NATIONAL PRESS CLUB LUNCHEON SPEAKER
STEVEN F. GOLDSTONE, CHIEF EXECUTIVE OFFICER,
RJR NABISCO HOLDINGS CORPORATION

Tobacco Goldstone Speech

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THIS IS A RUSH TRANSCRIPT.

MR. HARBRECHT: Good afternoon, and welcome to the National Press Club. This is our 90th anniversary year. My name is Doug Harbrecht. I am Washington news editor for BusinessWeek magazine, a McGraw-Hill Companies publication, and president of the National Press Club.

I'd like to welcome club members and their guests in the audience today, as well as those of you watching on C-SPAN or listening to this program on National Public Radio. Before introducing our head table, I would like to remind our members of some upcoming speakers.

Tomorrow, "Mack" McLarty, counselor to the president and special envoy to the Americas, will speak about President Clinton's upcoming trade mission to South America.

Next week, we'll hear Marvin Runyon, postmaster general, on April 14th; Charles Rossotti, commissioner of the Internal Revenue Service, will appear, of course, on tax day, April 15th; and Zoe Caldwell, actor and winner of the 1998 Sir John Gielgud Award, will speak on April 17th. The following week, the Mayor of Philadelphia Edward Rendell will speak on April 22nd. And he is followed by the Secretary of Transportation Rodney Slater on April 23rd.

Finally, in April, we will hear former NASA astronaut Mae Jemison on April 29th. And our last speaker in will be Kate Shindle, the reigning

Miss America, on April 30th. (Laughter.)

Transcripts and audio files of National Press Club luncheons will be posted this afternoon at our web site, at "npc.press.org". To purchase audio and video tapes, please call 1-888-343-1940. If you have any questions for our speaker today, please write them down on the cards provided at the table and pass them up to me. I will ask as many as time permits.

I'd now like to introduce our head-table guests and ask them to stand briefly when their names are called. Please hold your applause until all our head table guests have been introduced.

From your right, Jim Rosen, the News and Observer, Raleigh, North Carolina; Jonathan Gardner, Modern Health Care Magazine; Monique Conrad, Washington Bureau Chief, Blade Communications Broadcast Division; Dick Keil, Bloomberg News; April Taylor, Detroit News; Chip Jones, Richmond Times-Dispatch; George Rodrigue, Dallas Morning News; Ken Eskey, Chairman of the Press Club Speakers Committee; skipping over our speaker for just a moment, Mark Johnson, reporter for -- with Media General and a member of the Speakers Committee who arranged today's lunch; Carol Leonnig, Charlotte Observer; Rebecca Carr, Congressional Quarterly; Ira Teinowitz, Advertising Age Magazine; Kathy Kiely, New York Daily News; John Hoeffel, Winston-Salem Journal.

You might notice that there are no ashtrays at your table -- even at the National Press Club, the watering hole for journalists in ages past who grabbed shot of whiskey and lit a cigarette as readily as they reached for their notebook. (Laughter.) Smoking is still allowed here, I should point out, at the bar upstairs, the Reliable Source. It may be the only such location in the entire building.

The changes in public attitudes toward smoking that led to smoke-free workplaces and the patch have been gradual. Those who, in the past, would walk a mile for a Camel have had to stroll a bit further these days. The events of the past year, on the other hand, have been sweeping and dramatic. The cigarette giants like R.J. Reynolds and -- forgive me, Mr. Goldstone -- Philip Morris hunkered down behind the wall of conventional wisdom that smokers have no one to blame but themselves. Then, as massive state lawsuits mounted and embarrassing and damaging company documents emerged, word leaked out that the cigarette giants were ready to make a deal.

The unthinkable had arrived. Tobacco companies were conceding the harmful effects of their product, offering to pay for at least some of the costs and even bring an end to characters like Joe Camel. In June state attorneys general and tobacco company lawyers signed a deal for $368.5 billion. Then they waited for the reaction from the public and from the Congress.

Nine months later, that deal is still struggling. The White House and health groups are fighting to make it tougher, saying among other things the agreement doesn't penalize the companies enough if smoking among kids fails to decline. Congress has hardly budged. A compromise bill introduced last week by Senator John McCain of Arizona was billed as bipartisan and promptly won bipartisan criticism. Late last week two wire services reported -- and later back-pedalled -- that R.J. Reynolds was bailing out of the discussions over the agreement, hunkering down once more. Here to explain, we hope, exactly what happened and presumably to defend the tobacco settlement is the chairman and chief executive office of RJR Nabisco Inc.

Steven F. Goldstone previously served as the company's president and earlier as general counsel. Before that he was a partner in the law firm of Davis, Polk & Wardwell. He is a graduate of the University of Pennsylvania and New York University Law School.

