

NLWJC - Kagan

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**Tobacco-Tobacco Settlement:
Farmers [1]**

Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. fax	Phone No. (Partial) (1 page)	08/05/1998	P6/b(6)
002. briefing paper	Phone No. (Partial) (1 page)	n.d.	P6/b(6)

COLLECTION:

Clinton Presidential Records
 Domestic Policy Council
 Elena Kagan
 OA/Box Number: 14367

FOLDER TITLE:

Tobacco - Tobacco Settlement: Farmers [1]

2009-1006-F
rc89

RESTRICTION CODES

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

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Tobacco - set - farmers

Mary L. Smith
03/23/99 03:03:39 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Thomas L. Freedman/OPD/EOP, Laura Emmett/WHO/EOP
Subject: Draft of three tobacco farmers letters



TOBFARLT.319 TOBFARLT.31H TOBFARLT.31R Here are three drafts of tobacco farmers letters to Senators Edwards and Robb and 3 House members. They concern recoupment and the federal legislation. I will fax you copies of the letters. Let me know if these drafts look alright. Thanks, Mary

Cynthia & Tom have received the letters already

March 22, 1999

Dear Senator Robb,

Thank you for your thoughtful letter expressing concern about the future of tobacco farmers in this country. As you know, I have made protecting tobacco farmers and their communities one of the key components of my Administration's policy to reduce youth smoking. While we must work to reduce youth smoking, we also must ensure that we protect tobacco farmers and their communities.

I agree that tobacco farmers and their communities must be protected from the effects of tobacco litigation. As was done in the settlement with the state attorneys general, I believe that in connection with any judgment or settlement of Federal claims there should be established a fund to protect them from the unintended consequences of that lawsuit. I am committing my Administration, as any Federal litigation proceeds to judgment or settlement, that we will make sure that adequate funds are set aside by legislation to ensure the financial security of tobacco farmers and their communities. We would of course develop this legislation in close consultation with you and other members of Congress, and with representatives of tobacco farmers, workers, and their communities.

It is possible to protect tobacco farmers and their communities, at the same time that we dramatically reduce youth smoking. I am confident that we will be able to reach agreement with respect any judgments or settlements of federal claims. I look forward to working with you on this important issue.

Sincerely,

March 22, 1999

Dear Senator Edwards,

Thank you for your thoughtful letter expressing concern about the future of tobacco farmers in this country. As you know, I have made protecting tobacco farmers and their communities one of the key components of my Administration's policy to reduce youth smoking. While we must work to reduce youth smoking, we also must ensure that we protect tobacco farmers and their communities.

I agree that any recoupment from the state settlements should take into account effects on tobacco farmers. My Administration has proposed an approach that gives states flexibility and discretion over how these funds will be spent. Specifically, we have proposed that states keep 100 percent of the tobacco settlement funds in exchange for a commitment to use a portion of the proceeds to reduce youth smoking, protect tobacco farmers, improve public health, and assist children. We look forward to crafting legislation with the states, members of Congress, and with representatives of tobacco farmers. Without such legislation, not a single penny of tobacco settlement funds would have to be used to reduce youth smoking.

It is possible to protect tobacco farmers and their communities, at the same time that we dramatically reduce youth smoking. I am confident that we will be able to reach agreement on recoupment. I look forward to working with you on this important issue.

Sincerely,

March 22, 1999

Dear Representative Boucher,

Thank you for your thoughtful letter expressing concern about the future of tobacco farmers in this country, particularly small farmers. As you know, I have made protecting tobacco farmers and their communities one of the key components of my Administration's policy to reduce youth smoking. While we must work to reduce youth smoking, we also must ensure that we protect tobacco farmers and their communities.

I agree that tobacco farmers and their communities must be protected from the effects of all tobacco litigation. As was done in the settlement with the state attorneys general, I believe that in connection with any judgment or settlement of Federal claims there should be established a fund to protect them from the unintended consequences of that lawsuit. I am committing my Administration, as any Federal litigation proceeds to judgment or settlement, that we will make sure that adequate funds are set aside by legislation to ensure the financial security of tobacco farmers and their communities. We would of course develop this legislation in close consultation with you and other members of Congress, and with representatives of tobacco farmers, their families, and communities.

It is possible to protect small tobacco farmers and their communities, at the same time that we dramatically reduce youth smoking. I am confident that we will be able to reach agreement with respect to any judgments or settlements of federal claims. I look forward to working with you on this important issue.

Sincerely,

March 22, 1999

Dear Representative Jenkins,

Thank you for your thoughtful letter expressing concern about the future of tobacco farmers in this country, particularly small farmers. As you know, I have made protecting tobacco farmers and their communities one of the key components of my Administration's policy to reduce youth smoking. While we must work to reduce youth smoking, we also must ensure that we protect tobacco farmers and their communities.

I agree that tobacco farmers and their communities must be protected from the effects of all tobacco litigation. As was done in the settlement with the state attorneys general, I believe that in connection with any judgment or settlement of Federal claims there should be established a fund to protect them from the unintended consequences of that lawsuit. I am committing my Administration, as any Federal litigation proceeds to judgment or settlement, that we will make sure that adequate funds are set aside by legislation to ensure the financial security of tobacco farmers and their communities. We would of course develop this legislation in close consultation with you and other members of Congress, and with representatives of tobacco farmers, their families, and communities.

It is possible to protect small tobacco farmers and their communities, at the same time that we dramatically reduce youth smoking. I am confident that we will be able to reach agreement with respect to any judgments or settlements of federal claims. I look forward to working with you on this important issue.

Sincerely,

March 22, 1999

Dear Representative Hilleary,

Thank you for your thoughtful letter expressing concern about the future of tobacco farmers in this country, particularly small farmers. As you know, I have made protecting tobacco farmers and their communities one of the key components of my Administration's policy to reduce youth smoking. While we must work to reduce youth smoking, we also must ensure that we protect tobacco farmers and their communities.

I agree that tobacco farmers and their communities must be protected from the effects of all tobacco litigation. As was done in the settlement with the state attorneys general, I believe that in connection with any judgment or settlement of Federal claims there should be established a fund to protect them from the unintended consequences of that lawsuit. I am committing my Administration, as any Federal litigation proceeds to judgment or settlement, that we will make sure that adequate funds are set aside by legislation to ensure the financial security of tobacco farmers and their communities. We would of course develop this legislation in close consultation with you and other members of Congress, and with representatives of tobacco farmers, their families, and communities.

It is possible to protect small tobacco farmers and their communities, at the same time that we dramatically reduce youth smoking. I am confident that we will be able to reach agreement with respect to any judgments or settlements of federal claims. I look forward to working with you on this important issue.

Sincerely,

03/23/99 16:13 FAX
03/08/99 MON 03:19 FAX
03/05/99 18:52 FAX

JOHN EDWARDS
NORTH CAROLINA
(202) 224-3154

008

003

COMMITTEE
BANKING, HOUSING, AND
URBAN AFFAIRS
GOVERNMENTAL AFFAIRS
SMALL BUSINESS

United States Senate
WASHINGTON, DC 20510-3306

March 5, 1999

President William J. Clinton
The White House
Washington, D.C. 20502

Dear Mr. President,

I am writing to express my concern about the Administration's position that money owed to the states as a result of their agreement with the tobacco companies is subject to federal recoupment and control. This money was intended by all involved in the agreement to go to the states, and the states are in the best position to know how it can most effectively be used.

I am particularly troubled by the Administration's recoupment plans in light of its failure to develop any workable program to deal with the impact of the agreement on tobacco farmers and their communities, not only in my state, but in other tobacco-growing states as well.

In North Carolina, our poorest and most rural communities are threatened with economic devastation. It could take 25 to 50 years for this region to recover from the effects of the tobacco settlement according to some studies. And I hardly need to tell you about the face of a farming crisis - once prosperous families can quickly find themselves faced with the loss of their livelihood and all they have struggled to earn.

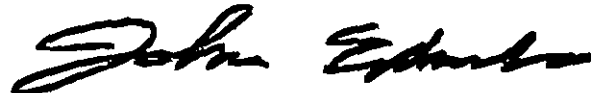
North Carolina has a specific plan outlined that will target fifty percent of settlement funds to go in a foundation to fund efforts to help these farmers and communities maintain economic stability. The other fifty percent is earmarked for spending on children's health and education on tobacco issues that I believe are consistent with the Administration's goals at reducing youth smoking and smoking related illnesses.

President William J. Clinton
March 5, 1999
Page 2

Given the opportunity, my state intends to make the most of the Master Settlement Agreement. In order to do so, North Carolina needs control of these funds to meet the unique needs of our people and communities, particularly our farmers. And the fact is, North Carolina needs and deserves more from your Administration than a threat to take away its money. We need a sustained and workable commitment from you to address the pain inflicted on our farming communities.

I would like the opportunity to work with the Administration to address these issues. I believe we can find a way to help troubled farmers and their communities and look forward to working with the Administration to do so.

Yours Sincerely,



John Edwards

CHARLES S. ROBB
VIRGINIA

WASHINGTON OFFICE:
Russell Senate Office Building
First and Constitution Avenue, NE, Room 154
Washington, DC 20510
(202) 224-4024
Email: senator@robb.senate.gov
http://robb.senate.gov

United States Senate

WASHINGTON, DC 20510-4603

COMMITTEES:
ARMED SERVICES
FINANCE
INTELLIGENCE
JOINT ECONOMIC COMMITTEE
Democratic Policy Committee

February 4, 1999

The President
The White House
Washington, D.C. 20500

TD

FEB 10 2000

Dear Mr. President:

I am concerned about the proposal to bring a federal lawsuit against the nation's tobacco manufacturers. When you first announced this approach during the State of the Union, I thought such a suit might provide a way to bring all of the parties to the negotiating table to resolve the uncertainties which still surround tobacco production in the United States. As you know, many Virginians rely on tobacco for their livelihood, from manufacturing workers to growers to dock workers. Beginning with the comprehensive settlement announced on June 20, 1997 and continuing until today, these workers, growers and their families have suffered enormous upheaval and uncertainty.

I'd like to find a way to help alleviate this upheaval and give these families some certainty, and I've concluded it is likely that the lawsuit would create further instability. For this reason, I'd like to urge you not to initiate such a federal legal action.

The states successfully sued the tobacco companies under various theories of recovery, including Medicaid reimbursement, consumer fraud and antitrust violations. The federal government, apart from asserting some claim under the state's Medicaid recovery, does not appear to have a similar obvious basis for a suit. In the past, the position of the Justice Department has been that the federal government does not have the authority to sue manufacturers of a legal product such as tobacco. This position, I understand, was based on a lengthy internal memorandum produced several years ago. I understand further from an article in the *New York Times* on January 21, 1999, that another memorandum was prepared by outside counsel that reaches the opposite conclusion and asserts that the federal government does have a right to sue. Having a copy of these two documents would assist me in understanding exactly what caused the Justice Department to reverse its original position.

In the hope of avoiding this federal litigation, I would like to request copies of these two documents as soon as possible.

Sincerely,

Charles S. Robb

Charles S. Robb

State Office:

The Ironfronts, Suite 810
1071 East Main Street
Richmond, VA 23219
(804) 771-2221

Regional Offices:

Dominion Towers, Suite 107
888 Waterside Drive
Norfolk, VA 23510
(757) 441-9124

First Union Bank Building
Main Street
Clintwood, VA 24228
(804) 828-4104

First Citizens Bank Building
830 Main Street
Derryville, VA 24841
(804) 791-0330

B. B. & T. Bank Building
310 First Street, SW, Suite 102
Roanoke, VA 24011
(540) 985-0103



Congress of the United States

Washington, DC 20515

February 3, 1999

The Honorable William J. Clinton
The President
The White House
Washington, DC 20500

FEB 10 11:50

Dear Mr. President:

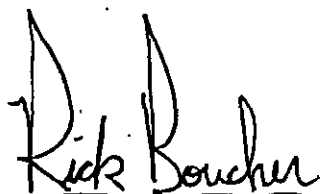
We are writing to express our serious concerns regarding your proposal to initiate federal litigation against the tobacco industry and the devastating effect it would have on tobacco farmers and their communities, communities which are already reeling from the events of the past year.

Mr. President, your proposal would deal a crippling blow to farmers and communities throughout the Southeast who are dependent upon the income which tobacco farming provides. Currently, there is no other single crop that can match the profitability of tobacco per acre for these small farmers. Not only are profitable alternatives unavailable, most farmers do not have at their disposal the acreage necessary to cultivate other crops in the quantities needed to achieve a comparable profit margin. Often, these small tobacco allotments provide the difference between being able to keep or having to sell the family farm.

Earlier this week, the United States Department of Agriculture announced that the burley tobacco quota for the upcoming growing season will be down by 28.8%. This large cut indicates the extent to which tobacco farmers are bearing the brunt of the costs of the settlements reached between the tobacco companies and the states. Continued attempts by the federal government to attack the tobacco industry will surely end tobacco farming as a way of life for thousands of small farmers, with serious repercussions for their families and their communities.

In light of this reality, we are vigorously opposed to your proposal to file suit on behalf of the federal government against the tobacco industry. Such action would hurt the most those people whom you have pledged to protect, namely the small tobacco farmer. We hope that you will reconsider your proposed course of action and instead turn your attentions to finding ways to help small farmers survive in the 21st Century.

Sincerely,



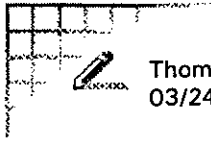
Rick Boucher
Member of Congress
9th District - Virginia



William L. Jenkins
Member of Congress
1st District - Tennessee



Van Hilleary
Member of Congress
4th District - Tennessee



Thomas L. Freedman
03/24/99 12:30:59 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Mary L. Smith/OPD/EOP
Subject: Tobacco Farmer Gratitude

Rod Kuegel (KY burley) called to say the following: As you recall, PM was getting ready to announce that it would move from buying tobacco through the quota system to buying it via direct contract with the farmer. This would have put the farmer directly under the thumb of the company and destroyed the quota system. But Phillip Morris, unexpectedly, did not announce this move. Rod's explanation? He says the companies knew about our meeting (the tobacco farm leaders coming to the WH) and feared creating an unholy alliance for new taxes -- so they backed off. Rod suggests another meeting to further the buzz and to discuss any GATT ideas we have.

Congress of the United States
Washington, DC 20515

FEB 1 11:30

January 26, 1999

The Honorable William J. Clinton
The President
The White House
Washington, D.C. 20500

Dear Mr. President:

For the second consecutive year, your words of concern about tobacco farmers during your State of the Union Address represented a significant gesture all across tobacco country. It must be recognized, however, that for the second consecutive year, you have embraced an initiative that, if carried out, would result in devastation for tobacco farmers, their families, and their communities throughout the tobacco-producing states of this nation. Just as enactment of the proposed tobacco legislation in the United States Senate during the 105th Congress would have ended tobacco production as a means to make a living for thousands of farmers across the Southeast (by eliminating much of the market for their crop), so too would the most devastating impact of your proposed federal litigation against the tobacco industry be felt on the farm.

Let there be no doubt, Mr. President, your proposal would be a death blow to farmers, agribusinessmen, and communities throughout the Southeast. It is a well-documented fact that tobacco farmers do not have at their disposal the acreage necessary to cultivate other crops in the quantities needed to achieve a profit comparable to that which is generated by tobacco -- a profit that is already being squeezed to razor-thin levels as a result of policies, initiatives, and decisions over which farmers have no control. Continuing to jeopardize the availability of the market for their crop through attacks by the federal government on the tobacco companies will not only end tobacco production, but it will also end farming as a way of life for thousands of honest, hard-working farmers throughout the southeastern United States. The ultimate impact on their communities and towns is unimaginable.

Therefore, Mr. President, although we seriously question the legal authority for your proposed federal lawsuit against the tobacco industry and have tremendous concerns about the precedent it may set for all private industry, we vigorously oppose your latest initiative primarily because of the devastating impact it will have on the very people you have stressed the need to protect -- tobacco farmers. By all accounts, and despite your stated desire to achieve both, those two objectives -- assaulting the tobacco industry and protecting tobacco farmers -- appear to be mutually exclusive policies.

