Tobacco -
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One Million Kids
-SW

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To: Cynthia A. Rice

cc:
Subject: Elena Q&A

MS. KAGAN: Well, as many of you have heard before, there are 3 million teenagers who smoke cigarettes on a daily basis in the United States. About 1 million of those will die prematurely as a result. And reducing youth smoking, we all know, is the best way to reduce the overall incidents of smoking, because about 90 percent of adult daily smokers first begin to smoke cigarettes as teenagers.

So what the President did today is something that you will hear him do many times over the next weeks and months, which is to call on Congress to pass comprehensive tobacco legislation that meets the five principles that he set out last fall. And those principles are to put together, put a plan into place to reduce youth smoking; to give the FDA full jurisdiction over tobacco products; to change the way the tobacco industry does

business; to make progress toward other public health goals and to protect tobacco farmers and their communities.

And in particular, what the President will call on Congress to do is to pass legislation that will be really a multifaceted approach to reducing youth smoking in America -- an approach that combines significant per-pack price increases with tough penalties, with access and advertising restrictions. All of those are necessary in order to produce a truly significant decline in youth smoking.

Now, what the Treasury analysis that the President mentioned today states is the following: first, that if Congress passes the kind of comprehensive plan that the President has called for, a plan that combines access and marketing restrictions with a significant per-pack price increase -- and our budget calls for a per-pack price increase of $110 over five years and that's the number we used in this Treasury analysis -- if those things are combined, then the result will be a 39 to 46 percent reduction in underage teen smoking in 2003.

That will mean, as the President said in his speech, that in the year 2003 alone between 1.4 and 1.7 million fewer underage teenagers will smoke. And cumulatively over the next five years, between 2.4 and 2.8 million young people will be kept from smoking.

Now, because the premature -- because the number of premature deaths from smoking is about a third of the actual smokers, if you keep up to 2.8 million teens from smoking over the next five years then what you do is you prevent almost a million premature deaths from smoking. And that's the conclusion of the Treasury report.

Now, the way the Treasury report works is it takes into account both price effects and non-price effects. That is, it considers both the decline in youth smoking from a per-pack price increase and it considers the decline in youth smoking from restrictions on access and restrictions on marketing.

The way the Treasury analysis goes is it first considers what kind of non-price effects there will be from the sort of marketing and access restrictions that the President has called for. And it concludes -- and this is an extremely conservative estimate -- that the decline in youth smoking from those kinds of marketing and access restrictions will be between 10 percent and 20 percent.

The Treasury analysis then looks at the remaining 80 to 90 percent and applies an analysis relating to price effects. What Treasury concludes is that when you are talking about young people, for every 10-percent increase in price there is a 7-percent decline in consumption.

Now, as the price increases mount, the consumption decreases gets smaller and smaller because as the price increases mount, the remaining smokers get less and less responsive to price increases. So that overall, overall, the $1.10 per pack price increase that the budget contemplates, which is about a 55-percent increase in the price of a pack of cigarettes, will lead to about a 32-percent decline in youth consumption.

And when you put that, overlay that on the effects of marketing and advertising restrictions, you come up with Treasury's total number, which is, as I said, that in the year 2003, if the President's comprehensive plan is adopted, you will see up to a 46 percent -- and more specifically between a 39 and 46-percent reduction in under age teen smoking.

Now, what the President said today and what he is going to say consistently to Congress is that we do have to pass comprehensive legislation. We have to pass legislation that puts all these things into play -- that significantly raises the price of a pack of cigarettes and imposes restrictions on access and advertising. And in the event that that still doesn't work to meet our youth's smoking goals, imposes tough penalties on manufacturers.

All of those are necessary. They all reinforce each other. The President does not want Congress to pass piecemeal legislation that does only one of those things that, you know, for example, imposes only access and marketing restrictions and fails to raise the price of a pack of cigarettes substantially. So the President again is going to be -- state very clearly and probably very repeatedly, that you have to do this all together. You have to enact legislation that is comprehensive.