And Mr. Goldstone, as you prepare to answer questions from the press today, I'd just like to read a section from the prologue from "Barbarians At The Gate", the movie about Wall Street which was made a few years ago, a book which was turned into made-for-TV movie. Here's the passage:

"It seemed a shame, Steve Goldstone thought, as a warm Florida breeze tossled his thinning brown hair ..." (Laughter.)

MR. GOLDSTONE: "Thinning"? (Laughter.)

MR. HARBRECHT: ".. to introduce black clouds into such a postcard landscape. He took no pleasure in the dire predictions he was about to spin, but it was his job to play devil's advocate. No one else seemed willing to do it."

Mr. Goldstone? Let's give a warm National Press Club welcome to Steven F. Goldstone. (Applause.)

MR. GOLDSTONE: Well, Doug, I appreciate the invitation to be here today and to take the opportunity to tell you and all the shareholders, employees, and others with an interest in my company and the tobacco industry where RJR Nabisco is today and where we're going to go from here. I've literally gotten hundreds of calls over the last week, from investors and customers and suppliers, retailers, growers, and other interested Americans. And this has only emphasized to me the need for a very clear statement of the situation and the future of R.J. Reynolds, our tobacco company in Winston-Salem, North Carolina. And let me tell you straight out that today it is very clear to me that we have failed in our effort to achieve a comprehensive resolution of the contentious issues surrounding tobacco in our country.

The extraordinary settlement reached on June 20th last year that could have set the nation on a dramatically new and constructive direction is dead, and there is no process which is even remotely likely to lead to an acceptable comprehensive solution this year. And by that I mean a comprehensive resolution that sets clear and -- clear and understandable rules for the future, but acknowledges that tobacco companies have a legitimate right to exist in our country.

Now although I believed on June 20th as I do now that a comprehensive solution was the right way to go to solve the controversies, the opportunity to implement it has clearly been lost. Now, it's worthwhile to take a moment to review what has happened and then to tell you where our tobacco company is going to go from here.

I became chairman of RJR Nabisco about two years ago. You may know our company -- it's the sixth largest consumer product company in the world, and as chairman, I'm accountable to thousands of its shareholders and over 80,000 employees all over the world. Our companies have developed and over 80,000 employees all over the world. Our companies have developed some of the great brands in the world for consumer products. Obviously, in cigarettes, Camel and Winston and Doral; in our food company, Oreos, Ritz Crackers, Planters Nuts and Life Savers. But I'll tell you something. I found it uniquely difficult to plan for the future when one of our companies was outside the mainstream of commerce, absorbed in massive litigation, under regulatory and political attack, and with no normal working relationship with the federal or state governments. And it was obvious to me that, after 40 years of litigation in which the industry never lost a case, it didn't matter. It was not providing the best environment for my company and its employees. And it was obvious to me that a further escalation of the war, even if we kept winning in court, would not change anything for the better for anybody; for my company, for the public-health community or for the country.

So we sat down at a table with our chief adversaries and members of the public-health community, and the result was a remarkable comprehensive agreement; tougher and more wide-ranging than anyone had been expecting, but it would have fundamentally changed the way tobacco products are regulated, marketed and sold in this country.

Now, there has been a lot of water over the dam since then. But let me remind you what was said at the time, about that June 20th agreement. The New York Times, quote: "Tobacco negotiators announced a historic settlement proposal today. If ratified, it promises to change forever the way cigarettes are marketed in the United States, to provide billions of dollars in compensation to states, and to permanently alter the nation's legal, regulatory and public-health landscape."

One attorney general who had participated in the negotiations said, quote: "This is the biggest public-health achievement and corporate settlement in the history of this country." Now a leading public-health advocate Matt Myers of the National Center for Tobacco-Free Kids, said, quote: "This plan offers the best hope for protecting our children." He called it, quote, "the single most fundamental change in the history of tobacco control in the history of the world."

He got a little enthusiastic there. What's happened since June 20? Well, instead of any real consideration of the merits of that settlement, Washington has rushed to collect more tobacco revenues while playing the politics of punishment. Not only destroying the negotiated settlement, but threatening to injure farming communities, retail store owners, and every one else who participates in this $50 billion industry, as well as every adult who chooses to use these products.

The comprehensive settlement failed because the administration, while publicly praising the concept, privately dismantled it piece by piece. This resolution cried out for strong, bold political leadership; precious little was forthcoming. This settlement was, instead, subjected by the administration to partisan positioning. The comprehensive resolution also failed because some leading public health advocates who, seeing the realization of all the programs they had ever fought for, for years, to obtain -- and some others they had never even dreamed of asking for -- added a new cry: a demand for retribution.