Letter to the President

January 26, 1999

-- page 2 --

We remind you that by continuing to pursue initiatives that cripple the ability of the domestic tobacco industry from operating effectively in this country, you are effectively relegating the farm families that depend on that industry to the sidelines of the coming century and away from the economic prosperity and strength that you envision for all Americans. And if, as we believe, Franklin Roosevelt was correct in saying that American farmers, "are the source from which the reservoirs of our nation's strength is constantly renewed," then turning away from those farmers, their families, and their communities is poor policy for the nation as a whole.

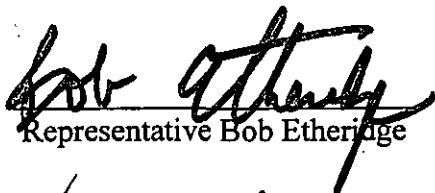
Sincerely,



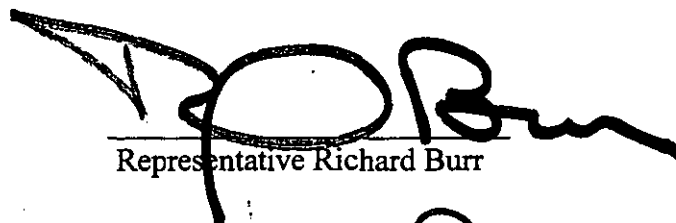
Representative Mike McIntyre



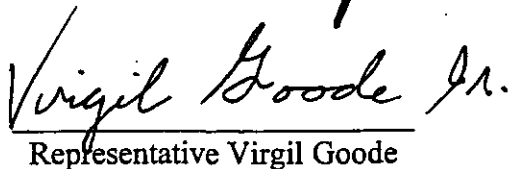
Representative Howard Coble



Representative Bob Etheridge



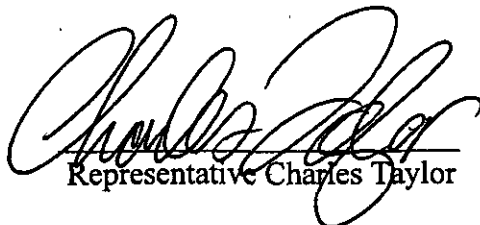
Representative Richard Burr



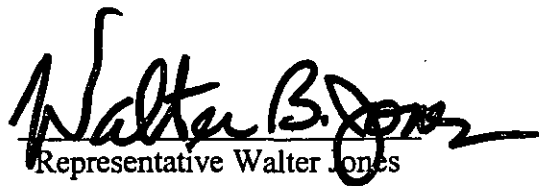
Representative Virgil Goode



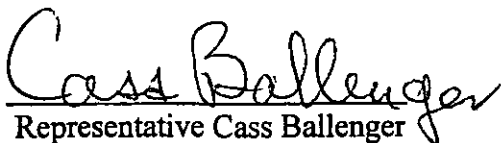
Representative Harold Rogers



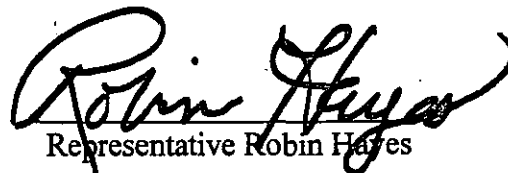
Representative Charles Taylor



Representative Walter Jones



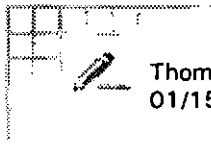
Representative Cass Ballenger



Representative Robin Hayes

cc: The Honorable Dan Glickman
The Honorable Janet Reno

Tob - or - farmers



Thomas L. Freedman
01/15/99 07:04:12 PM

Record Type: Record

To: Victoria A. Wachino/OMB/EOP

cc: Cynthia A. Rice/OPD/EOP, Joshua Gotbaum/OMB/EOP, Laura Emmett/WHO/EOP

Subject: Re: Tobacco language--PLEASE RESPOND ASAP

What do you think of the following on your three changes? (full paragraph below).

1. I'd definitely keep "protecting" farmers in the paragraph. It's in the headline anyway and the President has used this phrase beginning with his first announcement in 9/97.

2. I changed the language to the OMB version on "looks forward."

3. On "financial well-being" -- The President said "well-being" in his 9/97 announcement. I think ensuring "financial security" is fine, maybe even stronger -- but not consistent with our past commitment language.

Protect farmers and farming communities. The Administration remains committed to protecting tobacco farmers and their communities, and is monitoring closely on-going efforts by state, farmer, and industry representatives to provide funding and purchase commitments to tobacco farmers. The Administration will work with all parties, as needed, to ensure the financial well-being of tobacco farmers, their families, and their communities.



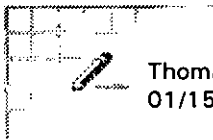
Cynthia A. Rice

01/15/99 04:13:46 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP
cc: Thomas L. Freedman/OPD/EOP
Subject: Tom's reaction to OMB's Proposed Revised Farmers Language

----- Forwarded by Cynthia A. Rice/OPD/EOP on 01/15/99 04:14 PM -----



Thomas L. Freedman
01/15/99 03:35:06 PM

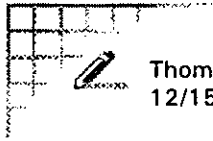
Record Type: Record

To: Cynthia A. Rice/OPD/EOP
cc:
Subject: Re: OMB's Possible Revised Bullet for Tobacco Budget Language

1. OMB's is more cryptic and has less sympathetic rhetoric for farmers. I think this brevity will be less reassuring to farmers. Also, it doesn't mention that we are watching what is going on and doesn't imply we will continue to fulfill the commitment we made depending on the outcome. But Bruce seemed to agree in our staff meeting that our line is that we are a backstop for farmers depending on the outcome of their negotiations.

2. OMB only mentions purchase commitments explicitly: a.) there might be some legal issues about us saying that our main budget plan is to pressure private companies to enter into certain contracts with other private entities b.) the purchase commitments is not the chief way we have ever promised to help farmers, to emphasize it now will signal we are backing away from our general commitment to be a backstop farmers and moving to just this.

Tobacco farmers

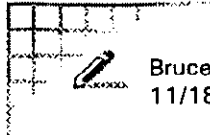


Thomas L. Freedman
12/15/98 05:07:53 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Laura Emmett/WHO/EOP, Mary L. Smith/OPD/EOP
Subject: Tobacco Farmers

USDA will put out a release late today saying the companies will buy 103 million pounds of the '97 crop. That means the quota for next year will be a 17% decline from last year. The majority (70%) will be bought by Phillip Morris. the companies will receive a 15% discount. The companies -- PM, RJR, and B & W -- will commit to purchase intentions of 475 million a year for the next five years. The 17% quota decline includes a 3% discretionary decision by the Secretary.



Bruce N. Reed
11/18/98 10:18:25 AM

Record Type: Record

To: Thomas L. Freedman/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc:
Subject: companies & farmers

Tom, we need to find out what's going on here:

Tobacco firms preparing
growers compensation plan

Wednesday, November 18, 1998

BY PETER HARDIN
Times-Dispatch Washington Correspondent

WASHINGTON -- The tobacco companies are nearing completion of a plan to compensate growers in the event a \$206 billion national tobacco settlement is approved, a leading tobacco representative said yesterday.

"The companies are meeting every day to come up with the right numbers," said lawyer J. Phil Carlton of North Carolina.

"We are in the process of working up a concrete plan that we will take to the [tobacco-state] governors," he said.

"I would anticipate we'll be meeting with those governors around the first week of December and be prepared to roll [a plan] out in a very specific way," Carlton said.

On Monday, Carlton talked with tobacco-grower representatives in a conference call, outlining some of the companies' ideas.

"We want to be certain that for the next eight, 10, or 12 years, whatever is ultimately decided, that the grower community does not have to suffer financially as a result" of the proposed settlement, Carlton explained during a phone interview yesterday.

Although Carlton would not discuss any dollar amounts being considered, he said the compensation plan would be "substantial" and would "not [be] subject to the legislative process. It's private money. Not a grant to the government."

The tobacco companies are considering a plan to have each affected

governor form a committee or board to handle distributing the grower payments.

Carlton, a retired North Carolina Supreme Court justice representing the companies, also has been in touch with tobacco-state governors, including Virginia's Jim Gilmore.

The multi-state settlement announced Monday would not make payments to growers. But it requires that the industry and the leaf-producing state officials meet within 30 days to discuss how to compensate farmers for declining tobacco demand.

Andrew Q. Shepherd, a Lunenburg County, Va., tobacco grower who listened to the conference call, said he thought the tobacco companies were heading in the right direction.

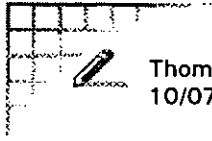
But he'd like growers to know a lot more before Virginia decides whether to sign on to the accord, said Shepherd, a vice president of the Flue-Cured Tobacco Cooperative Stabilization Corp., based in Raleigh.

States face a deadline Friday for deciding whether to join the proposed pact, and the tobacco companies are expected to indicate by Monday whether enough states are aboard to seal the 25-year deal.

Virginia, a leading tobacco-growing state, produces leaf with annual sales of nearly \$200 million.

Not including any side agreement that is crafted to protect growers, the state would receive about \$4 billion over 25 years from the tobacco companies if it signs.

Tob - nr - James



Thomas L. Freedman
10/07/98 06:25:04 PM

Record Type: Record

To: Elena Kagan/OPD/EOP, Bruce N. Reed/OPD/EOP
cc: Laura Emmett/WHO/EOP
Subject: Tomorrow am meeting

My updates are just updates of my note yesterday:

1. The Administration has officially said we will veto the ag. approps bill, passed yesterday, because the disaster provisions are "totally inadequate."
2. Rep. Etheridge's (D-NC) staff is still pushing the idea of lifting the ban on US government involvement in promoting exports of tobacco leaf. They say Etheridge is still planning on calling Erskine very soon. He will likely ask Erskine for the Administration to at least stay neutral. They continue to say they are faxing the language they are asking Glickman to agree to, Dallas has said Glickman wouldn't do it without WH sign off.

Is bill next?

MIKE MCINTYRE
7TH DISTRICT, NORTH CAROLINA
COMMITTEE ON AGRICULTURE
SUBCOMMITTEES:
RISK MANAGEMENT AND
SPECIALTY CROPS
GENERAL FARM COMMODITIES
COMMITTEE ON NATIONAL SECURITY
SUBCOMMITTEE:
MILITARY PROCUREMENT

Congress of the United States
House of Representatives
Washington, DC 20515-3307

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FAX COVER SHEET
FROM THE OFFICE OF
CONGRESSMAN MIKE MCINTYRE
U.S. HOUSE OF REPRESENTATIVES

PLEASE DELIVER TO:

NAME: Erskine Bowles
OFFICE: _____
TELEPHONE: _____
FAX: (202) 456-1907

DATE: October 9, 1998
TOTAL PAGES: 2
COMMENTS:

*Thanks for your attention to these
important matters!*

cc:

Bruce Reed
Stein
Lew/Matthews
John

10/9/98

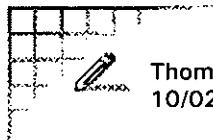
Per your conversation with Congressman McIntyre:

(1) Clarifying language regarding FDA funding (current \$34 million plus possible addition of \$100 million) for the purpose of regulating tobacco -- presumably for the sole purpose of implementing FDA regulations on the sale of tobacco products to minors (pending appeal).

“None of this funding is to be used to monitor or regulate the growing, cultivating, or curing of raw tobacco. Furthermore, this authority should remain exclusively with the United States Department of Agriculture.”

(2) Thank you for your willingness to speak with Senator Stevens to convey the Administration's acceptance of extending GSM-102 trade provisions to tobacco leaf as a provision in the omnibus bill.

Tob - or - farmers



Thomas L. Freedman
10/02/98 03:15:22 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP, Mary L. Smith/OPD/EOP
cc: Laura Emmett/WHO/EOP
Subject: Tobacco news

Etheridge of NC has called USDA about allowing the government to help promote leaf exports while maintaining a ban on helping finished tobacco. He was thinking of using the approps. process. USDA will say we can't support that.

In the anti-trust case, the US attny has issued subpoenas in SC, NC, GA and the companies have now resumed buying large shares of tobacco (they are buying 98% of the market up from 73%).

Tob - ser - farmers

SPECIAL

Total Pages: 4

LRM ID: MLG194

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Wednesday, August 26, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: *E. Holly Fitter*
E. Holly Fitter (for) Assistant Director for Legislative Reference

OMB CONTACT: Michael L. Goad

PHONE: (202)395-3857 **FAX:** (202)395-5691

SUBJECT: AGRICULTURE Report on HR3437 Tobacco Market Transition Act

DEADLINE: 10:00 AM, Wednesday, September 2, 1998

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The proposed report does not specifically address the provisions of the bill, some of which could impact your agency. We therefore request your agency's views on both the report and the bill. If additional time is needed to prepare your agency's views on the bill, please contact this office. If you do not respond by the deadline, we may assume that you have no comment on either the proposed report or the bill.

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LRM ID: MLG194 SUBJECT: AGRICULTURE Report on HR3437 Tobacco Market Transition Act

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Michael L. Goad Phone: 395-3857 Fax: 395-5691 Office of Management and Budget Branch-Wide Line (to reach legislative assistant): 395-6194

FROM: _____ (Date) _____ (Name) _____ (Agency) _____ (Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

- ___ Concur
___ No Objection
___ No Comment
___ See proposed edits on pages _____
___ Other: _____
___ FAX RETURN of ___ pages, attached to this response sheet



**DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250**

**Honorable Robert F. Smith
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001**

Dear Bob:

This is in response to your request for the Department of Agriculture's (USDA) views on H.R.3437, a bill "To provide market transition assistance for quota holders, active tobacco producers, and tobacco growing counties, to authorize a private Tobacco Production Control Corporation and tobacco loan associations to control the production and marketing and ensure the quality of tobacco in the United States, and for other purposes."

Like several Senate and House bills, this bill provides payments to tobacco marketing quota holders and tobacco farmers and provides for a long-term community revitalization program to support communities in tobacco production areas. These provisions would add needed funds to traditional tobacco producing areas to assist in the transition from a long standing Federal tobacco program to a Federally-chartered corporation. However, by abolishing the current program, many uncertainties would exist during this transition period while the corporation adjusts to controlling tobacco marketings, implementing quality assurances, and establishing tobacco price support levels.

While USDA shares the bill sponsors' concerns about long-term transition for tobacco quota holders and tobacco farmers as demand for U.S. - grown tobacco declines, the Administration does not support abolition of the current program or establishment of a private tobacco production control corporation. Rather, the Administration supports a continuation of the current program with transition payments and buyouts similar to those set forth in S. 1415.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administrations's program.

Sincerely,

**DAN GLICKMAN
Secretary**

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. fax	Phone No. (Partial) (1 page)	08/05/1998	P6/b(6)

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Elena Kagan
OA/Box Number: 14367

FOLDER TITLE:

Tobacco - Tobacco Settlement: Farmers [1]

2009-1006-F
rc89

RESTRICTION CODES

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

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.

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

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
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- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Tob - sec - farmers

FACSIMILE MESSAGE

From: *Flue-Cured Tobacco Cooperative Stabilization Corporation*
P.O. Box 12300-2300
Raleigh, NC 27605
Telephone: 919-821-4560
Fax: 919-821-4564

SENT BY: Arnold Hamm

DATE: 8/5/98 PAGE 1 OF 15

TO: Tom Freedman

ATT: Thursday's presentation

SUBJECT: _____

Tom:

[001]

Following are hard copies and a narrative of the short presentation. We will be staying at the Capitol Holiday Inn 202-479-4000 and I will have my cell phone on, P6/(b)(6). There seems to be some question as to whether or not an overhead projector and screen will be available. Anything you can do to help grease the wheels would be appreciated. I will have 2' x 3' placards in the event overheads don't suit, so I'll at least need an easel. Talk with you later.