Q In order to have those advertising restrictions, do you have to have the industry on board? And if so, to have the industry on board, do you have to have caps on liability?

MS. KAGAN: We believe that many of the advertising restrictions can be put into place with or without the consent of the industry. As you know, the FDA rule itself imposed several advertising restrictions that we have fought for in court and that we continue to believe are fully constitutional.

There are other marketing restrictions that have been suggested by some, including in the June 20th settlement, where the constitutional analysis becomes more difficult. I'm not going to make any conclusions about that. The Justice Department would have my head if I did. But there are substantial marketing restrictions that we believe you can put into place with or without the consent of the industry.

Q Elena, the President has talked before about a $1.50 pack increase over 10 years. When did $1.10 become the

interim --

MS. KAGAN: Well, $1.10 is from the budget window, which is five years, so what we --

Q Has that been set at $1.10 for a long time, or is that --

MS. KAGAN: From the budget. What we did when we put our budget was we estimated the amount of revenues that would come from Congress' passage of comprehensive tobacco legislation of the kind that we've called for. And because the President called for $1.50 over 10 years in order to meet the youth smoking goals that he has set up, when we had a five-year budget window to work on we put it on a kind of trajectory. And by the fifth year, 2003, it will be $1.10. That's in real terms; in nominal terms it's about $1.24.

Q What is the cigarette tax now?

MS. KAGAN: I don't know. Let me check.

Q Have you looked at the Jeffords bill yet, and what did you think of it?

MS. KAGAN: We think that we can work productively with Senator Jeffords and we're looking forward to that. We think that right now the bill does not give the FDA the authority that it needs to regulate tobacco products. We think that it doesn't give FDA the sort of flexibility that the current scheme does. So we think that we will have to make a lot of progress on those provisions of the Jeffords bill to make it acceptable to us.

Q Elena, why is it responsible for the President to demand this outcome without explaining to the American people how he wants to get there specifically? I mean, what kind of --how he wants to see the price increase on a pack of cigarettes, for example.

MS. KAGAN: Well, I guess I'm going to question your premise, because the President, in fact, has been fairly specific about the sorts of things he wants. Back in the fall after we completed our review of the June 20th settlement, as you know, the President came out with five principles which are really a road map for the kinds of tobacco legislation that he has in mind. And then our budget has specified fairly clearly both the amounts of money that the President would expect the tobacco industry to pay and where that money would go to -- as you know, some of the more contested questions of this issue.

Q I'm not questioning that he's been clear about outcomes, but he's been very vague about means. That's the point. And means -- you know, the devil is in the details in this agreement. So at what point is he going to have to explain how he wants to get there?

MS. KAGAN: I do think he's been pretty detailed about means. The budget is extremely detailed about means, and as I said, the principles as well provide a pretty good road map. We are making a decision here that our putting legislation forward today would not actually advance, would not promote the cause of passing comprehensive tobacco legislation. We have tried to put forward legislation in the past, it has not always worked. What we want to do is to work with members of Congress from both sides of the aisle.

The President has said very clearly that his administration will go talk to whoever wants to talk with us. We'll be very specific about the sorts of things we would like in a bill and the sorts of things that we would think deficient. We will engage in those conversations and have been already and make clear where we are. But we do not think that the way to enact comprehensive tobacco legislation is for us to put down a bill right now.

Q The President embraced Kent Conrad's bill, which raises more money and also doesn't include the immunity from liability. Is the President now opposed to liability for the tobacco companies?

MS. KAGAN: We've been very clear on this. And we have been clear for six months. Our position has not changed. The President would prefer a bill without liability limits on the tobacco companies; but that the President -- if the President gets a comprehensive bill that meets his five principles -- if the President essentially gets everything that he wants, then liability limits are not a deal-breaker for us. And we have consistently stated that. Very recently the Department of Justice gave testimony to that effect, but that testimony only reiterated what we have said for many months.