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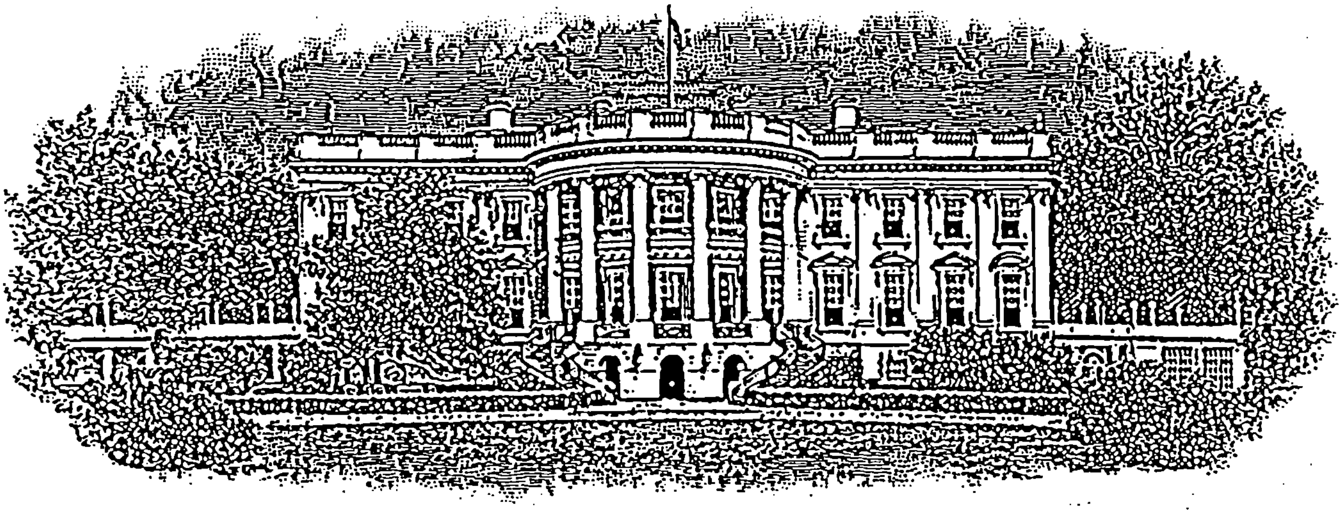
The White House



DOMESTIC POLICY

FACSIMILE TRANSMISSION COVER SHEET

TO: ERSKINE BOWLES

FAX NUMBER: 704-364-0239

TELEPHONE NUMBER:

FROM: Bruce Reed

TELEPHONE NUMBER:

PAGES (INCLUDING COVER): 6

COMMENTS:

May 15, 1998

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Bruce Reed
Tom Freedman

SUBJECT: Gov. Hunt and LEAF

Earlier today, Gov. Hunt's office told Fred DuVal that Hunt may be ready to oppose the LEAF Act. (We don't know whether he is supporting Lugar.) We are trying to get a bipartisan letter of support for LEAF from Southern governors, but most are unwilling to sign on without Hunt.

As you know, many tobacco state senators, including Senator Ford, would strongly oppose the overall tobacco legislation if Lugar prevails. We have heard conflicting reports about Helms and Faircloth. The latest rumors have them back on board with LEAF.

We believe you should try to reach Gov. Hunt over the weekend and twist his arm to support LEAF. He may be hearing from the companies and large growers, who stand to make a bundle from Lugar. It provides substantially less money overall to farmers and their communities, results in a windfall to tobacco companies as prices drop, and busts the budget by buying out quotas at $5 billion a year in the next three years.

We have attached a page of talking points which might be useful in a conversation with Governor Hunt on the matter. His number is 919-733-3871. In addition, we have attached USDA's three page memo on concerns with the Lugar bill.

Sorry to interrupt your daughter's big weekend. If you were a tobacco farmer, the LEAF Act would have made you eligible for $70 million worth of college scholarships.