Arnold

The Loss Of Farm Income and Tobacco Farmers In The Southeast

I. The Looming Economic Crisis In The Rural Southeast

- slide 1. Adjusted for inflation tobacco prices, production costs and price support averages have caused tobacco farmers to take drastic measures to remain viable.
- slide 2. This has forced tobacco farmers out of business and lead to a consolidation of tobacco farm size for remaining tobacco farmers.
- slide 3. The threat of tobacco industry litigation and legislation has caused US cigarette manufacturers to conservatively manage stocks by lowering purchases - the economic effect on flue-cured tobacco producers is devastating.
- slide 4. Not only are tobacco farmers as a whole at economic risk - but beleaguered Black and limited-resource (less than \$25,000 household income) tobacco farmers are even more vulnerable.

2. Cigarette Manufacturers Make Changes That Affect Tobacco Farmers

- slide 5 & 6. Cigarette manufacturers have steadily increased flue-cured tobacco imports despite promises in the 1980's to limit imports.
- slide 7. Cigarette manufacturers have decreased their on hand stocks of domestic flue-cured tobacco forcing more farm tobacco to be placed under loan.

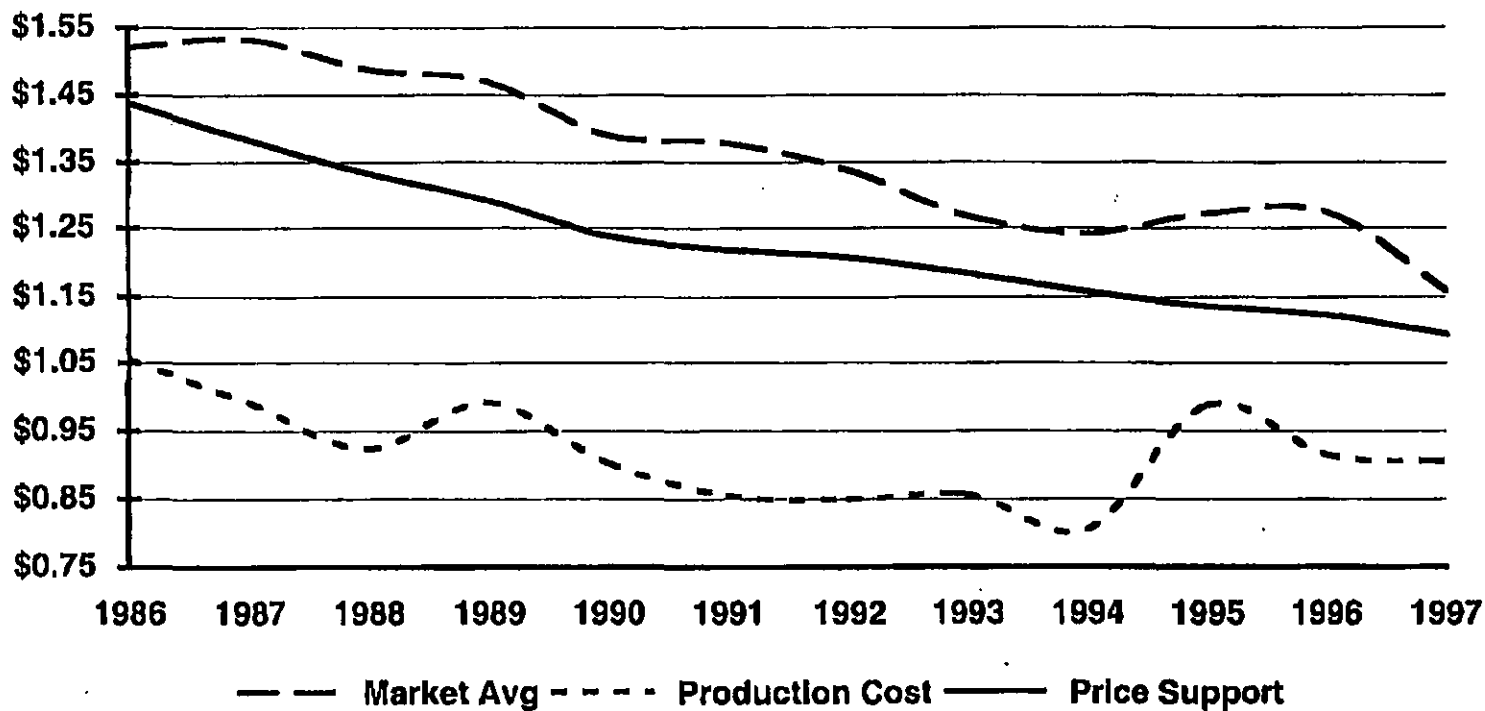
3. 1999 Tobacco Quota Scenarios and Possible Remedies

- slide 8. 1999 Flue-Cured Tobacco Quota Scenarios. Declining quotas threaten economic viability in general, threaten the viability of the tobacco program thus increasing economic hardship due to rising assessments.
- slide 9. US cigarette manufacturers average use of domestic flue-cured tobacco has averaged 545 million pounds annually over the past 4 years.

- slide 10. Domestic cigarette manufacturers could prevent an economic disaster in the Southeast by purchasing from the market and loan inventory approximately 550 million pounds before December 1, 1998 and slightly increasing 1999 purchase intentions.
- slide 11. We're not asking cigarette manufactures to buy more tobacco than they need, we're just asking that they buy more US tobacco.
- slide 12. Keeping the flue-cured tobacco quota from decreasing in 1999 is only a stop gap measure, the long term solution lies in compensating tobacco quota owners and tobacco farmers for their investment. Whether compensation is negotiated with State Attorneys General and cigarette manufacturers or legislated in Congress is unimportant - just as long as it is done. Otherwise the rural South may suffer an economic calamity not experienced since the 1930's.

US Flue-Cured Tobacco Market Average, Production Costs And Price Support Average

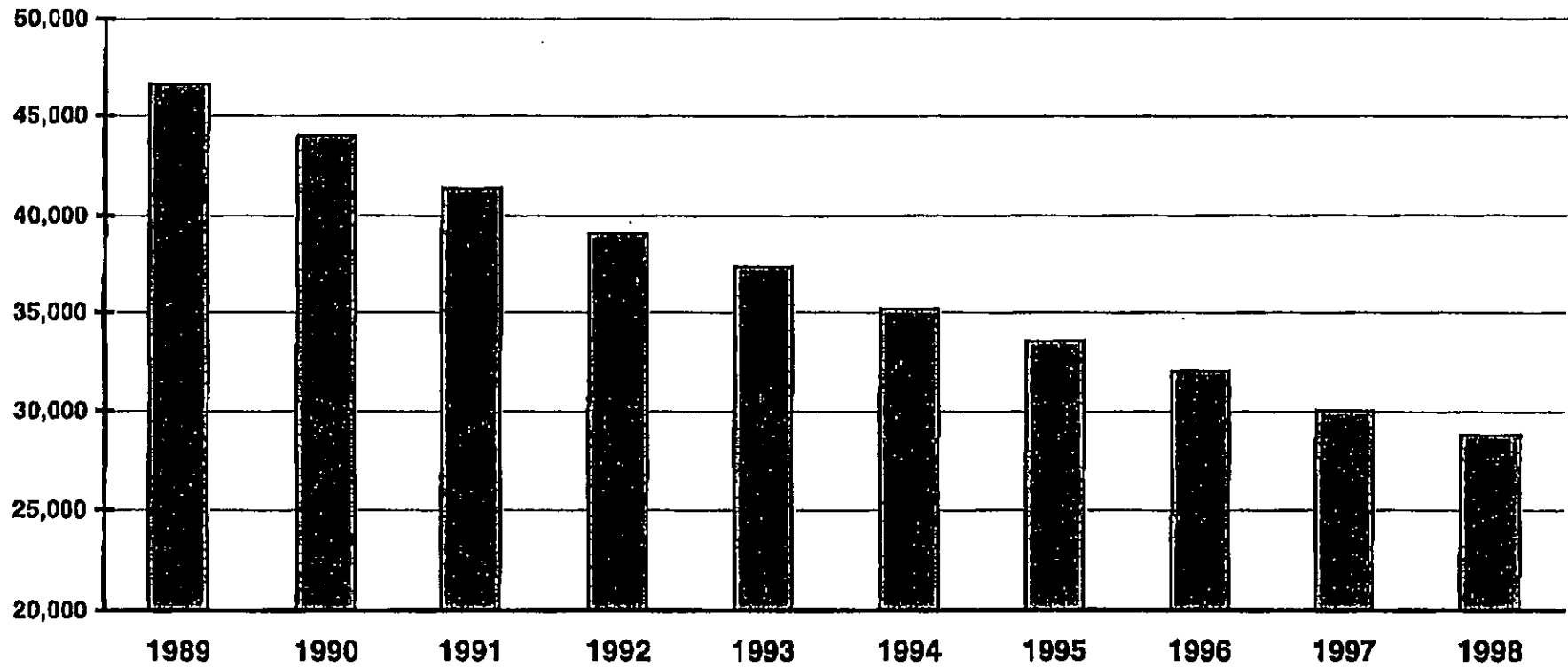
(1986 Dollars)



Sources: Tobacco: Situation and Outlook Report, various editions and U.S. Labor Department Statistics

08/05/98 10:51 0919 821 4564 + + + DOMESTIC POLICY 00004/013

Total Flue-Cured Tobacco Quotas Designated



Source: USDA-FSA Flue-Cured Designation Data

08/05/98 10:52 0919 821 4884 777 PUBLIC 10/11/11 08/05/98

Projected Flue-Cured Tobacco Farm Income Analysis 1997-1999

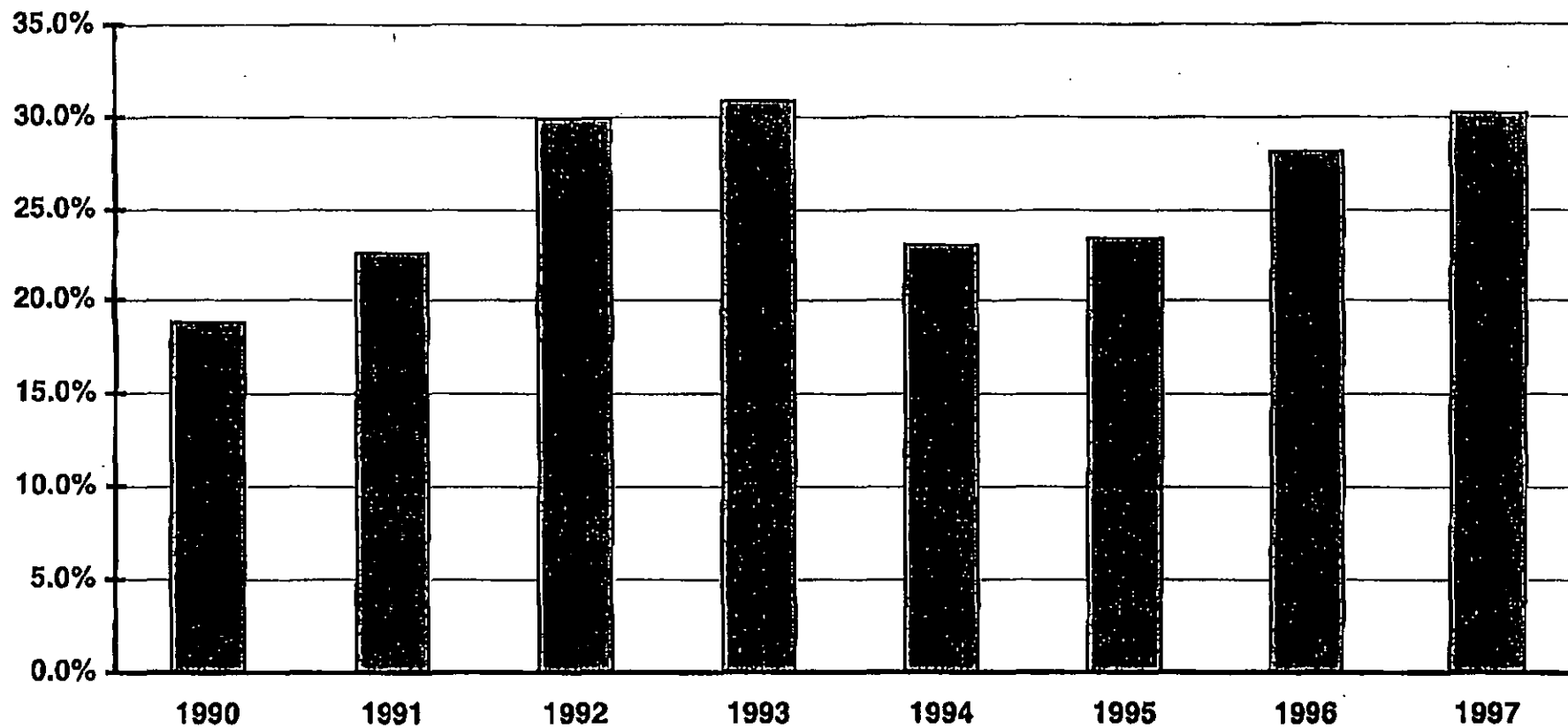
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Marketings (million lbs.)	1,014.3	791.2	632.9
Decrease of Marketings from 1997		-22.0%	-37.6%
Market Average (\$/lb.)	\$1.72	\$1.70	\$1.70
Gross Income (billion \$)	\$1.749	\$1.345	\$1.076
Decrease of Gross Income From 1997		-23.1%	-38.5%

Individuals At Risk

- **1997 Flue-Cured Tobacco Quotas = 42,049**
 - **In many cases, quotas are owned by multiple people, 1996 = 113,012**
 - **Many tobacco quotas are consolidated into one farm serial number**
- **Blacks and other minorities in the flue-cured region are more dependent on tobacco for income**
 - **Approximately 16% of all Black farm operators in the flue-cured region depend on tobacco**
 - **Approximately 28% of all American Indian farm operators depend on tobacco**
 - **The number of minority farm operators who are classified as limited-resource or socially disadvantage is disproportionate to total farm operators**

Source: Characteristics and Risk Management Needs of Limited-Resource and Socially Disadvantaged Farmers, R. Dismukes, J.L. Harwood, S. E. Bently. Commercial Agricultural Division, Economic Research Service and Risk Management Agency, USDA, Bulletin No. 733, Appendix D and USDA-FSA

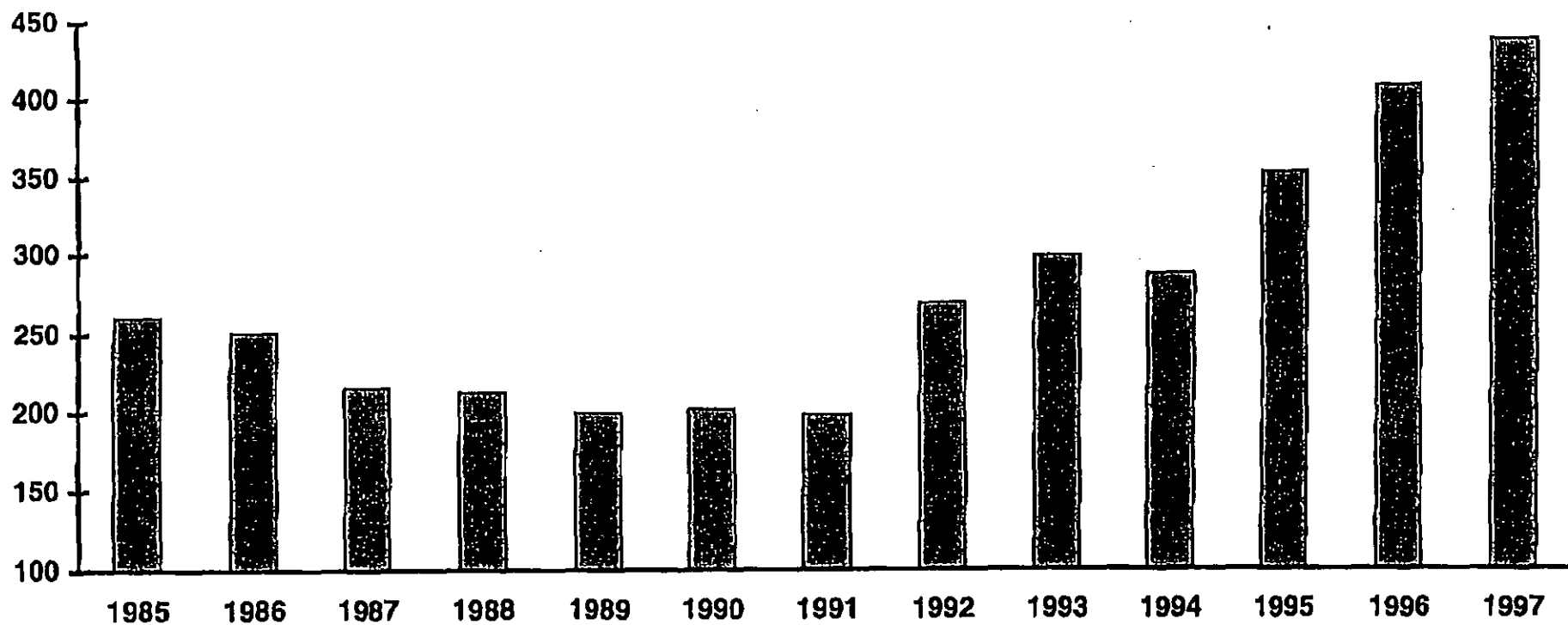
Percent Foreign Flue-Cured In US Cigarette Blend



