

Tobacco - settlement - farmers

Chuck Robb -
EW

Have

Buy-outs - costs
interest

Barstol
print

Fwd 60-410
ad hoc - Carter
DeSole/Murphy

Fun -

Have you seen?
Ewan

THE WHITE HOUSE
WASHINGTON

12/17

Chuck Robb gave this
to the President
and he wanted you
to have a copy of
it.

Rebecca Cameron

A NEW PROPOSAL REGARDING TOBACCO

- ▶ **Summary:** Because government action is about to erode the value of quota, there would be a buy-out of all existing quota at \$8/lb. A privatized tobacco program limiting supply would be reinstituted, providing growers with a license to grow tobacco based on historical average production for that grower. To provide long-term economic security in tobacco communities, \$250 million would be provided for economic development. Finally, a transition payment would be offered to growers as the system changes from its present form to the new one.
- ▶ **Quota Equity Buy-out:** The proposal would give quota owners \$8/pound for their quota. The funds would be paid out in five annual installments of \$1.60/pound based on the three-year average (1995-1997) of their basic quota. To avoid serious tax consequences, which would be the government giving with one hand and taking away with the other, the funds could be placed in a tax-deferred 401(k)-type plan, or used tax-free to reduce debt associated with tobacco farming. This program would convert existing quota into cash, it would terminate the existing tobacco quota system, and a new program would be instituted to give growers the right to grow tobacco through the issuance of licenses.
- ▶ **New Tobacco Program:** Once all the quota has been bought out, the new system would grant licenses to actual tobacco producers. These licenses would go to all producers, whether they were quota holders, tenant farmers or quota leasees. There would be no significant cost associated with acquiring the licenses. These licenses would give the farmer the right to continue growing tobacco, but unlike the previous system that right could not be bought or sold or leased. In other words, that license, unlike quota, would not be a liquid asset. If the grower decided to stop exercising the right to produce granted by the license, the license would be surrendered to the issuing authority, which could then reissue the license to another grower. By wringing the value out of quota through the buy-out, producers will no longer face the expense of leasing or buying quota. Once that cost of operation is eliminated--which represents about 40¢ of the price of a pound of flue-cured tobacco--the producer can be more competitive, both here and overseas. And by being more competitive, the decline in quota will not be as steep, and growers will not suffer the severe dislocation that a sudden drop in quota would create, whether that drop is caused by decreased demand or increased costs of production.
- ▶ **Economic Development:** In addition, \$250 million annually would be allocated for economic development in tobacco dependent communities. The funds could be used for specific purposes, such as improving the quality of all levels of education in the region, promoting tourism through natural resource protection, constructing advanced manufacturing centers, industrial parks, water and sewer facilities and transportation improvements, establishing small business incubators, and installing high technology infrastructure improvements.
- ▶ **Transition:** To make sure that current producers can survive until this new system is implemented over the five-year buy-out period, the proposal contemplates giving a minimum of income protection during this period. One option would be to provide transition payments of 40¢/lb. to growers over 5 years, based on historic production.

For 28.5
Rais
- 14-21 bill.
- maybe higher

For 2
① Up front \$'s, \$2.1 for
10 lbs. Robb = 3-4 bill
for 1st 5 yrs.

Mangus

① Price support cut 40¢
② License less popular
cause limits expansion
③ Still have tenant farmers
License = quota

VP
Bruce Reed
Elevan
speaking
mathews.

to hullo - gw

to hullo - Robb
letDRAFT LETTER ON TOBACCO
JANUARY 8, 1998

Dear Senator Robb,

Thank you very much for your thoughtful proposal regarding tobacco legislation and support for the American farmer. I appreciate your efforts in this area and look forward to working closely with you on this project.

As you may know, I have consistently stated that the protection of tobacco farmers and their communities is one of the five key elements ^{of} ~~essential~~ to effective tobacco legislation. Tobacco farmers are honest, hard-working people, many of whom work on small farms, some in communities that rely primarily on income from the tobacco crop. The tobacco legislation that ultimately becomes law must safeguard these farmers. Your proposal is one valuable approach to protecting farmers, their families and their communities. I know that there are several proposals currently under discussion in this area, and I am certain we will work together to build a consensus.

I believe we have a historic opportunity to ^{enact} ~~create~~ legislation that can help protect teens from the dangers of smoking, and secure a promising future for farmers and their communities. I look forward to working with you in this effort.

Tom -
Looks good. Let's put
it out.

Elena

— Tobacco - Robb
EW

THE WHITE HOUSE
WASHINGTON

January 12, 1998

Dear Senator Robb:

Thank you very much for your thoughtful proposal regarding tobacco legislation and support for the American farmer. I appreciate your efforts in this area and look forward to working closely with you on this project.

As you may know, I have consistently stated that the protection of tobacco farmers and their communities is one of the five key elements of effective tobacco legislation. Tobacco farmers are honest, hard-working people, many of whom work on small farms, some in communities that rely primarily on income from the tobacco crop. The tobacco legislation that ultimately becomes law must safeguard these farmers. Your proposal is one valuable approach to protecting farmers, their families, and their communities. I know that there are several proposals currently under discussion in this area, and I am certain we will work together to build a consensus.

I believe we have a historic opportunity to enact legislation that can help protect teens from the dangers of smoking, and secure a promising future for farmers and their communities.

I look forward to working with you in this effort.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Clinton", with a stylized flourish at the end.

The Honorable Charles S. Robb
United States Senate
Washington, D.C. 20510