TALKING POINTS ON TOBACCO BILL FARMER'S PROVISIONS: FORD V. LUGAR
May 15, 1998

I. President made protecting tobacco farmers and their communities one of the five key elements of plan for national tobacco legislation.

II. The Ford bill meets the President's criteria:

* Provides $28.5 billion for tobacco farmers and their communities over 25 years.

* Maintains a tobacco program crucial for stabilizing prices for farmers.

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* Provides immunity for producers and growers associations

III. Lugar bill fails to satisfy criteria:

* Hits Family Farms. Ending quota will destabilize prices and reduce margins, making it difficult for small farmers to survive. USDA projects that the bill will have a "disproportionately adverse impact" on minority and limited resource farmers "de-stabilizing many of these family farming operations." USDA projects that companies will increase imports of tobacco.

* Budget Crunch. The funds to buy-out quotas are capped at $15 billion, but all the money is scheduled to be spent between FY 1999 thru 2001.

* Lack of Transition Funds. Total economic development fund is $300 million, which is not sufficient to compensate farm communities (Lugar may increase this).

* No immunity provision.

* Windfall for Companies. Creating a free market will result in windfall to companies as price of tobacco drops -- over 25 years this transfers approximately $20 billion from farmers to companies according to USDA.

LUGAR BILL - NATIONAL TOBACCO SETTLEMENT - S. 1313

The Lugar Bill, entitled the Tobacco Transition Act, 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 either (1) a lump sum payment to those who agreed to cease tobacco production or (2) three equal annual payments beginning in 1999 to those who wished to retain the ability to grow tobacco.

- Producer transition compensation to quota lessees would be equal to 40 cents per pound for three years or $1.20 over the three year period. Transition payments would be based on a farmer's average production during 1993 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 for three years totaling $300 million.

Funding for the Lugar Bill, including buy-outs, transition payments and grants, as well as offsets to cover federal revenue losses due to the termination of the program (all of which has been scored at $15 billion), would be obtained by increasing the proposed $368.5 billion National tobacco settlement between tobacco companies and 40 state attorneys general.

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 and a Tariff Rate Quota. The cigarette manufacturers would continue to receive this windfall over time once the price support program is phased out and if extended over the 25 years of the Settlement Agreement the windfall would amount to approximately $20 billion.

- 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. 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, 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. In addition, 43 percent of flue-cured quotas and 31 percent of the burley quotas are owned by females although a large number of these quota holders are not actively engaged in farming but are leasing their quota rights to others.

- Transition payments to producers (40 cents per pound based on leased quota levels during a base period) may not be sufficient to sustain tobacco producers with large rental operations during the early years following the expected large drop in market prices. Some bills being considered as part of the national tobacco settlement have larger ($4.00 per pound) transition payments for quota lessees and quota tenants based on lower production levels. Most of these bills would provide for the continuation of the current or a revised marketing quota program as well as price supports.

- Economic development grants for three years, funded at $100 million per year, appear grossly inadequate to bridge the transition period. Marginal tobacco production areas are unlikely to remain economically viable. In the absence of tobacco farming, substantial agricultural

production in these areas may be adversely impacted, 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. 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.

Additional concern has been raised over the large outlays required by the Lugar Bill of approximately $15 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.

REGISTRATION FORM

THE 3RD ANNUAL
H.D. WOODSON

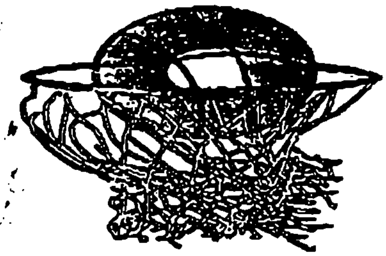
"HOOP DREAMS"

3 - ON - 3 BASKETBALL TOURNAMENT

Team Entry Fee: $60

SATURDAY, JUNE 6, 1998, 10:30 A.M. TIPOFF

Registration begins at 9:30 A.M.