The comprehensive agreement which should have been a public health advocate's dream come true was left behind in favor of a surprising new public agenda: the need to promote litigation and punitive damages against this industry. This comprehensive settlement also failed because the this industry. This comprehensive settlement also failed because the Congress, in the absence of leadership from the administration, dissolved into a taxing frenzy on a disfavored industry and the 45 million customers it serves. And I'll tell you something; to be completely honest, it also failed because those of us in the industry did not fully appreciate the depth of the mistrust and anger that existed about the industry's past controversies.

So the atmosphere that we had hoped, through this settlement, to clear, eliminated any chance of rational and realistic discussion of the proposal and drowned out virtually all reasonable voices. People more interested in the political expediency of acting tough on the industry -- or in preserving the tobacco controversy for their own political benefit -- have dominated the debate.

Now I have to say that there were some who did resist the temptation to exploit the politics of the moment. Senator Orrin Hatch, a long-time tough critic of the tobacco industry, after studying the agreement carefully, endorsed the essential framework of the comprehensive settlement, including liability reforms, and acknowledged that, quote, "realistically, unless all the parties who were originally at the bargaining table and who made the settlement possible have some level of acquiescence in the bill, we risk jeopardizing enactment of a program and its successful implementation."

But the fair process of debate that we and the attorneys general had hoped for ended up instead in a process of discrimination and exclusion. The bill approved by the Senate Commerce Committee received significant input from interest groups of every shape and variety -- except from the very industry that was sought to be regulated. An industry which is the largest corporate taxpayer in the United States, which provides employment for over 2 million Americans, and which sells a legal product to over 45 million people, was not entitled to be considered. It was a chilling reminder that many of our representatives in Washington believe that our industry simply has no right to be heard or to participate in the legislative process in the United States Congress.

So now you know, in a nutshell, why I've concluded that this legislative process, as far as tobacco is concerned, is broken beyond repair.

Now why did this political process break down? My answer is one word: money. Three-hundred sixty-eight billion dollars that was in the June 20th agreement is apparently not enough to satisfy all the wishes of the federal government. The amount has to be doubled or even tripled to pay for all sorts of new programs having nothing to do with kids smoking. Just take a look at the president's budget submission this year and you get the idea.

Let me be clear on what the Commerce Committee bill will do. Although they say it raises prices by $1.10, that's not true. The reality is, as every Wall Street expert has commented, the price of cigarettes would be more than doubled or even tripled under the Commerce Committee bill. This would impose costs of hundreds of billions of dollars on adult consumers to fund huge government programs, and all of this is justified politically in term of one thing -- stopping kids from smoking. But remember, less than 2 percent of all sales go to under-age smokers. Now don't get me wrong, I don't mean to minimize the problem, but the facts are the facts -- less than 2 percent. So this proposal prescribes billions of the facts -- less than 2 percent. So this proposal prescribes billions of dollars of tax increases imposed on more than 98 percent to influence 2 percent.

Not only that, this proposal knows what every law enforcement officer knows; that the price increases they're talking about will create a black market overnight. Do you know how many packs of cigarettes can fit into one trailer truck? Six hundred ninety-five thousand packs of cigarettes. That is 14 million cigarettes in one truck. It is simply irresponsible to brush aside the problems with black markets that our neighboring countries, like Canada, have experienced when they raised cigarette taxes by even lesser amounts than what the Senate is talking about. You cannot have effective enforcement of laws limiting access to these products if teenagers are buying cigarettes off of the backs of trucks.

What, you reasonably may ask, is going on here? No one knows definitively why kids smoke or what could be effective in convincing them not to. The recent report from the Centers for Disease Control show a disturbing increase. And Michael Ericson (sp), head of CDC's Office of Smoking and Health, frankly admitted the other day that there is no answer to the question why. Quote: "There's been incredible rhetoric over the past few years," end quote, he says, "but very little has changed," end quote.

Now, the negotiators in the June 20th agreement realize that there's no one silver bullet that will cause a reduction in teenage smoking. That is why settlement included a multifaceted balanced approach to the problem with real enforcement of youth access laws along with voluntary advertising restrictions, education programs and gradual price increases up to a dollar-fifty in less than 10 years. The package included every element ever suggested by mainstream public health experts with an ongoing opportunity to evaluate and adjust the mix as we gained experience.

All of this sound thinking has been ignored in the debate in Washington. Instead, we hear only the calls for greater and greater taxation, all under the guise of protecting our children. But you know what? As parents we know that the reasons kids smoke aren't related to price. In the trendy world of $100-plus sneakers, a few dollars to be fashionable or cool apparently are not a problem.

If people would only listen, the kids tell us that themselves. At a recent House Commerce Committee hearing a teenager was asked by a congresswoman, quote, "Do you think raising price would deter some students from smoking?" "No, because if you look, it's kind of weird how people would be willing to pay $150, $200 for shoes. And then when it comes to cigarettes, people will moan, they'll groan, but they'll still pay."