Sources: TOBACCO Situation and Outlook Report, TBS 239, table B1, page 35, September 1997 and estimates by Tom Capehart

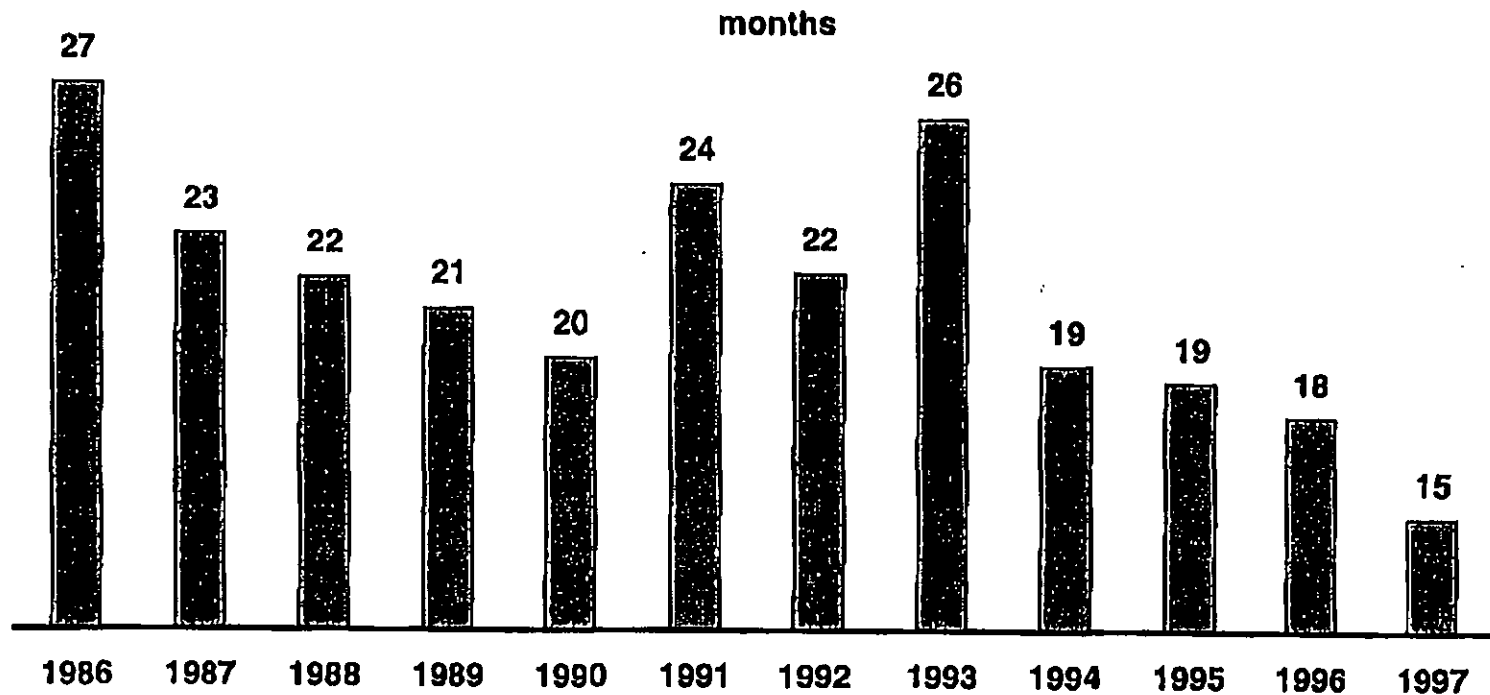
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08/05/98 10:53
0819 821 4564

Imported Foreign Grown Flue-Cured Cigarette Manufacturer Stocks 1985-1997 (million pounds)



Source: TOBACCO Situation and Outlook Report, TBS 241, table 14, page 14, April 1998

US Cigarette Manufacturers' On Hand Supply Of Domestic Flue-Cured Tobacco As Of July 1



Source: TOBACCO Situation and Outlook Yearbook, TBS 240, Table 18, page 29, December 1997 (stocks-use ratio converted to months)

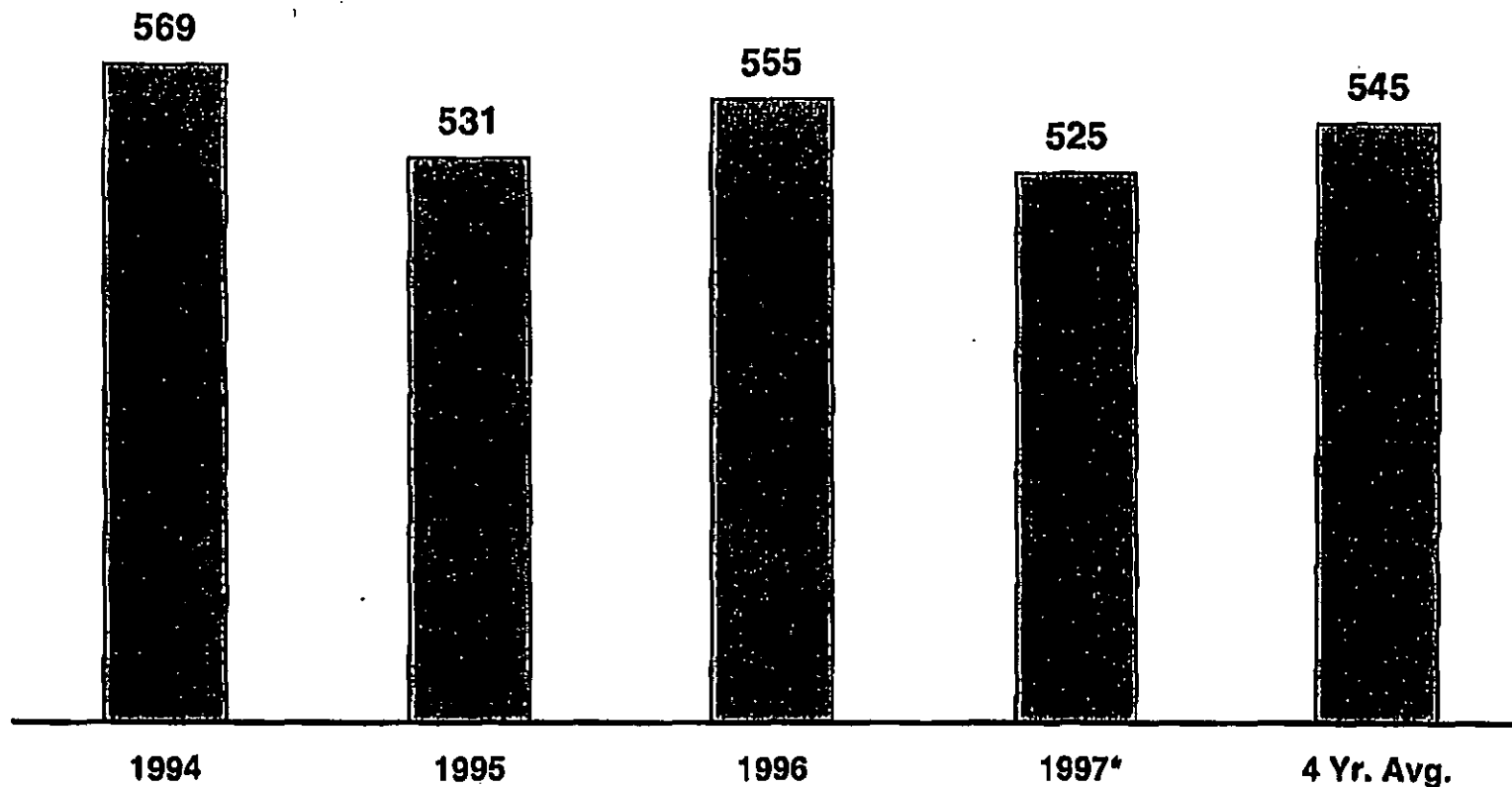
1999 Flue-Cured Basic Quota Based On Various 1998 Loan Receipts And Theoretical NNC Assessments

Domestic Purchase Intentions*	455	455	455	455
3 Year Export Average (est.)	360	360	360	360
Current Reserve Adjustment	-61	-61	-61	-61
Estimated 1998 Loan Receipts	<u>-70</u>	<u>-100</u>	<u>-150</u>	<u>-200</u>
1999 Basic Quota	684	654	604	554
Percent Change From 1998	-15.4%	-19.1%	-25.3%	-31.5%
Theoretical NNC Assessment**	(\$0.10)	(\$0.15)	(\$0.25)	(\$0.36)

* 1998 domestic purchase intentions used

** Theoretical 1999 NNC assessments are based on CCC's fear of tobacco program collapse

1994-1997* Domestic Flue-Cured Cigarette Manufacturing Disappearance (million pounds)



Sources: TOBACCO Situation and Outlook Report, TBS 239, table B1, page 35, September 1997 and 1997* estimations by Tom Capehart

How US Cigarette Manufactures Can Prevent An Economic Disaster In The Flue-Cured Producing Area

1998 Marketing Scenario

1999 Flue-Cured Quota Scenario

	mil. lbs.	mil. lbs.	
1998 Basic Quota	807	485	1999 Domestic Purchase Intentions
Domestic Purchases	-500	360	3 Year Export Average
Export Purchases	<u>-275</u>	<u>-42</u>	Reserve Adjustment
Loan Receipts	32	803	1999 Basic Quota
Current Loan Inventory	181		
Total Loan Inventory	213		
Manufacturer Loan Purchases	-50		
Ending Loan Inventory	163		
1999 Reserve Level	-121		
1999 Reserve Level Adjustment	-42		

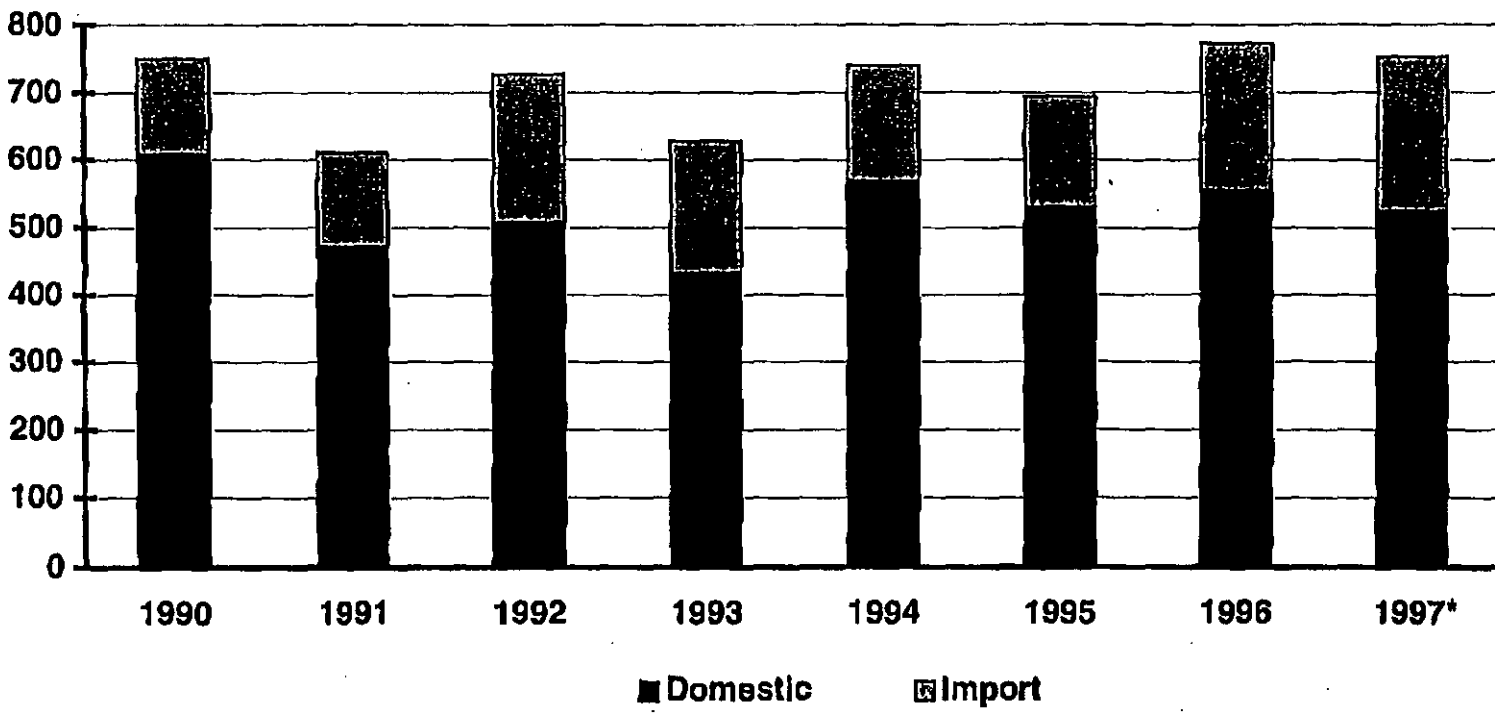
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US Manufacturing Use Of Foreign and Domestic Flue-Cured Tobacco (million pounds)



Source: TOBACCO Situation and Outlook Report, TBS 239, table B1, page 35, September 1997 and estimates by Tom Capehart

Immediate Action

- **Manufacturers Purchase 550 millions pounds US flue-cured by 12/1/97**

Long Term Solutions

- **Compensation for assets (value of quota and capital investments)**
- **Either legislated or negotiated**
- **Tobacco is the only farm commodity that local, state and federal governments have tried to eradicate**

Tobacco - farmers

MEMORANDUM

TO: ERSKINE BOWLES

FROM: CONGRESSWOMAN EVA M. CLAYTON

DATE: AUGUST 5, 1998

RE: TOBACCO FARMERS MEETING

What is the number 1 issue at hand?

Avoid a drop in tobacco quota for the 1999 growing season. The repercussions of quota drop anywhere in the neighborhood of last year's 17% cut are well-known -- severe farm income loss and a decline in the number of small farmers, especially the limited resource farmers that Secretary Glickman and the administration have worked so hard to protect.

How do we avoid a drop in quota for the 1999 growing season?

Two ways: (1) The companies must fulfill their 1998 crop purchase intentions and perhaps purchase above those intentions; and (2) the current stocks in the stabilization pool (about 190,000,000 pounds after last year) must be thinned significantly.

How can the administration help in making these two scenarios happen?

(1) *Companies:* early indications from the markets are that the companies are going to make good on their repeated assertions to tobacco-state members of Congress and fulfill their 1998 purchase intentions. The administration can weigh in on this matter by stressing to the companies how important it is to buy up the 1998 crop. The administration can also indicate to the companies that it is equally important to consider going above their domestic purchase intentions -- substituting U.S. tobacco for the foreign-grown leaf they have been importing at increasing rates the past few years.

The administration has at its disposal a tool to urge this consideration -- duty drawback under the tariff rate quota system. Under duty drawback, the tobacco companies are able to re-coup almost all (98%) of the penalties assessed to them for surpassing an agreed-upon level for imports for a given year, so long as the imported tobacco is packaged and exported for foreign consumption. The administration has previously indicated a willingness to investigate this system which has afforded tobacco companies the ability to purchase more and more foreign-grown leaf at the expense of domestic tobacco which carries a higher cost due to the tobacco program.