"F" (FUN) STREET, N.W.
OUTSIDE THE MCI CENTER
Between 6th and 7th Streets
GALLERY PLACE/CHINATOWN METRO STATION

All Proceeds to Benefit Student Scholarships
for H.D. Woodson-A D.C. Public High School

---cut here---

NAME:____________________
ADDRESS____________________
____
Phone Number____________________
Team Captain (contact person)________
____
Team Name____________________

TEAM MEMBERS (up to 5 people per team)
1.________________(phone#)________
2.________________(phone#)________
3.________________(phone#)________
4.________________(phone#)________
5.________________(phone#)________

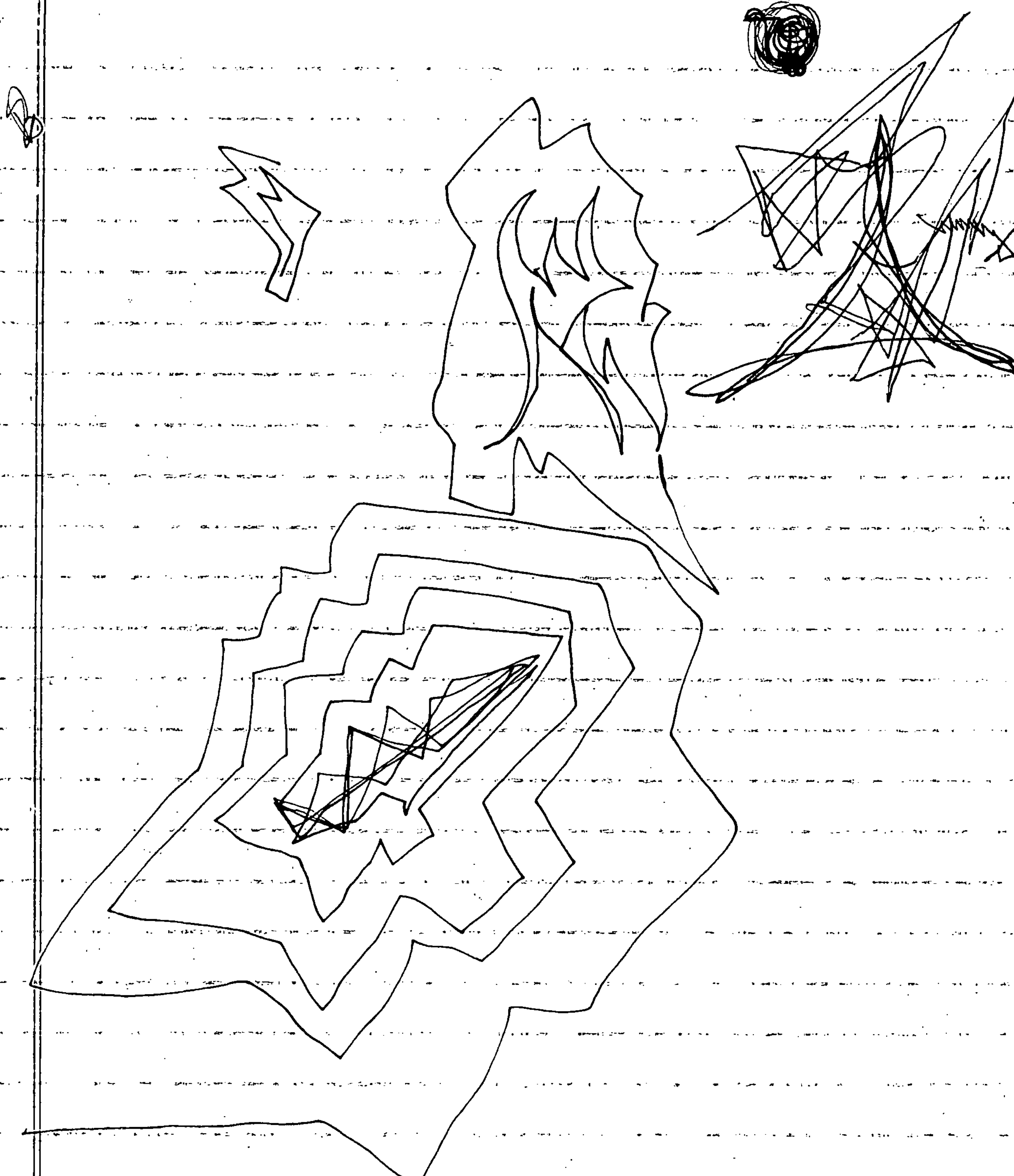
Please make payable to:
"H.D. Woodson-Hoop Dreams" (tax-deductible)
and send registration fee and form by May 23, 1998 to:
Susie Kay, 1229 Massachuetts Avenue, SE, Washington, D.C. 20003