You know, the local school professionals know this, too. One principal of an Ohio high school said "Cost is not a big factor. Most kids have enough money or can get enough to pay more for cigarettes."

And, I'd like you to do me a favor. Remember for a second where we were before this Washington debate took off into financial orbit. When the FDA regulation was announced in 1996, it didn't include one thing about price increases. Not one cent. Yet the president said, "We have today met our responsibility to help our country protect its values, protect its children, and ensure its future." David Kessler said, "Our regulation focuses on restricting access and reducing the appeal to children, because focuses on restricting access and reducing the appeal to children, because that's the right public health strategy." Secretary Shalala said of this FDA regulation in 1996, which, I repeat, did not involve a penny of price increases or taxes, quote, "The most important public health initiative in a generation. It ranks with everything from polio to penicillin. This will be huge in terms of its impact. We will reduce the amount of teenage smoking by half over the next seven years. This is a comprehensive approach." End quote. Not one penny of price increases.

Now, just two years later, all we hear in Washington is taxation, taxation, price increase, price increase, as the only solution to the problem. Now there's one fundamental problem with that for me. Those price increases will destroy the domestic tobacco business, and I don't just mean my company. They're going to put the growers out of business, and they're going to destroy many communities where those growers live. They're going to hurt badly the thousands of small retailers across the country and they're unfairly going to burden adults who choose to smoke and who can least afford that kind of taxation.

You know, you do not have to rely on me for these points. Let's listen to what Wall Street's unanimous view is. Gary Black of Sanford Bernstein called the Senate Commerce Committee proposal last week "a $600 billion proposal from the land of make believe" -- end quote. Martin Feldman of Solomon Smith Barney said as follows: "So where might the U.S. tobacco industry be by the year 2003 if McCain's proposals are legislated? The real retail price of cigarettes will exceed five dollars per pack. A thriving black market will have developed. U.S. farmers and manufacturers will have lost market share to foreign entities, and the weaker U.S. companies may have filed for bankruptcy protection. The aspirations of the proposed bill are more likely to be achieved by policy based on compromise and an understanding of industry dynamics rather than by trying to bludgeon the industry to death."

Finally, David Adelman of Morgan Stanley wrote, "Politics, not policy, is unfortunately dominating the settlement process. The proposal would likely force RJR Nabisco into bankruptcy and would quickly result in a very significant black market and will not resolve the nation's tobacco issues."

I'm going to -- I want to -- I really want to talk about one other thing apart from taxes. You know, on top of Washington's urge to use the tobacco controversy as a unique opportunity to raise revenue, the debate has really taken on truly a coercive, big brother type tone. Not only do politicians not think twice about proposing huge tax burdens on adult smokers, but the adults of our country apparently cannot be trusted or allowed to exercise their own judgment freely. I'm going to give you one example.

The Commerce Committee bill, in the stroke of a pen, would completely eliminate the camel image from my company's packaging. Now, this is a trademark that Reynolds has used for more than 80 years. I don't from the back of the room whether you can see the camel on that pack of cigarettes. Been there for 80 years, since this package cost five cents. This image is known worldwide. Yet the Commerce Committee determines, with no debate, that a picture of a camel on a pack of cigarettes is too dangerous even for adults to see.

So I come back to it. The legislative process that produced these proposals does not give me any hope that it can produce a reasonable or proposals does not give me any hope that it can produce a reasonable or rational result. So where does this all leave us? My answer is: just about where we were a year ago, before we signed the June 20th agreement, although we will undoubtedly incur costs and litigation expenses as a result of this failed settlement effort. And here is what I see:

First, I have told my colleagues in the industry that, effective today, I no longer see any purpose in working toward the June 20th national settlement. I stand behind the comprehensive resolution embodied in the agreement, but I see no possibility in this environment to achieve it.

As a business enterprise, then, we have to address how our company will go from here. First, we will be a responsible corporate citizen, while growing our tobacco brands and competing for the business of adult consumers. We fully accept that the U.S. market is going to continue its overall decline, but there is a lot of room for our company to continue to grow and prosper. Three out of four adults in the market do not smoke brands made by Reynolds, and each point of market share is very valuable, and we can obtain it through effective communication with adults.

We have also heard the concerns of the public, parents, and others who want to take the steps necessary to ensure that tobacco products are not marketed or sold to kids. I have testified in Congress, and I firmly believe that marketing directed at children is not only illegal, it is immoral, it is unethical.

Our tobacco company operates on these principles today, and we will work and we will support efforts toward achieving reasonable, effective, and measurable results to reduce teen smoking.

I share a responsibility with the parents of our company -- country -- excuse me -- to educate our children that they should not smoke. It is an adult product with known health risks. We don't need the 17 new federal boards and commissions that would be created by the Commerce Committee to get this message to our children. As a parent, I do not believe we have to rely on Washington to teach our children right from wrong. In fact, I plan to work with my colleagues in the industry to encourage independent, non-government-controlled efforts to educate our children about the lifestyle decisions they make that so concern us as parents.