(2) *Stabilization stocks:* Last year's marketing season saw nearly 200,000,000 pounds of flue-cured leaf placed under loan, and that figure has increased during the first few weeks of the 1998 marketing season. As the amount of tobacco in the stabilization pool plays a role in determining yearly quota levels, it is as important to reduce these stocks as it is to ensure the current year's crop is purchased. Potential avenues of help from the administration: help facilitate an agreement between the companies and stabilization to sell the stocks below cost (using grower fees currently on reserve at stabilization to make up the difference) in exchange for the companies buying above their 1998 intentions; or packaging the stocks for sale overseas at a lower cost.

Without reducing the size of the stocks currently under loan, a sizeable quota drop is inevitable even if the companies buy their agreed to amounts of the 1998 crop

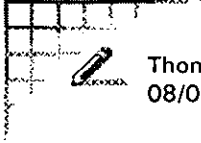
Other areas of assistance:

As it has been made clear by the leadership of the House, that any tobacco legislation presented this year will be severely limited in its size and scope, and therefore will not be a vehicle for significant grower compensation, pursuing previously debated tobacco farm legislation seems a moot issue.

All farmer bills (buy-out proposals, LEAF Act, etc.) emerged from a fear in the grower community about the future stability of tobacco production. Removing that fear eliminates much of the clamor for buy-outs or buy-downs as advocated in previous legislation. A way to remove this fear and uncertainty is to guarantee a minimum purchase level for domestic tobacco, at least until the 1996 farm bill is re-opened (2002 or sooner) and accommodations can be made for tobacco growers squeezed out of business by declining quota.

An agreement of this nature was legislated in the early 1990's, but dropped by the administration when faced with problems associated with GATT. Therefore, any future action guaranteeing a quota floor until a legislative fix can be achieved would have to come in the form of an agreement between the companies and stabilization. Administration support of such an agreement could help facilitate one.

Tobacco - Farmers



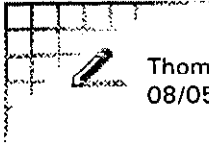
Thomas L. Freedman
08/06/98 09:31:42 AM

Record Type: Record

To: Kevin S. Moran/WHO/EOP, Elena Kagan/OPD/EOP, Bruce N. Reed/OPD/EOP
cc: Mary L. Smith/OPD/EOP
Subject: Tobacco update

Dallas called to say the Administration had sent a letter to China in April urging them not to put up false scientific barriers and that the time for talking was coming to an end. He'll bring a copy of the letter for Erskine.

Tob - rec - Farmers



Thomas L. Freedman
08/05/98 08:38:25 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Laura Emmett/WHO/EOP
Subject: Tobacco Meeting today

After you walked out, I pitched the idea that we suggest that if the farmers vote out the program we propose a windfall profits tax on the companies so that the money companies make because of the reduced price of tobacco would go back to tobacco farmers and their communities. Dallas liked the idea, and I think EBB did... Dallas thinks its pretty like the farmers will, in the next year, vote out the program if things continue this way.

What do you think?

THE WHITE HOUSE

WASHINGTON

August 4, 1998

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: BRUCE REED
LARRY STEIN

SUBJECT: MEETING WITH TOBACCO FARMERS AND REPRESENTATIVES

On Thursday, August 6th, you will meet with Democratic members of the North Carolina delegation and tobacco farmers from several states to discuss the unusually small amount of flue-cured tobacco the companies have been purchasing. We expect participants in the meeting to describe the magnitude of the flue-cured problem and urge the Administration to put pressure on the companies to purchase more flue-cured tobacco. The attached memo provides background on who will attend the meeting, describes their areas of concern, and suggests talking points.

In addition, Secretary Glickman's office has prepared a very useful status report on projected tobacco sales this year and next, which we have attached.

Who Will Attend (All Democratic members from North Carolina)

Rep. Eva Clayton
Rep. Bob Etheridge
Rep. David Price
Rep. Mike McIntyre
Rep. Bill Hefner
Rep. Melvin Watt

* Rep. Clayton's office has not finalized a list of farmers who will attend. We expect farmers from each member's district in North Carolina, as well as farmers from Florida, Virginia, and South Carolina. In addition, Bruce Flye, President of the Flue-Cured Stabilization Cooperative Association, will attend.

• We also have invited Dallas Smith of USDA who is an expert on tobacco programs; Flye specifically requested that Smith be present.

Background on Current Market Conditions

As you may know, when the five tobacco companies decline to purchase tobacco at the

set price, the farmers' cooperatives buy the tobacco and release it for sale at a later time when the market is more hospitable. Flue-cured tobacco markets opened in Florida on July 21 and opened in places further north in the two weeks since then. Initial sales have been very poor, with the cooperatives forced to buy 19 percent of the tobacco on sale, up from the normal levels of 5-10 percent. Markets in the "Old Belt" of Northern North Carolina and Virginia opened today, (August 4th), and we plan to update you on sales reports from there shortly before the Thursday meeting.

Last week, Flye and other farmer representatives met with Senator Faircloth in an unsuccessful effort to persuade him to pressure the tobacco companies to increase their purchases. The farmers say they hope to get a commitment by the companies to purchase 550 million pounds of flue-cured tobacco. The companies' publicly stated purchase intention is only 457 million pounds. Although the companies are required to buy only 90 percent of their formal purchase intention, they have indicated that they will buy the full amount this season.

The AGs' Settlement Agreement and Continuing Talks

As you know, the settlement agreement with the Attorneys General did not outline a plan to compensate farmers for the diminished domestic tobacco sales that might result from comprehensive legislation. The current negotiations, according to our best information, have barely touched on the issue of protecting farmers.

Legislative Background

In the event that a so-called skinny bill is introduced by Republicans in the House, we have worked with Democrats to make sure that their substitute bill contains provisions acceptable to farmers. It seems increasingly unlikely, however, that House Republicans will decide to introduce tobacco legislation.

Talking Points

- * **Discuss the scope and implications of the problem (the groups say they mostly want you to be aware of the problem):**

The markets have opened very poorly for tobacco farmers.

And the future is not good. When there are declines in purchases as USDA expects this year and next, USDA reduces the amount a farmer is allowed to market under the quota program. I know that USDA projects a possible 22 percent reduction in quota from the 1998 level for next year.

I also know that declining purchases mean a significant increase in costs to farmers. The more tobacco the cooperatives have to purchase, the greater the assessment on farmers.

All this hits farmers very hard, and reaches whole communities. It also hits minority farmers very hard (15 percent of flue-cured quota owners are African-Americans.)

* **Farmers have done nothing wrong.**

The President has repeatedly said tobacco farmers should not suffer in this process.

The tobacco farming community worked closely with us in trying to put together legislation that reduced youth smoking and protected tobacco farmers and their communities.

* **Ask what steps they suggest**

We will use whatever leverage we have to urge the companies to purchase 550 million pounds of tobacco this year. It should not be a partisan issue.

I know that Secretary Glickman is scheduled to go to North Carolina and meet with tobacco farmers on August 27, 1998 and will visit with Reps. Etheridge and Clayton and whatever the Administration can do, we will.

We will continue to urge the AGs' to include compensation for farmers in any agreement they formulate.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

INFORMATIONAL MEMORANDUM FOR ERSKINE BOWLES

FROM: Dan Glickman
Secretary of Agriculture

SUBJECT: Update on U.S. Tobacco

Tobacco is grown in 20 States. However, about 6 States, North Carolina, Kentucky, Tennessee, Virginia, South Carolina and Georgia, grow more than 90 percent of U.S. tobacco. I am tentatively scheduled to visit with Representatives Eva Clayton (D-1st, NC) and Bob Etheridge (D-2nd, NC) and tobacco farmers in Wilson, North Carolina, on August 27, 1998.

Flue-cured (grown mainly in North Carolina, South Carolina, Virginia, Georgia and Florida) and burley (grown mainly in Kentucky and Tennessee) are the major kinds of tobacco. Flue-cured and burley tobacco are both used in manufacturing cigarettes. Both kinds are under the price support-production control program administered by the U.S. Department of Agriculture. U.S. tobacco production is expected to be lower in 1998 than last year. The reduction is mainly in flue-cured tobacco. The 1998 flue-cured tobacco marketing season opened July 21 and will last through mid-November, The burley tobacco marketing season will open in late November and run through late February or early March.

1998 Tobacco Season

The 1998 tobacco marketing season opened recently amid considerable uncertainty. Hopes for national tobacco settlement legislation were dampened considerably when the full Senate could not agree, after 4 weeks of debate, on the comprehensive package of proposed legislation included in the McCain bill. This bill included compensation for quota owners, producers, tobacco communities, and special programs for limited resource farmers.

Although there is still a chance that a streamlined tobacco bill could be enacted this session of Congress, it probably would not include compensation for tobacco farmers and their communities. This combined with falling domestic demand for cigarettes, uncertain export demand, and the possibility of greater substitution of imported leaf for U.S. leaf could cause tobacco marketing quotas to be reduced and no-net-cost tobacco program assessments to increase.

The flue-cured markets opened in Georgia-Florida on July 21, in South Carolina-border North Carolina on July 28, eastern North Carolina on July 29, and Piedmont North Carolina-Virginia on August 4. After two weeks of flue-cured sales, it appears that loan receipts may be relatively large (15 to 20 percent of marketings) this season. Much of the early price support loan program receipts (some in excess of 25 percent of sales) were from 1997-crop farm carryover tobacco. As these tobaccos are sold, the percentage of loan receipts should decline. Prices may decline for the second year in a row. The potential decline in market price could have a significant impact on flue-cured producers' income since marketings will be down about 20 percent. Also, the decline in prices will have a negative impact on 1999 price support levels. Recent grower prices (two-thirds weight) are the most important component in setting the national average price support level; a cost-of-production index (one-third weight) is the other component.

INFORMATIONAL MEMORANDUM FOR ERSKINE BOWLES

Page 2

1999 Crop Year Outlook

National marketing quotas for flue-cured and burley tobacco for the 1999 crop will be set by totaling (1) intended purchases by domestic cigarette manufacturers from the 1999 crop; (2) average exports for 1996/97, 1997/98, and 1998/99 marketing years; and (3) an adjustment to maintain loan stocks at the specified reserve-stock level of 15 percent of basic quota, or a minimum of 100 million pounds of flue-cured or 50 million pounds of burley. The Secretary of Agriculture must set the national quota within 97 to 103 percent of the 3-component total.

The combination of anticipated declines in domestic cigarette consumption of 2 to 3 percent annually for the next several years, stable cigarettes exports, and increased substitution of imported leaf for U.S.-grown leaf could reduce manufacturer purchase intentions by 5 to 7 percent in 1999. This would result in 1999 flue-cured purchase intentions of about 430 million pounds and 400 million pounds for burley.

Stocks of imported flue-cured and burley tobacco are at record high levels. In addition, up to 333 million pounds of leaf can be imported annually at low duty levels under negotiated tariff rate quotas (TRQ). Imports of cigarette leaf tobaccos (excluding Oriental) which exceed the predetermined TRQ are subject to an import duty of 350 percent ad valorem, although a drawback provision allows most of the duty to be refunded if the imported leaf is re-exported as leaf or manufactured tobacco products such as cigarettes.

Leaf tobacco exports are down in 1997/98 because of larger world supplies and economic problems in Asian countries. During July-May, flue-cured exports are down about 15 percent and during October-May, burley exports are down 25 percent. This will likely result in a reduction in the export component of the 1999 flue-cured and burley quota formulas. The average export part of the formula might decline 20 to 25 million pounds for setting the 1999 flue-cured quota and 10 to 15 million pounds for setting the 1999 burley quota.

If 50-60 million pounds of flue-cured loan tobacco are sold before the 1999 national marketing quota is set, these sales would cause the loan inventory to equal the reserve stock level specified in the quota formula. Consequently, anticipated 1998 loan receipts of 150 million pounds could result in a 1999 flue-cured national quota of only 625 to 650 million pounds and a 22 percent reduction in quota from the 1998 level.

Likewise, if 30 million pounds of 1997 crop burley loan tobacco are sold before the 1999 quota is set, potential 1998 loan receipts of 200 million pounds (the net addition above the reserve stock level) could result in a 1999 burley national quota of only 460 to 480 million pounds and a 25 percent reduction in quota from the 1998 level.

Potential 1999 quota cuts coupled with reduced marketings and smaller incomes in the 1998 crop year will create hardships for all tobacco producers, but will be devastating to our minority and limited resource farmers (i.e., 15.3 percent of flue-cured quota owners are African-Americans and .7 percent are Native Americans).

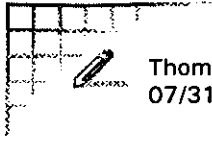
INFORMATIONAL MEMORANDUM FOR ERSKINE BOWLES

Page 3.

SUMMARY:

The sudden loss of a comprehensive national tobacco settlement has left tobacco quota owners, producers, and their communities with an uncertain future. Tobacco farmer uncertainties about demand for leaf and the future of their long standing tobacco program are almost surely greater now than ever before.

Tob - sec - farmers



Thomas L. Freedman
07/31/98 11:44:42 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Laura Emmett/WHO/EOP, Mary L. Smith/OPD/EOP
Subject: Tobacco farmers-- update

Sorry about the botched last message everyone. The companies have been buying very little of the farmers' tobacco in the early sales thus far, creating anxiety in their community. I was dropping a line to tell you that tobacco companies and farmers were on the hill yesterday reportedly meeting with Faircloth as they attempted to negotiate increases in future tobacco sales. The farmers feel they are in a very precarious position and would like to help push something.

Senator Robb's office called offering to sponsor something that would supplement an AG settlement -- such as the equivalent of an additional 40 cent per pack increase that would do FDA, counteradvertising, repay some federal health costs and, of course farmers.

Senator Ford's office suggests conveying to Easley that he should not be negotiating a settlement that does not include farmers. Ford tried putting together a deal including the tobacco states including \$20 billion for farmers over 25 years. Whatever figure we believe is right, they'd like the WH to convey that we think there should be money put aside to protect farmers as the markets decline.

Waxman

Cynthia and I had suggested to Waxman that in order to solve his problem (of looking for a no-cost provision they could add for farmers) Waxman consider including a domestic tobacco purchase requirement in their tobacco bill. E. Dye faxed over some language. USDA has now reviewed that language, says it looks fine in terms of making the companies buy domestic tobacco but as expected, would have serious GATT problems. They don't have any better alternative that comes at no cost. I would suggest that Waxman reach out to Etheridge and see what they suggest and if they would prefer this included in the bill.

(from USDA - Rairt hick - the - can)

Draft of Legislative Language to Implement LEAF-LUGAR Compromise

Not later than 6 months after the date of enactment of this Act, the Secretary of Agriculture shall develop and submit to Congress a legislative proposal which provides long-term economic assistance to tobacco farmers and tobacco dependent communities.

(a) **CONSULTATION.** -- In carrying out this subtitle, the Secretary shall consult with tobacco growers, warehousemen, governors of tobacco states, Congress and appropriate local officials. In addition, consideration should be given to public comments through the Administrative Procedures Act, including town hall meetings and other processes to receive input and proposals.

(b) **CONSIDERATIONS.** -- In developing such legislation, the Secretary shall consider:

- (1) Economic impact upon tobacco farmers and tobacco dependent communities of reduced tobacco consumption and changes in national tobacco policy effected by the National Tobacco Policy and Youth Smoking Reduction Act.
- (2) Long-standing federal and state policies to promote and support the cultivation of tobacco.
- (3) The impact of lower tobacco prices on public health and the achievement of the purposes of this act.
- (4) Fairness to non-tobacco commodity growers and agriculture dependent communities.
- (5) The needs of both burley and flue-cured tobacco growers and tobacco dependent communities.