All players will receive a Hoop Dreams T-shirt.

Space is limited! First come, first serve!

for more information contact Susie Kay @
(202) 543-2128 (h) 414-0904 (Hoop Dreams) 724-4512 (Woodson) or 724-8808 (fax)

(Return to Christa Robinson Rm 207!)



FAX TRANSMISSION

SEN. WENDELL H. FORD
173A RUSSELL SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510
(202) 224-4343
FAX:

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

May **1998**

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3	4 9:15 AM Team leaders mtng	5 9:15 AM Staff Mtg 11:00 AM w/ Stacie Sp ... 1:15 PM Organic in ro... 2:00 PM Hate Crimes ... 4:00 PM w/ Dallas S ... 5:30 PM Privacy	6 10:00 AM Weekly Crime Mtg	7 9:15 AM Staff Mtg. 2:45 PM Tobacco Strategy 5:00 PM WEEKLY REPORT DUE BY 5:30 PM	8 10:30 AM Principle Mtg. on Food 12:00 PM Lunch w/ BLA 12:30 PM Tobacco Liability Mtg. in 211	9
10	11 9:15 AM Team leaders mtng	12 9:15 AM Staff Mtg	13 10:00 AM Weekly Crime Mtg	14 9:15 AM Staff Mtg. 2:45 PM Tobacco Strategy 5:00 PM WEEKLY REPORT DUE BY 5:30 PM	15 ______ (? Time) w/ Rob Kane 11:00 AM On the Hill 2:45 PM Tob. Strategy	16
17	18 9:15 AM Team leaders mtng	19 9:15 AM Staff Mtg	20 10:00 AM Weekly Crime Mtg 7:00 PM B- Ball w/ Paul	21 9:15 AM Staff Mtg. 12:00 PM Lunch 2:45 PM Tobacco Strategy 5:00 PM WEEKLY REPORT DUE BY 5: ...	22	23
24	25 ______ HOLIDAY - MEMORIAL DAY 9:15 AM Team leaders mtng	26 9:15 AM Staff Mtg	27 10:00 AM Weekly Crime Mtg	28 9:15 AM Staff Mtg. 2:45 PM Tobacco Strategy 5:00 PM WEEKLY REPORT DUE BY 5: ... 7:00 PM Goodbye par...	29	30
31						

April						1998
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May						1998
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June						1998
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21	22	23	24	25	26	27
28	29	30				

Appointment/Meetings

8:00 AM	
9:00 AM	
10:00 AM	Weekly Crime Mtg
11:00 AM	
12:00 PM	
1:00 PM	
2:00 PM	
3:00 PM	
4:00 PM	
5:00 PM	
7:00 PM	B- Ball w/ Paul
8:00 PM	

TO-DO List

Personal Items

Birthday/Anniversary

Work Records

Begin	End	Hours	Work

production in these areas may be adversely impacted, 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. 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.

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Draft

Dear Senator;

We are writing to express our views concerning the tobacco farming provisions as contained in S. 1415, the "National Tobacco Policy and youth Smoking Reduction Act".

As you may already be aware tobacco producer organizations and major public health organizations (more than 40 organizations) have been meeting for a number of months to talk about the future of America's tobacco farming communities in an environment where we hope there will be significant reductions in tobacco use, particularly by children and adolescents. Our discussions have been conducted in an open and honest fashion and have been highly productive.

On March 16th of this year these forty organizations released a set of Core Principles which we believe should be used to measure any national legislative proposal coming before the US Senate.