As a second point, now, I knew that when we started this settlement discussion we would suffer for our attempt to settle in compromise. And that the plaintiffs' lawyers would trumpet it as a sign of weakness to solicit even more and more cases against us. Well, this is already happened and we are facing hundreds of cases more than we had just a year ago from lawyers seeking jackpot judgments of every variety. But let me assure you and them that we are not, as they would like to have it, like a Brinks truck overturned on a highway.

To the lawyers who, as reported in the Wall Street Journal last week, have been advertising for plaintiffs on late night TV and producing home videos on how to sue this industry hoping that a huge pot of money would be theirs for the taking, I say you have been operating on a wrong assumption. We will not stop defending ourselves. We continue to have strong defenses to these claims and American juries continue to respect notions -- basic notions -- of personal responsibility and the consequences of free choice. We have consistently prevailed in front of impartial jurors and we will continue to do so. I'll tell those plaintiff lawyers, if you gamble on a big new inventory of the same old cases, you are making if you gamble on a big new inventory of the same old cases, you are making a bet you will not win.

Just a few weeks ago, our industry won a big case -- an important case -- in Indiana, in which a very renowned, nationally known plaintiff's lawyer presented a full-blown case including all of the industry's so-called "damning documents." The jury, nonetheless, had no problem distinguishing political science from real science and brought in a defense verdict in a second-hand smoke case. So I believe the industry should and will continue to win the vast majority of cases.

Now, finally, we're also going to have to litigate some state cases on Medicaid reimbursement and I just want to touch on that for a moment, because the states have, for years, approved tobacco as a legal product and they have taxed it to the point of no return. They did this knowing the health risks associated with the products and while knowingly granting their citizens the right to smoke. These cases don't have any merit, and courts in Maryland, San Francisco, Washington and West Virginia have already thrown them out, and undoubtedly, where fair tribunals exist, others are going to follow.

Now finally, and perhaps most important, we are going to speak out and engage in a public policy debate on the issues that affect our industries and our customers. And I don't mean just the country's 45 million smokers, I mean the hundreds of farming communities, the tens of thousands of small grocers and convenience store owners, the truckers, the distributors, the suppliers and others -- two million Americans in all -- who have an economic stake in this industry.

I pledge to my employees and to my shareholders I will devote much of my time and my company's considerable resources to fostering a healthy and vigorous debate about the choices this country has. And I have talked to the chief executive officers who lead the other companies in this industry, and I have absolutely no doubt that they will join me in devoting their considerable resources to raising these issues in every town across this country. And the primary issue is taxation. Is it fair to increase the taxes on cigarettes by huge amounts to pay for new federal spending programs or to provide tax cuts for wealthy Americans? You know, the Commerce Committee bill would raise taxes so that Washington would make 15 times more than our tobacco company does on every pack of cigarettes sold -- 15 times. That is big business for big government, but it is bad business for Americans.

What would this do to real people, and to the family of a smoker who makes $25,000 a year? By the fifth year, it would increase his tax bill by almost $1,000 a year -- more than he will then be paying in federal income taxes. It's also bad business for the growers and their farm communities, who are our partners. Taxes this high, and the reduction they will cause in volume, plus the further restrictions on foreign sales in the bill will crush them too -- towns like Carrollton, Kentucky; Wilson, North Carolina; or Danville, Virginia; or towns in Tennessee like Carthage. And it's not just the farmers, it's the hardware store owner, the farm equipment man, the fertilizer distributor, the local banker, or the real estate agent.

Blake Brown (sp), who is a leading agricultural economist, sums it up when he says these communities will be devastated. Their jobs will be lost, and they will not be replaced. Washington does not realize that farmers don't want government hand-outs and that a farmer welfare program farmers don't want government hand-outs and that a farmer welfare program will not even begin to address the problems of others in the community.

So we are going to talk to the people about all this, and we're going also to talk to them about the intrusion of government into the free enterprise system and censorship and coercion of individual liberty. We're going to see if adults want their federal government to censor the images they are permitted to see, like that dangerous camel that has been on the front of our package for 80 years.

Now, you know, this all may sound like political rhetoric to you, but I assure you it is not. These are real issues facing real people involved in this business. They are issues that could not be more serious to them and to me as head of this company. I have a responsibility to them, and I have a duty to my shareholders and the employees to do what I can do to protect them.

Now, I'm not that unrealistic. I know that there is little doubt that my words today will be met with more of the same litany of accusations about past misconduct that some people would rather have the country focus on to the exclusion of any vision for the future. But I cannot afford to dwell in that debate. I cannot afford to dwell in the past. I have a business to run in an industry on which millions of people depend. We simply have to move on.