(c) **ECONOMIC IMPACT.** -- To the extent practicable, the legislation shall:

- (1) Mitigate the economic impact of reduced tobacco consumption and changes in national tobacco policy upon farmers and tobacco dependent communities, including appropriate and cost-effective worker assistance and education, etc. Include common provisions from the "Long-Term Economic Assistance for Farmers Act" and "Tobacco Transition Act".
- (2) Provide for appropriate buy-out of tobacco quota
- (3) Help achieve the purposes of the "National Tobacco Policy and Youth Smoking Reduction Act".

(d) **LIMITATIONS.** -- The legislation, to maximum extent practicable, shall:

(1) Expend for the benefit of tobacco farmers and their communities, no more than \$25 billion over 25 years.

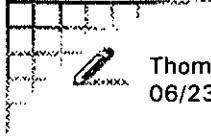
(2) Provide that termination shall not go into effect before seven years, if such legislation proposes to terminate the tobacco quota program.

(3) Provide for an annual review by the Secretary and expedited congressional consideration of termination legislation should the Secretary submit such legislation after 7 years and the quota program was not initially terminated.

(e) **EXPEDITED CONSIDERATION.**— (I do not know what is intended by this language).

(f) **FUNDING.**--The amounts reserved under the "National Tobacco Policy and Youth Smoking Reduction Act" shall remain available to implement the provision of this Act until expended.

Tob - RT - farmers



Thomas L. Freedman
06/23/98 11:27:16 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Mary L. Smith/OPD/EOP, Laura Emmett/WHO/EOP
Subject: rumor on tobacco and farmers

There is a rumor that Linda Smith will offer an amendment today to strike the crop insurance programs for tobacco farmers. Our farmers dislike this, but it would give the R's a chance to say they are leading the fight against government support of tobacco. Rumor that Durbin might do the same thing in the Senate later this week.

POTENTIAL COMPROMISE (from Lugar)

June 19, 1998

FARMER PAYMENTS

\$8/\$4

Make payments over three years but allow growers to elect receipt over longer period

PROGRAM

Price supports phased down and terminated after five years

Unlimited sale, lease & transfer with '99 crop; quotas terminated after three years

Following termination of quotas, allow individual state-run income support or transition programs; no mandatory production controls

PROGRAM COSTS

Cover as under Title XV

ECONOMIC DEVELOPMENT/EDUCATION

Increase Title XV amount to \$2.5 billion; program structure to be discussed

June 17, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
LARRY STEIN

SUBJECT: Talking Points for Telephone Calls to Senators Lugar & Ford re: Tobacco Bill Farmer Provision

Current Status

Senators Lugar and Ford have competing provisions relating to farmers that are each included in the tobacco bill. Senator Lugar's measure would end the tobacco program within 3 years and buy-out farmers at a cost of \$18 billion over those three years. Senator Ford's measure would continue the tobacco program, giving farmers the option of being bought out. It costs \$28.5 billion, but the cost is spread over 25 years. Late Tuesday, Senator Ford offered a motion to strike the Lugar provision from the bill and that motion is currently pending.

Senator Ford has previously communicated a possible compromise to Lugar: Ford would be willing to end the program in 15 years, offer the states the opportunity to institute state or regionally-run programs, scale back the cost of his program to \$22.5 billion, and accelerate payments to farmers as much as practicable. Senator Lugar said he did not want to accept a provision that would continue a production control program, even at a state level, unless there was a parallel free market that farmers could choose. This is unacceptable to Senator Ford who believes a free market cannot coexist with price controls. Senator McConnell has allied himself with Lugar, and has promised Kentucky voters that the \$18 billion will be forthcoming in three years. The continuation of the program and the speed of the payments are the key issues to resolve.

Talking Points for Call to Senator Lugar

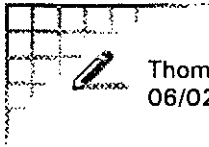
- * I know that you are deeply concerned about youth smoking and that you want the Congress to pass a comprehensive bill that will really do something about this problem.
- * I also know that you have strong and principled views about the farmers piece of this legislation and that you have worked hard on a proposal to protect tobacco farmers, while moving toward a free market system.
- * The problem now is that the farmers issue could hold up the whole bill. I think we need

to reach a compromise on this issue, so it is not divisive and does not give some senators a way to put the entire bill in jeopardy.

- * I understand that Senator Ford has suggested a possible compromise -- a proposal to terminate the program over a number of years, while permitting states to put some pricing measures in place on their own. I hope you will work with him to come up with a plan you both could accept.
- * If I or Secretary Glickman can be of any help in promoting a compromise approach, we would be very glad to do so. We all have a common interest in solving this problem and moving the bill forward.

Talking Points for Call to Senator Ford

- * I want to thank you for your work in crafting the LEAF Act and in trying to gain bipartisan support for the measure.
- * As you know, I have insisted that any comprehensive tobacco legislation protect tobacco farmers and their communities, and I have expressed strong support for your proposal.
- * I have just talked to Senator Lugar and urged him to move in your direction. We should be able to agree on an approach that keeps the federal program going for more than three years and allows states to pick up where the federal program leaves off.
- * I'd like you to work with Lugar to fashion a compromise. I think we can reach a compromise that will protect farmers and will be politically acceptable to you. We shouldn't let the Republicans use the farmers issue to kill legislation that they don't like for other reasons. If Secretary Glickman or I can assist you in any way, you should let us know immediately.



Thomas L. Freedman
06/02/98 04:19:38 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP, Mary L. Smith/OPD/EOP
cc:
Subject: Compromises on LEAF and Other Steps

Here is a menu of compromises:

1. Use LEAF but end the program in 15 years. (Senator Ford caught Dallas and I in the hallway and confidentially suggested he could go with this.) We need to see if we can get any committed votes with this, we are reaching out to Senate moderate R's.
2. Do the buy out in 7 years for quota holders who don't grow, but less money for other leasees etc. but who are getting permits. Dallas Smith and Keith have written this one up and I will red dot it over to you.
- 3 and 4. Either a state run program or a privatized program. Ford is drafting/has drafted this language. A state by state compact may have constitutional problems, a federalized program helps those who want to vote to end the governmental tobacco program, it may appear to be a double standard to some farm state Ds.
4. Reduce the size of the Ford package (no Pell grants etc.), give money to farm states in emergencies like the Dakotas, reduce the time of the buy out. Reducing the buy out helps with the Helms types, reducing the size of the Ford package helps with non-tobacco types. But it probably doesn't actually change votes and it costs money.

We are pretty close to actually winning LEAF, and very close to being confident about striking Lugar. Ford is talking to Daschle today about getting to go first, they are worried word of this plan will leak to Lott.

S.1415 Protects Tobacco Farmers and Advances Public Health

The Long-Term Economic Assistance for Farmer (LEAF) Act, sponsored by Senator Ford and Hollings and included in S.1415, contains critical protections for farmers and farming communities, to ensure that they are not adversely affected by comprehensive tobacco legislation. Key provisions of the LEAF Act include:

- **Necessary Funding**: The bill is supported by a wide variety of farming groups because it contains sufficient funds for tobacco farmers and their communities, \$6 billion over the next three years and continued funding over the next 25 years, including resources for crucial community assistance to help farmers and farming communities adjust to the reduced demand for tobacco that would occur under the bill. The funds would go toward: payments for lost tobacco quota; payments for sale of quotas; payments for community economic development block grants; a worker transition program; and higher education assistance programs.
- **Price Stabilization**: The LEAF Act maintains the price stabilization program, which for decades has offered security to tobacco farmers at no net cost to the government. The tobacco program also places limits on the amount of tobacco grown in the United States, winning it support from key public health groups like the Campaign for Tobacco-Free Kids.
- **Optional Buyout**: The bill gives farmers the option to have their quotas bought out.

In contrast to the LEAF Act, the alternative legislation sponsored by Senator Lugar, entitled the Tobacco Transition Act, ends the quota program and fails to protect farmers adequately:

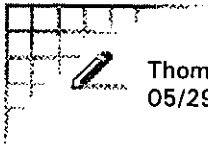
- **Would Require Drastic Cuts in Health Spending**: The proposal requires \$18 billion to be paid to farmers over a three-year period (FY1999 through 2002). If this new spending is added and state spending is kept the same, the bill's spending on health research and public health programs would have to be cut by 69 percent in those three years to make up the difference.
- **Increases the Amount of Tobacco Grown**: If there is no quota program, the amount of tobacco grown in the U.S. could increase dramatically. Maintenance of the tobacco quota program makes it possible to control the amount of tobacco grown in the United States. That is why public health groups, such as the Campaign for Tobacco-Free Kids, support maintaining a tobacco control program such as that advocated by Senators Ford and Hollings.
- **Hurts Family Farms**: Ending the quota program will destabilize prices and reduce margins, making it difficult for small farmers to survive. The bill will have a disproportionately adverse impact on minority farmers.

Lugar Bill Cuts Health Spending by 69 Percent

	NIH and Other Research	Public Health, including Cessation, Prevention, Education, and Enforcement
Total, FY 1999-2001		
Ford-Hollings	\$8.6 billion	\$8.6 billion
Lugar	\$2.7 billion	\$2.7 billion
Percent Reduction	- 69%	- 69%

	FY99	FY00	FY01	FY02	FY03	FY99-03
Ford-Hollings	2.5	1.8	2.0	2.0	2.2	10.5
Lugar	6.0	6.0	6.0	0.0	0.0	18.0

Based on estimates of revenue from S. 1415. Calculations assume the funding for states remains \$15.6 billion over three years under either farm proposal.



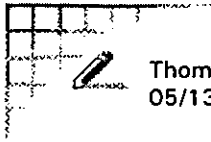
Thomas L. Freedman
05/29/98 11:16:27 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia Dailard/OPD/EOP
cc: Laura Emmett/WHO/EOP
Subject: WSJ Farmers Item

The Journal carried an item today indicating that Conrad is working on a compromise and Ford thinks he has 50 votes.

1. Conrad has said pretty consistently that he wants less money in the overall LEAF package, and some money for ND farmers -- particularly those in emergency situations. He and Ford have been confidentially negotiating some money for farm states and I think that is what the Journal is referring to. Tom Mahre said there is no compromise, he thinks that is what the Journal is talking about. A move in this direction is necessary to hold our D's, most likely, but it won't increase our overall vote count (doesn't take from the Lugar total).
2. The Journal says Ford thinks he has 50. Ford is saying he thinks he will probably hold the 45 D's, he's got 3 publicly committed R's, and so needs one or two R's depending on whether Lott and/or Faircloth abstain.
3. We need a way to break up the Lugar coalition. One idea is to get a vote on whether, should Lugar pass, the bill will require \$6 billion of spending or \$2.1 billion as indicated in Title IV. If it is \$2 billion, McConnell and Helms etc. could not support Lugar, if it is \$6 billion it would presumably make it much harder for Jeffords, Chafee. We need to explore this. Lugar is said to be considering some options on spending, either a separate excise tax dedicated to farmers or suggesting the money come out of the budget surplus. This is rumor.
4. We are still working to build a compromise. Ford does think he will win, if he loses he thinks that is the time to offer the compromise.



Thomas L. Freedman
05/13/98 02:06:24 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Laura Emmett/WHO/EOP, Mary L. Smith/OPD/EOP
Subject: Tobacco farmers

1. Some of the farm state types were worried that the health groups were playing footsie with Lugar and Lugar would win if he gets any health group backing. Obviously, that could lead to Ford going very heavy negative on McCain. I talked to Scott Ballin and he assures me that isn't the case, it is a misunderstanding, he wanted some modifications to Ford to increase local control of the money. He promised to call Ford's guy and clarify that the public health groups are committed to keeping a program -- and that Lugar is not supportable.

2. Yesterday, Ford was putting out word that he was pretty close to having enough votes. Perhaps as a result, today Lugar is supposedly circulating a new proposal among Republican's upping the amount of money for his buy-out. The NC farmers say they think Helms/Faircloth and McConnel might support Lugar. This would be a problem. So far, only the very large farmers in NC support Lugar -- they would likely prosper in a total tobacco free market.

3. This afternoon I am supposed to get from Dallas the USDA evaluation of Lugar I asked for showing that Lugar/Nickles would produce a windfall for the tobacco companies. (The windfall occurs because the companies -- which buy about 1.6 billion pounds a year, would have the price they have to pay drop significantly. Preliminary estimates were it would save them between 25 and 35 billion dollars.) If this is any good, it should be quite powerful for keeping support on McCain/Ford. I will get it around to you as soon as USDA gets it over here.

Tob - res - farmers

May 18, 1998

Dear Senator Ford,

Last September, when I announced my plan for comprehensive tobacco legislation, I made protecting tobacco farmers and their communities one of the five key elements that must be at the heart of any national tobacco legislation. Tobacco legislation must reduce youth smoking, it must not devastate our tobacco farmers and their communities.

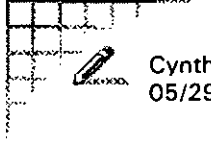
The tobacco program has made it possible for farmers, their families, and communities to enjoy a measure of economic stability. If the program is abolished, many farmers, particularly small and minority farmers, will be left in jeopardy and many will be put out of business. Senator Ford, your proposal, which is included in Senator McCain's comprehensive tobacco legislation, includes vital protections for farmers and their communities including continuing a tobacco control and price program. Your proposal satisfies the principle I laid out in September 1997, demanding that any legislation meet the test of protecting tobacco farmers and their communities.

It is possible to protect tobacco farmers and their communities, at the same time that we dramatically reduce youth smoking. Indeed, maintenance of the tobacco program makes it possible to control the amount of tobacco grown in the United States. I am confident that with the inclusion of your provision in comprehensive tobacco legislation, we will meet the goals of advancing public health interests and protecting farmers and their communities.

Thank you for your important work in this area.

Sincerely,

Tob - or - farmers



Cynthia Dailard
05/29/98 06:03:50 PM

Record Type: Record

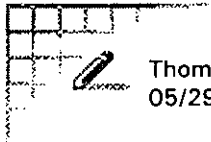
To: Christa Robinson/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc:

Subject: POTUS Statement -- farmers

This is what the President could say on farmers.

----- Forwarded by Cynthia Dailard/OPD/EOP on 05/29/98 06:05 PM -----




Thomas L. Freedman
05/29/98 06:02:04 PM

Record Type: Record

To: Cynthia Dailard/OPD/EOP

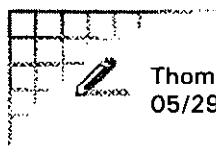
cc: Mary L. Smith/OPD/EOP

Subject: Re: POTUS statement Mon. a.m. on tobacco -- what should he say re farmers? Call Cynthia D. 67871. 

The President could say:

I am committed that this legislation protect tobacco farmers and their communities. Farmers and their communities have done nothing wrong. The measure proposed by Senators Ford and Hollings would preserve the tobacco program and give these communities some economic stability. Keeping a program also means that we will keep controls on the amount of tobacco that is grown in the United States. If we get rid of the program, the price of tobacco will drop, and the companies will make a windfall of at least \$800 million a year. So I hope that the Senate will look carefully at this measure, and work for a proposal that protects these farmers and the public health. We need to break the impasse and get a bill that meets both of these important goals.

Tob-set-farmers



Thomas L. Freedman
05/29/98 11:52:07 AM

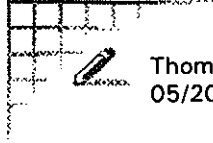
Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia Dailard/OPD/EOP

cc: Laura Emmett/WHO/EOP, Mary L. Smith/OPD/EOP

Subject: Other steps

With the goal of causing some split off from Lugar, we've asked OMB (Gotbaum) to put together state by state numbers on what Lugar would mean in cuts for each state programs so we could go to Collins, Snowe, Jeffords, etc. and show them the impact on their state. Josh may mention this project to you.



Thomas L. Freedman
05/20/98 12:45:45 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Mary L. Smith/OPD/EOP
Subject: How McConnell plays in KY.

Hotline summary of KY politics on farmers. This is a pretty great issue for them -- you can see Bunning immediately. It is the big issue there right now.