Among the statements contained in the Core Principles are the following::

- **That a tobacco production control program which limits supply and which sets minimum purchases prices is in the best interests of the public health community and the tobacco producer community........**

- **That it is in the best interests of the public health community and the tobacco producer community that FDA should have the authority to establish fair and equitable regulatory controls over the manufacture, sale, distribution, labeling (including country of origin) and marketing of tobacco products both domestic and imported, comparable to regulations established for other products regulated by the FDA....**

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

- **That there should be strong complementary federal state and local laws which guarantee that tobacco products are not marketed, advertised, sold or otherwise distributed to anyone under the age of 18.**

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

- **That a significant amount of money be allocated so that tobacco growing states and communities have options and opportunities to ensure their economic viability into the 21st century……**

We believe that the United States Senate has a unique opportunity to both protect the public health from the dangers of tobacco while at the same time ensure economic security for America's tobacco farm families. We hope you will support legislation that encompasses the provisions of these Core Principles.

Sincerely,

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Sincerely,

CTFK, AHA, ALA

Key Senators	Position
Leahy	
Harkin	
Durbin	
Lautenberg	
Moseley-Braun	
Feingold	
Kohl	O
Torricelli	O
Feinstein	
Boxer	
Conrad	OK - Ridge ✓
Daschle	✓
Tobacco State Senators	**Position**
Graham (FL)	
Mack (FL)	
Coverdell (GA)	OK - changes
Cleland (GA)	OK
Ford (KY)	Ford
McConnell (KY)	[illegible] - [illegible]
Helms (NC)	- " Floyd
Faircloth (NC)	-
Thurmond (SC)	Al Johnson
Hollings (SC)	Tim
Thompson (TN)	✓
Frist (TN)	✓
Warner (VA)	✓
Robb (VA)	Ford
Agriculture Committee	
Helms (NC)	
Cochran (MS)	
McConnell (KY)	
Coverdell (GA)	✓
Santorum (PA)	
Roberts (KS)	
Grassley (IA)	
Gramm (TX)	
Craig (ID)	
Harkin (IA)	Glickman
Leahy (VT)	Glickman
Conrad (ND)	✓, Mahon
Daschle (SD)	✓
Baucus (MT)	

— Breaux — Ford

McCain

U.S. SENATE COMMITTEE ON

Commerce, Science, and Transportation

JOHN McCAIN, Chairman

www.senate.gov/~commerce

FAX

TO: Cynthia Rice

OFFICE:

FAX NO: 456-7028

DATE: TIME:

PAGE 1 OF: 5

FROM: Pia (202) 224-2670

SUBJECT:

U.S. SENATE COMMITTEE ON
Commerce, Science, and Transportation

JOHN McCAIN, Chairman www.senate.gov/~commerce

FOR IMMEDIATE RELEASE
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MANAGER'S AMENDMENT TO TOBACCO BILL SUMMARY

WASHINGTON, D.C. -- Senator John McCain (R-AZ), Chairman of the Committee on Commerce, Science, and Transportation, today announced the provisions in the manager's amendment to the "National Tobacco Policy and Youth Smoking Reductions Act." Following is a summary of the major changes.

Major Changes

* Creates a single trust fund -- on budget -- with the following accounts and yearly allocations: State Account 40%; Public Health Account 22%; Health Research 22%; and Farmer/Farm Community Assistance 16%

* Eliminates various panels, commissions and centers

* Toughens look-back penalty with a $4 billion yearly cap (previously $3.5 billion) and includes company specific penalty of $1,000 per underage user in excess of yearly reduction target

* Raises liability cap to $8 billion (previously $6.5 billion) and eliminates protections for parent companies

* Deletes FDA power to ban tobacco from a single class of retail store

* Calls for multilateral negotiations on international tobacco marketing and advertising

* Deletes certain provisions dealing with international operations including special licensing fee, restrictions on duty free shops and military installations, extra-territorial legislation regarding marketing

