 years. This is at least 40% of the entire annual payment under the McCain bill, money that will have to come from public health accounts

2. It runs counter to the public health goal of settlement bill – limiting the supply of tobacco – by killing the tobacco program.

- **The public health community supports a tobacco program.** Almost 60 farm, public health, economic development groups and public officials (see attached list) have endorsed a tobacco program. Public health groups recently joined with tobacco farmers to say that " a tobacco production 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."

- The program operates at **no net cost to the taxpayer** and does not encourage consumption.

- The program has the support of 98% of the tobacco farm community

3. The Lugar plan provides too little assistance to tobacco communities. The bill provides only $200 million per year for five years to help tobacco communities replace a critical part their economies. **In Kentucky this would provide just 15 cents for every dollar of income tobacco brings the state's farmers.**

4. Lugar's plan forces tobacco farmers out of the business.

- **Most tobacco farmers are small, family farmers with just a few acres of tobacco.** The Lugar plan would provide the average Kentucky farmer with just $16,000 with which to find an entirely different way to make a living.

- With no program, the price of a pound of tobacco will drop dramatically, putting small farmers -- again, the majority of tobacco farmers – out of business. Agriculture economists tell us that, **of the 60,000 tobacco farmers in Kentucky, as few as 10,000 would remain.**

- Although the Lugar bill eliminates the program, it **forces farmers to continue to pay the "Tobacco Marketing Assessment"** which raises over $30 million annually.

- Finally, the Lugar bill **pays no transition payments to a farmer** who, for whatever reason, was unable to produce a crop for any year from 1995-1997

5. Tobacco farmers and the tobacco program are not comparable to other commodities and the Freedom to Farm model.

- Tobacco is purchased by just four companies domestically. The program levels the playing field for the nations 124,000 tobacco farmers.

- Because the program is a no-net cost program, taxpayers will not save one government dollar. But **eliminating the program will save tobacco companies about $1 billion per year**, all out of the farmer's pocket in the form of lower prices. While this will devastate the rural Southeast, it won't do anything to reduce youth smoking.

- Freedom to Farm is based on the concept that commodity producers will shift from growing under a program to growing under a free market. **But tobacco farmers will be expected to shift from growing tobacco to not growing tobacco.** The Lugar bill will put tens of thousands of small farmers out of business.

BURLEY
COOP
TOBACCO
GROWERS

Burley Tobacco Growers Cooperative Association, Inc.

620 South Broadway
Lexington, KY 40508

P. O. Box 860
Lexington, KY 40588

Phone: (606)252-3561
Fax: (606)231-9804

June 11, 1998

Honorable Tom Daschle
SH-509 Hart Senate Office Building
Washington, DC

Dear Senator Daschle:

Please allow me to make three points:

1. USDA survey - 98.5% of growers want their tobacco program continued,

2. Lugar plan sells out the family farm and farming family - corporations benefit, and

3. innocent family tobacco farmer being shot down by stray bullets.

The USDA, my USDA, your USDA, conducted a referendum in the tobacco growing areas in February of this year. The basic question, and in fact the only question, was "As a tobacco producer do you favor a production control program for tobacco?" The primary producing states had approval percentages as listed here:

KY	98.3%	VA	97.8%
SC	98.2%	GA	97.7%
NC	98.8%	FL	99.3%

Please take note, the USDA conducted this official referendum - it was not done by seven corporate tobacco growers. These other (unofficial) surveys asked loaded and incomplete questions while the USDA asked a simple question to which 98.5% responded "yes". That 98.5% was saying, "I want, I need the production control presently in place." The Lugar plan is not a buyout, it is about a sellout of our family farms and communities. While we could debate several issues related to the Lugar plan, the debating will stop and the explaining will actually begin when the Secretary of USDA realizes he has 1-2 billion pounds of government owned tobacco to dispose of at the end of the Lugar plan buyout. It should be simple enough to sell those stocks - at fire sale prices, but then how does a family farmer compete with a fire sale being held by the federal government?