Finally, I cannot tell you how disappointed I am that our effort to reverse years of acrimony and chart a new direction have failed for now. Perhaps at some point a real opportunity for a comprehensive resolution will present itself. Perhaps another opportunity will not arise as events play out over the next few years. But we really have no possibility for reasonable reform today. So we will continue to manage our business in the most responsible and competitive way we can. And we will discuss the questions openly in towns across this country. And I have no doubt that when the debate occurs, the American people will bring wisdom and common sense back to these issues.

Thank you very much, and I'm happy to take questions now. (Applause.)

MR. HARBRECHT: Mr. Goldstone, just a few questions to clarify: Are you saying that you and your company will refuse to participate in any further negotiations toward a settlement? And the president's going to be in Kentucky tomorrow. What if the president personally asked you to change your mind on the points you've made today?

MR. GOLDSTONE: You know, I have reached a judgment about where the likely process is going to lead and the quality of the debate we're having in Congress. The president doesn't need to ask me anything; the president needs to stand up to Congress and to the public health community and to the country, and do what is right. It was not easy for me to enter into these negotiations a year ago. I know it wouldn't be easy for the president to take that leadership role, but I think he's got to do it if we're going to make progress.

MR. HARBRECHT: Well, Mr. Goldstone, right here I have comments from the president today, made in a high school in Kentucky, where he says, "I hope that RJR will consider it, because obviously when it comes advertising and restricting advertising aimed directly at children, it would be better if we had common positions." Could you address that?

would be better if we had common positions." Could you address that?

MR. GOLDSTONE: I asked the president a year ago to join with us on common positions, but he hasn't done it. So I have to move forward and protect my employees and protect my business.

But the one thing I can tell you for sure: My company will not target children. They will not advertise -- anyone in my company who ever is seen to do that today will be out of a job in five minutes.

MR. HARBRECHT: Even Donald Trump would say that all deals are negotiable. You clearly oppose this latest bill, but what specifically could be done to keep you at the table?

MR. GOLDSTONE: I really today do not see anything, except for one thing: I signed the June 20th agreement, and when I sign an agreement, I commit to it.

But I have to tell you that I think the issues that we need to debate in this country are so important that I'm not going to spend my time in Congress, walking the halls in Congress, on the assumption that senators or representatives would see me; I'm going to talk to people in the country about what I think the important issues are. Regressive taxation, unfair taxation, arguments that don't have merit and also coercion, restriction of individual liberties of adults, I think are something we need to talk about in the country.

MR. HARBRECHT: Do you speak for RJR alone, or is this an industry statement?

MR. GOLDSTONE: No. This is a strongly held view that I have come to as chairman of RJR Nabisco. I have talked to the chief executives of the other companies, but they are going to have to make up their own minds as to how they want to proceed.

MR. HARBRECHT: Have you discussed your announcement today with any other tobacco executives, and do you expect others to follow your lead?

MR. GOLDSTONE: Well, it's kind of the same question, the same answer. I have let the chief executives of the other companies know the essence of what I am going to say, the same way I have let a number of senators and Congress people know what I was going to say. But I don't know exactly how they are going to respond.

MR. HARBRECHT: Will you now go to trial with all the remaining states or continue to settle?

MR. GOLDSTONE: I haven't crossed that bridge right now, except to tell you that my instinct now is the defend ourselves as strongly as we can.

Those state cases, again, as I said in my talk, where you have taxed this product so dramatically; I mean, for anyone to say today -- is there one person in this country that doesn't know cigarettes are not good for you? And yet these states have taxed this product aggressively and made a lot of money from this product. I don't see the merit of those cases. So my instinct now is to have our company provide as strong a defense as it can possibly provide.

MR. HARBRECHT: Here is a question from a skeptic. Are your strong statements today part of an ongoing negotiating strategy aimed at getting the best possible deal for the tobacco industry?

MR. GOLDSTONE: I will tell you something. I am not kidding around when I say I am done with this process. I am not going to spend time walking the halls of Congress in the context of a process that I see is completely broken. I will say that I signed the June 20th agreement, and I commit. And when I sign a contract, I perform on it. But that's the only thing I have done.

MR. HARBRECHT: On the one hand you said raising prices on cigarettes will not deter kids from buying cigarettes; on the other you said taxing cigarettes will destroy the domestic market. Isn't that a contradiction?

MR. GOLDSTONE: No. I wish it were, but it's not. Unfortunately, all the evidence I have seen is that kids who smoke, smoke will -- and for the money that they have, all kids' money is discretionary income. They can spend it any way they want to spend it. It's the 40-year-old adult who is trying to raise a family of four on an income of $22,000, his money is not discretionary. And he will either trade down to cheaper cigarettes, or many might have to smoke fewer cigarettes. And those are adults who will be denied the opportunity of making their free choice. And it especially galls me about that when I see the president's budget, or when I hear people in the House talking about let's collect taxes from people with incomes like that so we can reduce taxes on other Americans who don't need those tax breaks. I find that frustrating, to say the least. And I do plan to talk to people in this country about that.