* Strengthens smuggling protections: licensing provisions for manufacturers, importer and wholesalers, requires marker on label to distinguish licensed products, and requires record keeping for large shipments of tobacco products

* Deletes Asbestos Trust Fund and authorizes appropriations from the Tobacco Trust Fund should Congress establish a mechanism by which to compensate asbestos victims

* Adjusts payments to increase price on smokeless tobacco

Following is a title by title assessment:

TITLE I --Regulation of Tobacco Industry (FDA)
--Prohibits FDA authority from banning tobacco sales from a particular type of retail outlet (such as convenience stores).
FDA, however, can remove license of individual operators for failure to comply with license agreement, i.e. selling to kids.

> This addresses concerns by retailers that FDA could ban sales from good operators who are not selling to kids.

--Moves advertising restrictions to new Title XIV

TITLE II --Reductions in Underage Tobacco Use (Look Back)
--Hikes yearly cap on look back assessments to $4 billion and includes uncapped company specific assessment of $1,000 per underage user in excess of yearly reduction target.

> Company specific penalty will provide an incentive for companies to meet their reduction targets by giving them a competitive advantage in the adult market over manufacturers that miss their share of the targets.

TITLE III --Tobacco Product Warnings and Smoke Constituent Disclosure
--No major changes

TITLE IV --National Tobacco Trust Fund
--Creates single Trust Fund (on budget), with separate accounts for States; Public Health; Health Research; and Farmer Assistance

--Provides for annual spending from the trust fund as follows:

STATE ACCOUNT (40% of annual receipts disbursed to states)
* 50% of state money (federal recoupment share) to be used for any of a menu of items approved by the National Governors Association

* 50% to be used for any purpose

* State money is uncapped.

PUBLIC HEALTH ACCOUNT (22% of annual receipts)
* Education; Prevention; Counter-advertising; International
* Cessation
* Indian Health Service
* Enforcement (state licensing; anti-smuggling)

RESEARCH: (22% of annual receipts)
* Health and Human Services and others

FARMERS: (16% of annual receipts up to 28.5 billion over 25 yrs.)
* Farmers

--Includes language placing a yearly cap on the fund (except for states. Any overages would be deposited into the Medicare Trust Funds.

--Includes language placing excess farmer account money in out years into Medicare Trust Funds.

--Includes language requiring GAO report on operation and effectiveness of trust fund and spending accounts.

--Requires President to submit Trust Fund spending recommendations and justifications to Congress with annual budget.

--Volume adjusts annual payments so that $1.10 price increase is maintained.

--90 percent of cessation funds block granted to states.

--50 percent of prevention funds block granted to states.

TITLE V --Standards to reduce involuntary exposure to tobacco smoke
--Provides that any state choosing to opt out has its own second hand smoke program providing equivalent protection to public health (as opposed to exposure).

TITLE VI --Application to Indian Tribes
--No major changes

TITLE VII --Civil liability of manufacturers of tobacco products
--Increases yearly liability cap for participating manufacturers from $6.5 billion to $8 billion.
--Deletes protection for parent companies.

--Modifies addiction claim language to ensure that individuals are held harmless from settlement of Castano claims.

TITLE VIII --Tobacco industry compliance and employee protection from reprisals
--No major changes

TITLE IX --Public disclosure of tobacco industry documents
--Moves industry responsibility for creating and funding document depository to Title XIV but retains document disclosure requirements

TITLE X --Long-term economic assistance for farmers
--No major changes

TITLE XI --International and Smuggling
--Includes licensing provisions for manufacturers, importers and wholesalers
--Requires marker on label to distinguish licensed products and that lawful transactions occur among licensed entities from manufacturer to retailer
--Requires record keeping for large shipments of tobacco products
--Calls for multi-lateral negotiations on international tobacco marketing and advertising.
--Deletes licensing fee
--Deletes language with respect to duty free shops and military installations
--Deletes international advertising and marketing restrictions.
--Deletes extra-territorial criminal provisions
--Streamlines vending machine corporation, funding for which remains subject to appropriations.