Tobacco On The Attack-O

Louisville Courier-Journal's Eagles & Wilson report, Baesler "motored around west-central" KY in a pickup, Owen "headed to his hometown of Lexington," and Henry "worked the phones" as all three Dems "defended the tobacco price-support program" following Sen. Mitch McConnell's (R) "surprise announcement" 5/18 "that he will join" Sen. Richard Lugar (R-IN) "in proposing to abolish it." Baesler called McConnell a "turncoat," saying he has "really done farmers a disservice ... [GOPers have] turned their back on the farmer." Owen: "It will devastate Kentucky's small tobacco farmers and our rural communities." Henry: "At the most critical time in the last 50 years ... he walked away." Bunning: "[I am] firmly committed to doing everything humanly possible to preserve the tobacco program" (5/20). Lexington Herald-Leader's Muhs and Brammer report that Owen accused McConnell of "playing for national attention" with his proposal. Baesler continued to "emphasize his background as the only tobacco farmer in Congress" (5/20).

McConnell's Gamble

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

6/1/98


Tob. ser - Parmus



Cynthia A. Rice

05/20/98 10:51:05 AM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP
cc: See the distribution list at the bottom of this message
bcc:
Subject: Re: Lugar vs. Ford budget chart 



Josh lugar3.wpd protested breaking out the year by year numbers and urged us to simply use the three year total. Because we may want the flexibility to move the up-front payment from one type of use to another, he doesn't want anyone on the Hill to get bought into having exactly \$3.4 billion in research money in FY 1999 in case it gets shaved. Bruce also asked that I take out the numbers through '08 and '23 and that I add Hollings' name. Here's the revised chart. I plan to send this to the Hill with the other paper.

Cynthia A. Rice



Cynthia A. Rice

05/20/98 12:28:13 AM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Lugar vs. Ford budget chart



lugar2.wpd Here's the easy to read version of OMB's charts.

Message Sent To: _____

Lugar Bill Cuts Health Spending by 69 Percent

	NIH and Other Research	Public Health, including Cessation, Prevention, Education, and Enforcement
Total, FY 1999-2001		
Ford-Hollings	\$8.6 billion	\$8.6 billion
Lugar	\$2.7 billion	\$2.7 billion
Percent Reduction	- 69%	- 69%

	FY99	FY00	FY01	FY02	FY03	FY99-03
Ford-Hollings	2.5	1.8	2.0	2.0	2.2	10.5
Lugar	6.0	6.0	6.0	0.0	0.0	18.0

Based on estimates of revenue from S. 1415. Calculations assume the funding for states remains \$15.6 billion over three years under either farm proposal.

**FORD APPROACH IS BEST FOR PUBLIC HEALTH, PROTECTS FARMERS,
AND AVOIDS HANDING A WINDFALL PROFIT TO TOBACCO INDUSTRY**

- **Lugar Bill Would Require Drastic Cuts in Health Spending.** The Lugar bill requires the government to “buy-out” farmers from the quota program over a three-year period (FY1999 through 2002). The cost of this buy-out over the three years is \$18 billion dollars. **If the Lugar farmer spending is added and state spending is kept the same, the McCain Manager’s Amendment spending on health research and public health programs would have to be cut by 69 percent to make up the difference.** (See chart below). In contrast, the Ford-Hollings approach costs \$2.1 billion a year during those years and has no effect on the levels of spending in the McCain Amendment for NIH research, cessation, prevention, education and enforcement efforts.
- **Ford Limits Amount of Tobacco Grown; Lugar Dramatically Increases U.S. Production.** Senator Ford’s bill (LEAF Act) maintains limits on the amount of tobacco that can be grown in the United States. Under the competing Lugar approach, very large producers would quickly expand their production. A U.S. Department of Agriculture analysis concludes production of flue-cured tobacco is likely to increase by as much as 50% and burley tobacco is projected to increase by as much as 20%. That is one reason why the Campaign for Tobacco-Free Kids, the American Cancer Society, and the American Lung Association support continuation of the tobacco program.
- **Ford-Hollings Protects Small and Minority Farms.** The increased production with lower profit margins under the Lugar approach will benefit large corporate farmers, however, the legislation would have a disproportionately adverse impact on minority and limited-resource tobacco producers. Market uncertainties and reduced margins on small sales will destabilize many family farming operations. This will have a particularly harsh effect on small African-American farms -- fully 90% of African-American farms have sales of less than \$25,000.
- **Lugar Leads to a Financial Windfall for Companies.** The creation of a free market in tobacco production will dramatically lower the prices the companies will pay to buy tobacco. USDA estimates that under the Lugar bill, the price of flue-cured tobacco would fall from \$1.72 a pound to \$1.15, and the price of burley would plummet from \$1.89 to \$1.35. Given that the companies average almost 1.5 billion pounds of purchases a year, USDA estimates a financial windfall by the companies of at least \$800 million annually or \$20 billion over 25 years. The Ford approach is consistent with the overall tobacco control legislation. It avoids generating windfall profits for the tobacco companies with which the companies will offset the payments designed to force them to reduce youth smoking rates.

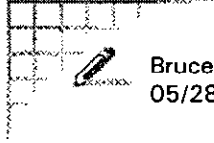
Lugar Bill Cuts Health Spending by 69 Percent

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Based on estimates of revenue from S. 1415. Calculations assume the funding for states remains \$15.6 billion over three years under either farm proposal.

Feb. 27 - James



Bruce N. Reed
05/28/98 07:29:42 AM

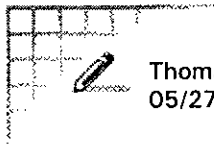
Record Type: Record

To: Elena Kagan/OPD/EOP

cc:

Subject: The Lugar "compromise"

----- Forwarded by Bruce N. Reed/OPD/EOP on 05/28/98 07:32 AM -----



Thomas L. Freedman
05/27/98 08:16:16 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP

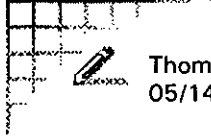
cc:

Subject: The Lugar "compromise"

The Lugar compromise is not really a compromise, and I meant to send it to you, but I will type it here in its entirety and word for word:

- " * Three years of Title XV payments at Lugar levels -- Short delay in its implementation
- * Some additional community development money after buyout is complete
- * End program"

I'm not sure there is much to work with there, I don't think they are really serious.



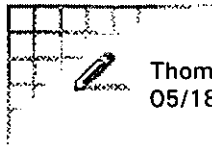
Thomas L. Freedman
05/14/98 06:54:35 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Mary L. Smith/OPD/EOP
Subject: Lugar Update

Ford and Robb say they are basically happy with the outcome in finance today. There is still a lot of concern about Lugar gaining support, and some confusion about the health groups' position. We have worked at making sure the health groups' position is clear.

Senator Ford is most worried about Durbin, Mosley-Braun, Feingold, Boxer, Lautenberg, Torrecelli, and Leahy being tempted to vote for Lugar. Ford is likely to have many, many amendments in the offing in case Lugar wins, in which case Ford's goal would be to go after the whole bill.



Thomas L. Freedman
05/18/98 09:26:45 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

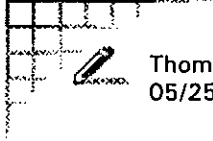
Subject: Tobacco farmers update

In addition to the procedural surprise tonight, we have a few other things going on with farmers.

1. The farmers and health groups are having a noon press conference to counter Lugar/McConnell tomorrow. The theme is farmers vs. companies -- Ford's bill helps farmers, Lugar's helps the companies at \$1 billion a year.
2. Ford was planning on working the floor himself tomorrow with our letter and one from the health groups.
3. USDA has been doing a count of D's, tonight they mostly got uncertain answers. We are working with Jacoby on this. Ford had votes he felt confident on, but was hoping to get all D's.
4. Lugar/McConnell didn't seem confident of their votes during the press conference today. Their main argument for the bill was to say the money got to farmers quicker so it was actually more "real" money than Ford.
5. Glickman is going to make calls (from Geneva) to key Ag. Senators Tuesday -- we've given him a short list.

Message Sent To:

Bruce N. Reed/OPD/EOP
Elena Kagan/OPD/EOP
Cynthia A. Rice/OPD/EOP
Cynthia Dailard/OPD/EOP
Mary L. Smith/OPD/EOP



Thomas L. Freedman
05/25/98 02:55:11 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Mary L. Smith/OPD/EOP
Subject: LEAF vote count & plans



FARM.52 Attached is our best guess of the strike Lugar and strike Ford vote count. Please hold it closely, we developed it in coordination with Ford and Robb's staff. You need a majority to strike. This count indicates both sides might have been able to strike, the crucial question is who would have gone first, and what effect would that have had on the second vote, i.e. having voted against LEAF, would Senators vote against Lugar (even if that is their inclination) if that means the end of any special help for farmers. Ford says he thinks the tide was turning in our direction at the end and we would have won if the vote was this week.

Next Steps:

1. We are going to have a daily call (1 p.m.) to coordinate who is reaching out to which senators and what response they are getting. The focus is on Durbin, ??? D's, and the ??? R's. The farm groups will reach out to the tobacco state senators, the health groups to the health oriented D's and R's. Glickman will reach out to the Ag. Cmttee members.
2. There is on-going efforts on in-state press for McConnell, Thurmond, Thompson. McConell in particular is taking very tough attacks, making it more and more critical to him that all the \$18 billion be upfront money. He is digging in.
3. Strategically, we'd probably be in better shape if we could try and strike Lugar first, that would leave tobacco staters with no choice but to vote for LEAF or have nothing. If there is any chance to flip and get Ford to offer ahead of Durbin (who I guess had already started to offer his amendment) that would be good.
4. I was convinced that floating even the rumor of a compromise at this point is a bad idea. So many people are looking for one, it would surely kill LEAF, and the compromise would likely be unacceptable to Ford/Hollings. Better to fight this battle first and see if we can't win with what we have -- if it looks like we will lose, put out a compromise after LEAF loses but before the vote on Lugar.

STRIKING FORD

FOR	???	AGAINST
------------	------------	----------------

Dems	Repubs	Dems	Repubs	Dems	Repubs
Durbin	48	Conrad Dorgan Kerrey	Thompson Thurmond Chafee Jeffords Collins Snowe Coverdell	41	McCain Frist Warner

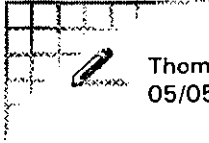
* Faircloth's staff has said he is likely to abstain.

STRIKING LUGAR

FOR	???	AGAINST
------------	------------	----------------

Dems	Repubs	Dems	Repubs	Dems	Repubs
44	McCain Frist Warner D'Amato	Durbin	Thompson Specter Snowe Collins Chaffee Jeffords Dewine Hatch Bennet Mack Stevens Thurmond		38

Tob-act - ~~act~~
farmers



Thomas L. Freedman
05/05/98 08:00:12 PM

Record Type: Record

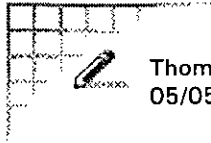
To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP

cc:

Subject: Attacking Nickles

By the way, I hope you are thinking of the farmers piece as a good ground to attack Nickles on. He is evidently including Lugar as his farm section. This approach likely results in a windfall to companies as prices decline (we've asked USDA for an estimate, preliminarily it would be about \$35 billion), removes any limits on the amount of tobacco grown and leads to a decrease in the price of tobacco, and arguably fails to protect the family farmer.

Tobacco farmers



Thomas L. Freedman
05/05/98 07:18:17 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP
cc: Mary L. Smith/OPD/EOP
Subject: Tobacco Farmers

Dallas Smith at USDA thinks he may be able to come up with numbers showing that since the June agreement the tobacco companies have bought less domestic tobacco, but are importing more.

This would obviously be significant news in tobacco growing regions where there is already a good deal of mistrust between growers and the industry. It would help counter the strong industry offensive in those states where they have been saying they are on the side of farmers.

I don't think it is a national story -- except to demonstrate industry duplicity. That is, that the industry is publicly courting farmers, such as at its Charlotte event, at the same time it prepares to abandon them for cheap foreign imports.

I think its worth having him put the numbers together, but do any of you have another idea on how to use this information?

-vr-
To b/- farmer

52 APR 9 4:51:01

Draft 4/8/98 4:40pm

PRESIDENT WILLIAM J. CLINTON
TALKING POINTS FOR TOBACCO ROUNDTABLE
KENTUCKIANA TOBACCO WAREHOUSE
CARROLLTON, KENTUCKY
April 9, 1998

Acknowledgments: Sec. Glickman, Gov. Patton, Senator Ford [see below], and other electeds.

Most of all, I'd like to thank Senator Ford. His work on the tobacco bill that is now moving through the Senate has been extremely valuable in bridging the farm interests from different states. He has served in the Senate longer than any Kentuckian, and for more than two decades, he has done Kentucky proud. Like your Cats, he is leaving as number one.

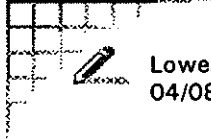
With all the talk of the Kentucky Wildcats and the Carroll County Panthers, I thought my staff was merely talking sports when they told me that I'd be going into the lion's den this morning. But seriously, I know that sowing, transplanting, topping, cutting, housing, and curing aren't easy. Tobacco is a 13-month-a-year crop. It's family work, done more by hand than machine. And I know you've had a tough go of it the last couple of years -- with the Flood of '97 and the blue mold the year before.

And right now, because of the tobacco legislation in Congress, you may feel like you're "straddling a barbed wire fence," planting your largest crops but not knowing if the Christmas money [a commonly used term] will be what it was. Last year, when I reviewed the proposed agreement between the Attorneys General and the tobacco companies, I was unhappy to see that there was no measure to protect farmers. As I've said all along, any legislation must protect farms and agricultural communities. If it doesn't, I won't sign it.

I want to tell you unequivocally: You will not be left behind by this tobacco legislation. Tobacco farmers haven't done anything wrong. You've been growing a legal crop. You haven't been marketing to children. You're good, hard working, tax paying citizens.

I am not here to deprive you of your farms or your livelihood. I am not here to put the tobacco companies out of business. I am here to put the tobacco companies out of the business of selling to children. Today and every day 3,000 kids will start smoking. 1,000 of them will die an premature, painful, and preventable death. No parent -- and a lot of us here are parents -- wants that. I understand there's a tobacco farmer here today [Mattie Mack] who has raised more than 30 foster children on her farm and is both proud and thankful that none of them smoke.

Tobacco - farmers



Lowell A. Weiss
04/08/98 05:07:22 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: 5pm tobacco draft

Draft 4/8/98 5pm

**PRESIDENT WILLIAM J. CLINTON
REMARKS ON TOBACCO AT CARROLL COUNTY HIGH SCHOOL
CARROLLTON, KY**

April 9, 1998

Acknowledgments: Sec. Glickman; Gov. Paul Patton; Sen. Ford [His work on the tobacco bill that is now moving through the Senate has been remarkable. He has fought day in and day out to make sure tobacco farmers and their communities will not get hurt. In the Senate, he has served this great state longer than any other leader. And like your Cats, his alma mater, he is leaving as number one.]

It's great to be in Wildcat country. I watched the Comeback Cats beat the Utes while I was flying from Botswana to Senegal. The Utes had eliminated the Razorbacks, so I was pulling for the blue and white all the way.

And it's great to be in Panther country [Carroll County High's mascot]. Last time I was here was in 1992, when I was rolling through these beautiful hills with Al Gore on our first bus tour. You made me feel right at home back then and you're doing just the same today.

I'm also pleased to see how you've recovered from the Flood of '97. It was just over a year ago that the rains were pouring down and Eagle Creek and the Kentucky River were spilling out all over this county like Noah's flood. But neighbors and friends reached out to help those in need. Old fashioned values pulled you through. You made America very proud.

The reason I came here to Carrollton today is to talk to you about a subject that could not be more important to the future of all of you students, to the future of this state, and to the future of this nation. I came here to talk about the future of tobacco. I know there's been a lot of talk about what the tobacco legislation in Congress will involve and where we are in the process. Today, in addition to listening to the concerns of people in this community, I wanted to explain the process in detail to parents and children alike. But before we go even one step further I want to make two vital points very clear.

First, the tobacco legislation is alive and well. It will be easier to cut teen smoking if the tobacco companies work with us rather than against us, but we are committed to doing what's right for America's children either way.