MR. HARBRECHT: Does your industry share any of the blame for the current status of the legislation, since your representatives insisted they would not compromise in any way upon the June 20th agreement?

MR. GOLDSTONE: Well, I don't -- I think when you see a process as broken as this process is it really doesn't matter much what the industry says, in my view. I will tell you, though, that I think it's the kind of thing you can have regrets about, and it is something that perhaps this industry should have come to grips with before. But that's water over the dam. We came to grips with it when we did. But we did underestimate the emotional content, how angry people have been over this issue. That clearly was a misjudgment on the part of the industry.

MR. HARBRECHT: What's to stop Congress from passing a bill over your objections? And then what?

MR. GOLDSTONE: Well, the bill that Senator McCain has requires my signature. And there is no chance in the world it's going to get my signature. I will tell you that over the next several months leading to the election in November we are going to have serious discussions with people in this country about the quality of the debate in this town and the lack of leadership, and voters in this country will hold representatives accountable according to their own judgments about the outcome of that debate.

MR. HARBRECHT: The tobacco deal hasn't even made it to the House yet. Do you have any hope that the House Commerce Committee or other panels will pass a tobacco bill more to your liking?

panels will pass a tobacco bill more to your liking?

MR. GOLDSTONE: I have no hope whatsoever.

MR. HARBRECHT: Are you surprised that the agreement with the AGs got so little support from Republicans who traditionally have been strong backers of the tobacco industry?

MR. GOLDSTONE: Well, my -- I'm disappointed. I would say that it would be unrealistic to think that the Republicans, given the kind of debate that has taken place, would be aggressively taking leadership when the president has been really so ambivalent. I must tell you that the little that I did see in Congress when I spoke to some senators and some congressmen, and whether they were Democrats or Republicans, the issue was always the same: "This is not going to go anywhere unless the president gives us a bill and supports it." So it doesn't surprise me; it disappoints me, but it doesn't surprise me.

MR. HARBRECHT: Why should you be granted relief from punitive damages for past conduct when that conduct is only now coming to light?

MR. GOLDSTONE: Well, you know, the June 20th agreement includes a payment of $60 billion of punitive damages. Now, this industry has never paid punitive damages in its entire history, and $60 billion is more money in punitive damages than has ever been paid by all the companies in all the history of commercial litigation in the United States. So don't tell me we haven't paid punitive damages.

MR. HARBRECHT: For years, tobacco executives told Representative Henry Waxman's public health committee that nicotine is not addictive. Why should the public believe you now? Why should they believe that tobacco will make good on their promises in the settlement?

MR. GOLDSTONE: You know what I think is really the terrible, just terrible loss for this country is that if we had had that June 20th resolution, the country would no longer have to listen, "What does Steve Goldstone think about whether tobacco is addictive or not?"

You know something, I'm not a scientist, I haven't the faintest idea. Except that in the common parlance that we use, I have said I think it's addictive. But what difference does it make what I think? What matters is the comprehensive resolution required these tobacco companies to stop debating these health issues. There would have been a warning on the pack for all to see: Tobacco is Addictive. That would be the end of it. Consumers would make of it what they want and our companies would no longer debate it. And I really think that's important.

What some of those who want to foster debate do is they keep banging heads on, "What does the tobacco executive think?" What difference does it make? Who cares what the tobacco executive thinks? What we care about is what does the pack of cigarettes say, what does the surgeon general say, what does the consumer think, not what the tobacco executive thinks. We're looking at the wrong person, and the June 20th resolution would have solved that problem, but it doesn't look like that's going to happen.

MR. HARBRECHT: Your tobacco public relations campaign, which you mentioned in your address, how will you do this -- meetings, advertising from your company, from all companies? How will that be done? And what from your company, from all companies? How will that be done? And what will you spend on that too?

MR. GOLDSTONE: Well, really what we're going to do is enter into a debate across the country. And I don't know that I'd call it a public relations campaign as much as it is going to require a tremendous personal effort on my part, on Andy Schindler, who is the chief executive of our company, and I hope the rest of the industry will join me, where we visit all parts of this country and talk about these issues.

I don't know how much money it will cost. All I am telling you is whatever is required to be able to have a dialogue with Americans on these issues of taxation and coercion and curtailing of individual freedoms, I'm going to have and I'm going to spend my company's money on it. And I certainly hope that the rest of the tobacco industry, and any other corporation in America who thinks these issues are important, joins us in the debate and maybe travels with us.