TITLE XII --Asbestos
--Deletes Asbestos Trust Funds. Authorizes appropriations from the Tobacco Trust Fund should Congress establish a mechanism by which to compensate asbestos victims.

TITLE XIII--Veterans
--No major changes

TITLE XIV (new) --Participating Manufacturers
--Sets out obligations of manufacturers choosing to settle their state claims and receiving liability cap, including:

* Up-front payment required under Title IV of S. 1415 as reported.
* Abiding by advertising restrictions under Title I of S.1415 as reported.
* Agreeing not to challenge the provisions of this act and the implementing protocols
* funding the document depository

# # #

FAX COVER SHEET

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for Dallas

COMMENTS:

Attachment

LUGAR BILL - NATIONAL TOBACCO SETTLEMENT - S. 1313

The Lugar Bill, entitled the Tobacco Transition Act, 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 either (1) a lump sum payment to those who agreed to cease tobacco production or (2) three equal annual payments beginning in 1999 to those who wished to retain the ability to grow tobacco.

- Producer transition compensation to quota lessees would be equal to 40 cents per pound for three years or $1.20 over the three year period. Transition payments would be based on a farmer's average production during 1993 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 for three years totaling $300 million.

Funding for the Lugar Bill, including buy-outs, transition payments and grants, as well as offsets to cover federal revenue losses due to the termination of the program (all of which has been scored at $15 billion), would be obtained by increasing the proposed $368.5 billion National tobacco settlement between tobacco companies and 40 state attorneys general.

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 and a Tariff Rate Quota. The cigarette manufacturers would continue to receive this windfall over time once the price support program is phased out and if extended over the 25 years of the Settlement Agreement the windfall would amount to approximately $20 billion.

- 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. 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, 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. In addition, 43 percent of flue-cured quotas and 31 percent of the burley quotas are owned by females although a large number of these quota holders are not actively engaged in farming but are leasing their quota rights to others.

- Transition payments to producers (40 cents per pound based on leased quota levels during a base period) may not be sufficient to sustain tobacco producers with large rental operations during the early years following the expected large drop in market prices. Some bills being considered as part of the national tobacco settlement have larger ($4.00 per pound) transition payments for quota lessees and quota tenants based on lower production levels. Most of these bills would provide for the continuation of the current or a revised marketing quota program as well as price supports.

- Economic development grants for three years, funded at $100 million per year, appear grossly inadequate to bridge the transition period. Marginal tobacco production areas are unlikely to remain economically viable. In the absence of tobacco farming, substantial agricultural

production in these areas may be adversely impacted, 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. 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.

Additional concern has been raised over the large outlays required by the Lugar Bill of approximately $15 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.

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TALKING POINTS ON TOBACCO BILL FARMER'S PROVISIONS: FORD V. LUGAR

I. President made protecting tobacco farmers and their communities one of the five key elements of plan for national tobacco legislation.

II. The Ford bill meets the President's criteria:

* Provides 28.5 billion for tobacco farmers and their communities over 25 years.
* Maintains a tobacco program crucial for stabilizing prices for farmers.
* Gives farmers the chance to have their quotas bought out should they choose.
* Provides $375 million a year in community development block grants thru 2008, $450 million thru 2023; $25 million in worker transition money for ten years; and up to $72.5 million a year by 2023 in higher education grants.
* Provides immunity for producers and growers associations

III. Lugar bill fails to satisfy criteria:

* Ending quota will destabilize price, make it difficult for small farmers to survive.
* Fund to buy-out quotas is capped at $15 billion — thru 2001
* Total economic development fund is $300 million, not sufficient to compensate farm communities (Lugar may increase this).
* No immunity provision.
* Creating a free market will result in windfall to companies as price of tobacco drops -- this transfers approximately $20 billion from farmers to companies according to USDA.

1. McConnell – married Lugar / Ford
2. Hollings D's → go to Harris
3. Feinstein / Hatch

Atlanta

No truth
to rumor
that McLaren
will have
both Ford
& Lucas in
it?
— Ford heard
that.

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