Honorble Tom Daschle
June 11, 1998
Page two of two

The plan proposed by Senator Lugar bankrupts family farms and farming families and turns the business over to corporate farms. Where we have had ten farming families we will then have one corporate farm producing tobacco at a price 30 or so percent less than today's market. So then we have farmers selling tobacco and large companies buying it cheaper - who benefits?

The present tobacco program levels the playing field between the smallest and largest producer. It is a shield between the individual farmers and the corporate giants. This tobacco program, our tobacco program, has done nothing to encourage tobacco use by children nor adults, and ending the tobacco program that 98.5% of the farmers say they must have for their communities to survive should not be ended nor killed by shrapnel from a battle being fought over a different cause.

Sincerely,

Rod Kuegel
President

RK/ks

THE TOBACCO FAIRNESS COALITION
P.O. Box 2791 ■ Wilson, North Carolina 27894

NEWS RELEASE

FOR IMMEDIATE RELEASE
Thursday, June 11 1998

CONTACT:
RICHARD MILLER
(202) 638-6954

Farm Group Reiterates Support for Lugar-McConnell "Buy Out" Plan

– Ford Lacks Votes to Preserve LEAF Act Provisions
– Group Urges Senators to Heed Results of Grower Survey
– Unity Behind Common Plan Called Crucial for Protection of Farmers

WASHINGTON, D.C. – The Tobacco Fairness Coalition (TFC), a group organized to protect the Interests of tobacco farmers and quota holders, today reiterated its support for the Lugar-McConnell "buy out" provisions pending before the U.S. Senate, calling them the "very best and most secure" of all options available to help secure a decent future for tobacco farmers and their families.

"We're saying publicly, what everyone on both sides of the aisle is saying privately – that Wendell Ford doesn't have the votes to pass the LEAF Act and that the tobacco program is going to come to an end. The only real question for farmers is 'when' – and under what circumstances the program ends," said David Griffin, tobacco farmer and member of the TFC Board of Directors.

"When you look at all the uncertainties -- when you factor in what will likely happen to the demand for domestic leaf after passage of a substantial anti-smoking bill and you couple that with the world market situation -- you are forced to conclude that the best option for the farmer is to achieve a "buy out" of the current program under terms which are fair, adequate and secure. The Lugar-McConnell amendment, with the $8 per pound quota 'buy out' and $4 per pound transition payment provisions, attempts to do that." Griffin added.

The TFC says its call for support of the Lugar-McConnell "buy out" proposal is backed up by substantial grower support in all of the major tobacco producing states. Surveys mailed by the TFC to nearly 20,000 growers in North Carolina, Virginia, South Carolina and other flue-cured states indicate 86% of flue-cured growers favor a "buy-out" of the current tobacco program based on the dollar amounts contained in the Lugar-McConnell plan. Similar surveys mailed to growers in Kentucky and Tennessee indicate 64% of burley growers favor a program "buy out." According to the TFC, their organization is the only farm group to have conducted widespread surveys of tobacco grower opinion on the "buy out" issue.

"No other group has invested the time and money to contact thousands of rank and file tobacco farmers and ask them what they want out of a settlement bill," TFC spokesperson Griffin said. "Our group did that -- and the results speak for themselves. Congress should heed the desires of the clear majority of those farmers who will be affected by any legislation that passes."

"I think Mitch McConnell's endorsement of the modified Lugar plan was the most courageous action ever taken by a tobacco state Senator in support of the tobacco farmer," said Denny Lee, who also serves on the TFC Board of Directors. "He has the guts to tell the farmers the way things really are in Washington -- and quite frankly its not an easy message for everyone to accept." Lee added, "Tobacco farmers shouldn't forget that Senator Lugar agreed to modify his proposal from the original $1.20 per pound transition payment up to a $4 per pound transition payment and that Mitch McConnell played the key role in getting that done. McConnell also helped persuade Lugar to drop his requirement that farmers quit growing tobacco in order to receive transition payments. It those changes engineered by McConnell and others that really make the modified Lugar proposal attractive."