MR. HARBRECHT: Do you smoke? If not, did you ever? When and how? And how did you quit?

MR. GOLDSTONE: You know, one of the things about the question of addiction is I keep thinking of the juror who I once heard say after a trial, "Yes, it's addictive, but you can quit." I mean, more people in the United States today have stopped smoking than are currently smoking.

Now I will tell you, as I've told others, I smoked cigarettes -- I happened to smoke Camels -- when -- after I went to college. I was about 19 or 20. And I smoked till I was about 32 years old. And I have to admit it to you, I enjoyed it very much.

But there came a time where, just kind of balancing it, the -- what I thought were the risks to my health versus the enjoyment I got from smoking cigarettes, I decided to quit. And I quit when I was about 32 years old.

And I did see yesterday the criticism of President Clinton, so I hesitate to say this, but I have to answer you forthrightly, I do enjoy a cigar on occasion today.

MR. HARBRECHT: Here's your chance for a mea culpa. Will you apologize for targeting underage smokers?

MR. GOLDSTONE: In the two years that I have been chairman of this company, I have been very, very clear to people who work in my company that we will not do that. And I absolutely know that that is not an issue in our company today.

I think where the industry probably should have some regrets is that we should have come to grips with the issues that were troubling Americans years ago.

You know, one of the problems here is that we make a product that is a risky product. And in our tort system in the United States, when you make a product like that, you are going to get sued from morning till night. And that's just the reality. That's the way we do it in the United States. And what happens is these companies have had lawyers advising them, and I think, in trying to defend these cases, they have been careful. And the country and the industry got into a confrontational mode that I

And the country and the industry got into a confrontational mode that I think the industry, in hindsight, probably should have tried to break before it did now.

But we are where we are today, and that is not an issue for RJR Nabisco. And I don't believe that is an issue for Reynolds competitors in the industry today.

MR. HARBRECHT: One other follow-up, sir, on the public relations campaign before -- will you run independent political ads before the November elections, and will you take aim at supporters of the tobacco bills in Congress?

MR. GOLDSTONE: No. I wish I had this plan more well-thought out. I really don't. The only thing I can tell you is I'm going to have to take the advice of experts. One thing I have learned in the last year, I am not a politician. And, in fact, I know precious little about the way this city works. But, I am going to do what I need to do to speak to Americans across the country, more, I hope, in small groups. And I don't mean just smokers and farmers in the communities. I'm talking about people who are fathers and mothers, who may have an instinct that there's something really wrong about Americans having the right to smoke, if they choose to do it. And I want to talk to them about the issues. So it's not just people who will be directly economically concerned. I want to talk to people who might be concerned about government intruding into the personal choices that Americans make once they're fully informed.

MR. HARBRECHT: Mr. Goldstone, before I ask our final question today I'd like to present you with a few gifts here. One is a certificate of appreciation for appearing today.

MR. GOLDSTONE: Thank you very much.

MR. HARBRECHT: This is our history book, the 90th anniversary history book, "Reliable Sources." You can read about the National Press Club back when everybody used to smoke cigarettes.

MR. GOLDSTONE: Terrific. Thank you. That's great.

MR. HARBRECHT: And here is the National Press Club mug, which is perfect with coffee and a cigar from time to time, sir. (Laughter.)

MR. GOLDSTONE: (Laughs.) Thank you.

MR. HARBRECHT: For our final question today, considering the acrimony over the tobacco industry, have you ever been tempted to find a less controversial line of work, and what would it be? (Laughter.)

MR. GOLDSTONE: Well, I have to tell you, the thought has crossed my mind. And one thing I can say with absolute certainty, I left the legal profession about two years too early, from what I can see -- (laughter) -- in terms of the litigation environment.

I'm not -- I will tell you something. As chairman of this company, I get invitations to play golf, like other chief executives, quite often. In another life, in another job, in another industry, being chairman of a company this size is probably a hell of a lot of fun. But it is not fun in this company. But I will tell you, it's what I said before: this is the job I have, I have fiduciary duties, I owe my loyalty to my employees and to my shareholders. But I was in the happy situation last year of thinking that my loyalty to shareholders, loyalty to employees matched perfectly what was right for the country. Now, that hasn't happened. But I'll tell you something: we are going to go forward. It's my job to do it. And we'll just go forward and talk to Americans about the issues that I think are important for them to debate.

MR. HARBRECHT: Thank you very much.

MR. GOLDSTONE: Thank you. (Applause.)

MR. HARBRECHT: Thank you.

I'd like to thank you for coming today, Mr. Goldstone. I'd also like to thank National Press Club staff members Kate Goggin, Joanne Booze, Pat Nelson, Melanie Abdow Dermott, and Howard Rothman for organizing today's lunch. Thank you very much. (Sounds gavel.)

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