The TFC also called on Senators concerned about the future of the tobacco farmers to unify behind a common proposal, based on the Lugar-McConnell plan. "They know they don't have the votes for the LEAF Act, so it is incumbent on Senator Ford, Senator Hollings and others to help defend the $8 and $4 provisions in the Lugar-McConnell plan from any effort to lower them," said David Griffin. "Aside from what happens on the Senate floor, if this bill ever gets to conference everyone knows its going to be rewritten -- and that there will be a fresh fight over the money and how much will be made available to farmers. In the final analysis, the tobacco state Senators will need to unify around a common plan if farmers are going to be protected. If there is some further tweaking of the Lugar concept that needs to be made in order to bring over the support of Senators like Ford or Hollings, then the TFC would urge Lugar to consider that," Griffin added.

###

Lugar

Op-Ed

The New York Times ON THE WEB

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April 7, 1998

A Good Time to End Tobacco Quotas

By RICHARD G. LUGAR

WASHINGTON -- Several anti-smoking groups, including the Campaign for Tobacco-Free Kids, the American Cancer Society and the American Heart Association, have recently taken a position that is at odds with their goals. They want the comprehensive tobacco legislation, currently being debated in Congress, to preserve a Federal program that regulates the amount of tobacco that can be grown and the price at which it is sold.

Currently only farmers with Government-granted quotas may grow tobacco, and they profit heavily from this control.

Anti-smoking groups believe that this system keeps the price of cigarettes higher than it would be otherwise.

But maintaining the Federal Government's sponsorship of tobacco production, marketing and warehousing is wrong -- both morally and economically.

Ending the program would have a negligible impact on the price of cigarettes. True, cutting quotas would cause the price of leaf tobacco to fall. But only six cents of the approximately $2.00 cost of a pack of cigarettes is attributable to the tobacco itself.

Economists testifying in Senate hearings estimated that ending quotas would cause the price of domestic leaf tobacco to drop by about 25 percent, as more and more farmers entered the market, increasing supply.

This would translate into only about a 1.5-cent difference in the price of cigarettes. Nobody can reasonably argue that a penny and a half would have any effect on teen-age behavior or consumer demand. Moreover, if Congress passes the comprehensive tobacco bill it is considering, the price of cigarettes might rise as high as $3.50 per pack. In that event, the one-and-a-half-cent difference would amount to less than one-half of 1 percent of the price of a pack of cigarettes.

Health groups are also concerned that the drop in the price of tobacco will raise the profits of cigarette companies.

But with Congress about to pass legislation that would raise cigarette prices by as much as $1.50 per pack, why would we use a byzantine Federal program to protect 1.5 cents of the current price? Would it not make far more sense to offset the drop in tobacco prices in whatever legislation Congress may pass?

As everyone involved in the debate over smoking recognizes, we cannot end the price supports for tobacco unless the tobacco bill not only raises the cost of cigarettes and limits advertising to children, but also forces cigarette companies to pay hundreds of billions of dollars in smoking-related health care costs. Otherwise, there would be no money to buy out the tobacco farmers.

As chairman of the Senate Agriculture Committee, I have introduced a bill that would be part of the comprehensive tobacco legislation. It would buy out the tobacco quotas of farmers at $8 per pound. This one-time cost of $15 billion would end Federal price supports, while fairly compensating farmers who have depended on these quotas.

Many farmers want out of tobacco farming, but cannot afford to abandon it without help. Continuing the current program would not only trap the Federal Government into aiding the production of tobacco, it would trap many individual farmers as well.

The tobacco price supports probably cannot be sustained in any case. Domestic demand for tobacco is falling, and the quality of foreign tobacco continues to improve. The tobacco legislation may be our last chance to do right by these farmers. C omprehensive legislation would not have been possible without the work of anti-smoking groups. But if the Federal Government's anti-smoking efforts are to succeed, its policies must be consistent. The Government should not support the production of tobacco, while it spends billions of dollars on tobacco-related health care costs and anti-smoking campaigns.

This dual course is simply contradictory and wrong, and it weakens the Government's message to the public about the dangers of smoking.

*Richard G. **Lugar**, an Indiana Repub lican, is chairman of the Senate Agri culture, Nutrition and Forestry Com mittee.*