Second, the legislation we seek is not about politics, or money, or seeking revenge against the tobacco industry. This legislation moving forward in Congress will not put the tobacco companies out of business. It will simply put them out of the business of selling cigarettes to kids. Personally, I do not believe it's wise for adults to smoke. But that is their own business. Smoking by young people is a different matter entirely -- and that is where we must draw the line.

Third, we will not abandon tobacco farmers. They haven't done anything wrong. They've been growing a legal crop. It is not they who have been marketing tobacco products to children. They're good, hard-working, tax-paying citizens -- most of them laboring from sun-up to sun-down on small family farms. We will stand with Kentucky's communities to pass legislation that makes sense for everyone. If it doesn't protect farmers and their communities, I won't sign it. Remember: we wouldn't let this community down when the flood waters were rising out of control. The national government was here in Kentucky, helping you clean up, working to make everyone whole. We will do it again with this tobacco legislation. Farmers didn't create the problem of youth smoking. But I promise you this: if you work with us, farmers and their communities will be included in the solution.

And now I'd like to explain why I believe it is so important that we work together to pass comprehensive tobacco legislation. Just last week, the Centers for Disease Control released a disturbing report. It found that more than 40% of teenagers now smoke or chew tobacco. Mr. Marcum [the principal] tells me it's probably even higher here. I'm not here to scold those of you who do smoke. But I will tell you this: I'm not going to rest until we bring the number of teen smokers way down. Today, 3,000 young people will start smoking. A thousand of them will have their lives shortened as a result. We are simply wasting precious lives.

It's clear what's going on. One major factor is peer pressure. Today, I challenge you students to help each other resist the pressure -- to stand together and to take responsibility for your futures. If you look at the National Champion Wildcats, it's clear each one of those players had a dream -- he wanted to win it all. The Wildcats stood together as a team. They resisted outside pressures. And they recognized that the body is as sacred a gift as the spirit and the mind. You think the National Champion Wildcats could run the court the way they do if they smoked? Not a chance. But whether you play basketball or not, the message is the same: smoking robs dreams.

The other major factor in the rise of teen smoking is the lure of sophisticated, multi-million-dollar marketing campaigns. Now, the law says that tobacco companies can't advertise tobacco products on television or radio, but you can't escape the ads anywhere else -- in magazines, sports centers, billboards. Toy race cars are still emblazoned with tobacco

brand names, even through we know adults don't buy many toy race cars.

In the early 1990s, Joe Camel alone had an advertising budget of \$75 million. And that's a pretty good investment from the tobacco companies' point of view. How many of you have younger brothers and sisters? Well, if national statistics hold true, I bet more of them can recognize Joe Camel than Mickey Mouse.

I believe we've all got a remarkable opportunity to close the books on 30 years of calculated marketing to kids. And that is why I am working with Sen. Ford and his Senate colleagues to pass a bill that will make reducing youth smoking everyone's bottom line.

Last week, in an historic and resounding 19-to-1 vote, a key Senate committee gave its stamp of approval to comprehensive legislation sponsored by Sen. John McCain, a Republican, and Sen. Fritz Hollings, a Democrat, that would cut youth smoking by half over the next decade here in Kentucky and all over the country. And thanks in great measure to Sen. Ford's leadership, the bill will not let tobacco farmers down.

Last September, when I reviewed the settlement agreement reached by the Attorneys General, I was very disappointed to see that there was no mention of farmers and what might happen to them if the settlement became law. So when I laid out my five principles of what absolutely had to be in any comprehensive tobacco legislation, I said we had to protect farmers and their communities. I'm happy to say that the farmer provision Sen. Ford has proposed meets this commitment. The bill he helped prepare recognizes that tobacco has a very high return per acre and, therefore, you can't just tell tobacco farmers to go and plant soybeans on their land. It recognizes that you can't uproot tobacco without uprooting the family farm. This morning, I met a woman named Mattie Mack. She's 61 years old and has raised 38 foster children while growing tobacco -- not one of whom smokes. We can't abandon her or the children she has raised. We must reduce youth smoking, but we're not going to do it by devastating our farming communities.

We still have work to do on the legislation in the Senate. Above all, we need to put in place tough penalties that will ensure that the tobacco industry has a clear financial interest in stopping youth smoking. But Sen. McCain and his committee have helped move this nation in the right direction.

Unfortunately, it appears that some tobacco industry executives are trying to block the way. Yesterday, tobacco industry executives gave speeches to protest the legislation moving through Congress. This was no surprise. It's in their interest to object to the bill now to prevent it from getting even tougher.

But I believe this is not the time to issue threats. This is the time for the industry to put the past behind them and help all of us, including thousands of family farmers, plan for the future. Most important, this is the time to stop children from picking up a habit that kills. If we move forward with the legislation in the Senate, in Kentucky alone it will stop nearly 60,000 kids from starting to use tobacco over the next five years, and save almost 20,000

lives. We simply cannot afford to let this opportunity go up in smoke.

This is a remarkable time to be alive. This is a golden moment to be a student in Kentucky. We've opened the door to college for every student in this auditorium, thanks to new grants and HOPE Scholarships that your guidance counselors can help you learn all about. The chemical and steel industries are booming here in Carroll County; they're practically guaranteeing jobs to students here who are getting involved in your remarkable work-study program and gaining essential math, science, and technical skills.

This is also a golden moment for our country. We have the best economy in a generation. The crime rate has been falling for five years in a row, for the first time in a quarter century. We have the lowest welfare rolls in 27 years. More families own homes than ever before.

But this is not a time to sit back and relax. As you know all too well, you don't wait until the flood rains are pouring down before you fix the roof. In other words, we can't wait for another generation of children to get sick before we get serious about bringing the rate of youth smoking down. But let me be clear: the way to fix our roof is not by making a hole in our neighbor's. We will fix the problem of youth smoking without making life tougher than it already is for our hard-working family farmers. If we work together, we will solve this problem together. Thank you and God bless you.

###

Message Sent To:

Cynthia A. Rice/OPD/EOP
Thomas L. Freedman/OPD/EOP
Cathy R. Mays/OPD/EOP
Elena Kagan/OPD/EOP
Laura Emmett/WHO/EOP

Tob - reed - farmers

THE WHITE HOUSE
WASHINGTON

April 8, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
ELENA KAGAN
TOM FREEDMAN

SUBJECT: KENTUCKY TRIP AND ROUNDTABLE WITH TOBACCO
FARMERS

On Thursday, April 9, you will travel to Carrollton, Kentucky to meet with tobacco farmers, community leaders, and children. During this trip, you will reaffirm your commitment to protect tobacco farmers and their communities, while also emphasizing the need to reduce youth smoking. The trip will also allow you to express support for a plan to protect tobacco farmers authored by Senator Ford that is included in Senator McCain's legislation.

Structure of the Trip

You will first travel to a tobacco warehouse where you will hold a roundtable discussion on how to protect farmers and their communities. In this discussion, you should note that Senator Ford's proposal on tobacco farmers, contained in Senator McCain's bill and detailed in this memo, is a strong proposal to protect tobacco farmers. You should not imply, however, that it is the only farming proposal you could support, or that you agree with every detail (or every dollar) of the proposal.

The participants in the discussion are expected to be: a local farmer; a farmer who represents growers statewide and has worked with the Campaign for Tobacco Free Kids; a minority farmer who has raised many foster children using her revenue from tobacco; the owner of the warehouse you are visiting, a student who wants to be a farmer; the head of the state farm bureau; a local religious leader; a community activist who has helped bring farmers and health advocates together; and Secretary Glickman. Governor Patton and Senator Ford will be present, but will not participate in the panel.

After the roundtable, you will travel to a school where you will talk to students about the need to reduce youth smoking. Governor Patton and Senator Ford will also speak at this event.

Background on Kentucky Tobacco Farmers

There are two main types of tobacco -- flue-cured and burley. Burley tobacco is the primary crop in Kentucky, with revenues of more than \$800 million in 1997 for the nearly 450 million pounds grown. In 1997, approximately 70 percent of the burley tobacco produced in the United States came from Kentucky.

Tobacco is a major part of the Kentucky economy. Tobacco sales account for over 40 percent of the total crop revenue for Kentucky, and over 20 percent of all agricultural sales in Kentucky.

Many Kentucky tobacco farms are very small. The average Kentucky tobacco farm plants only 4.5 acres of burley tobacco. In contrast, flue-cured tobacco farms in North Carolina and South Carolina average 16.1 and 25.5 acres of tobacco per farm, respectively.

Notwithstanding the number of small tobacco farms in Kentucky, large farms dominate the State's burley tobacco business. Last year, 70 percent of the total burley sold came from only 26 percent of the farms.

According to USDA, Kentucky experienced an abnormal year for its 1997 burley tobacco crop. Adverse weather conditions resulted in tobacco with high moisture content that was of generally low quality and received a lower prices than expected.

Tobacco Program Background

Since the 1930s, tobacco prices have been supported and stabilized by the federal government's commodity support program. One part of the program involves limiting supply through a quota program. A quota -- which can be sold, rented, or leased -- entitles the owner to grow a certain percentage of the national supply of tobacco for that year. Under the quota program, the government determines each year how much tobacco the companies expect to buy, how much will be sold overseas, adds a modest reserve, and then divides up the right to grow that full amount among the quota holders.

The tobacco program also guarantees an acceptable price at which farmers can sell their tobacco. The price-support system ensures that farmers can sell tobacco at a statutory minimum price to their cooperatives if companies cease to buy on the open market. In this program, the government loans funds to the cooperatives to purchase tobacco, with the loans repaid from the proceeds of future sales.

Producers of the different kinds of tobacco vote in triennial referenda to determine if they wish to continue the federal tobacco program for their kind of tobacco. In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program.

The AG's Settlement Agreement

The settlement agreement with the Attorneys General did not outline a plan to compensate farmers for the diminished domestic tobacco sales that might result from comprehensive legislation. In evaluating the settlement agreement and laying out your five principles for comprehensive tobacco legislation, you insisted on the need to protect tobacco farmers and their communities.

Legislative Background

Two main approaches to the tobacco farming issue have emerged in Congress. The first seeks to maintain some kind of production control and price support system (though perhaps in a modified form), while compensating farmers for any decrease in the amount of tobacco sold due to tobacco legislation. The tobacco section of Senator McCain's bill, sponsored by Senators Ford, Hollings, and Frist, and detailed further below, is the primary example of this approach. The second, advocated by Senator Lugar, would buy out all current quota holders, and then subject tobacco prices to the free market. Senator Lugar's approach has little support among tobacco producers, but may become part of the Congressional debate as tobacco legislation moves forward.

Farmers' Legislation Included in McCain Tobacco Bill

Senators Ford, Frist, and Hollings, the three members of the Senate Commerce Committee from tobacco-growing states, joined together to include a generous farmer provision in the McCain tobacco legislation. Their proposal also has the support of Senator Robb. While maintaining a production control system for all tobacco farmers, this package sets up somewhat different systems for burley and flue-cured tobacco.

For burley tobacco (grown mostly in Kentucky), the package includes an optional buyout for quota holders at \$8 per pound, while retaining the basic quota system for those who do not take the buyout. To the extent that the national quota declines, the bill provides transition payments to remaining quota holders, lessees, and tenants.

For flue-cured tobacco, the plan provides for a mandatory buyout of existing quota holders, and replaces the quota system with a permit system that gives the new no-cost permits to active producers, regardless of whether they previously held a quota. This transfer of quotas from inactive quota holders to actual producers is intended to allow active farmers to sell tobacco without incurring the cost of buying or renting quota.

The McCain package also provides approximately \$500 million for assistance to tobacco-producing communities. The entire package costs \$2.1 billion per year for the first ten years and \$500 million for years 11-25 for a total of \$28.5 billion. For the most part, tobacco farmers are very pleased with the proposal included in the McCain legislation.

Below is a table with the major provisions for tobacco farmers in the McCain legislation.

Payments to Tobacco Farmers Under Proposed Legislation		
	Burley, fire-cured, and dark air-cured tobaccos	Flue-cured tobacco
Buy-out	<u>Optional</u> one-time buy-out at \$8/lb over 10 yrs or less	<u>Mandatory</u> buy-out of all quota holders at \$8/lb over 10 yrs or less
Those who remain in program --quota or permit	Those who do not take the optional buy-out retain their existing quota	Active producers will be issued a <u>permit</u> at no cost -- changing the old quota system to a new permit system for flue-cured tobacco, and allowing only active producers to stay in program. Permits may not be sold or leased, but may be transferred to descendants.
Payments to remaining quota holders who remain in system	Remaining quota holders get payments to the extent quota falls equal to \$4/lb for every pound quota drops, with a lifetime limit of \$8/lb times the entire quota	No remaining quota holders
Lessees (burley), renters (flue-cured), and tenants (essentially sublessees)	Lessees and tenants get (1) option to acquire relinquished quota (if any), and (2) payments to the extent quota falls equal to \$2/lb for every pound quota drops, with a lifetime limit of \$4/lb times the entire quota	Renters and tenants get (1) permits to produce future crops, and (2) payments to the extent national quota falls equal to \$2/lb for every pound quota drops, with a lifetime limit of \$4/lb times the entire quota

Other Provisions:

Tobacco Community Economic Development Grants: Block grants to tobacco states will be made annually for rural business enterprise grants, farm ownership loans, initiatives to create farm and off-farm employment, long-term business technical assistance, supplemental

agricultural activities, value-added agricultural initiatives, and compensation to warehouse owners. The program is authorized for \$375 million. At least 20 percent of the funds must be spent on agricultural activities, 4 percent on long-term technical assistance, and 6 percent on warehouse owners.

Benefits for Dislocated Workers: Up to \$25 million annually for 10 years will be made available to provide benefits based on the NAFTA displaced workers program. This program will be administered by the Secretary of Labor.

Farmer Opportunity Grants: Quota holders and active tobacco producers and their families are eligible for higher education grants of up to \$1,700 per academic year, adjusted upward every five years by \$300. Academic eligibility is modeled after Pell grants, and the program is administered by the Secretary of Education.

Total Costs: \$2.1 billion per year for the first ten years, \$500 million for years 11-25, for a total of \$28.5 billion.

- Annual payments to tobacco farmers set at \$1.65 billion annually for first ten years.
- Economic development grants set at \$375 million annually for first ten years.
- Assistance for dislocated workers set at \$25 million annually for first ten years.

Secretary Glickman's Trip to Kentucky

Secretary Glickman traveled to Lexington, Kentucky last Friday to attend a Farm Forum at Gentry Tobacco Warehouse with 600 to 700 farmers, government officials, and agribusiness leaders. The farmers were generally supportive of the Administration. Their main concerns were that the tobacco program be kept in place and that small farmers not be adversely affected.

Attachments

- Background on General State of the Tobacco Industry (prepared by USDA)
- Background on Farmer Portion of the McCain Legislation (prepared by USDA)
- Highlights of Kentucky Tobacco Farmer Survey from February 10-19, 1998 (Campaign for Tobacco-Free Kids and the Kentucky Health and Agriculture Forum)
- Maps showing the distribution of tobacco production in Kentucky
- Regional Press Clips from Secretary Glickman's Trip to Kentucky

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. briefing paper	Phone No. (Partial) (1 page)	n.d.	P6/b(6)

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FOLDER TITLE:

Tobacco - Tobacco Settlement: Farmers [1]

2009-1006-F
rc89

RESTRICTION CODES

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

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

THE TOBACCO PROGRAM

ISSUE:

Most tobacco produced in the United States is under the Federal price support-production control program. The tobacco program operates under permanent legislation, and does not have to be renewed by 5- or 7- year Farm Bills.

IMPORTANCE:

Tobacco provides \$3 billion in income annually to producers. The price support-production control program stabilizes production and income for small and large producers.

TALKING POINTS:

- Producers of different kinds of tobacco vote in triennial referenda to determine if they wish to continue the Federal tobacco program for their kind of tobacco.
- In a referendum in late February, 97.5 percent of burley producers voted to continue the price support-production control program, as they have for many years.
- In 1997, over 600 million pounds of burley tobacco was produced in the United States - 70 percent in Kentucky.
- Including sales from fire-cured and dark air-cured tobacco, Kentucky tobacco producers received over \$800 million from the 1997 crop. Tobacco sales represent over 40 percent of crop sales receipts and over 20 percent of all agricultural sales in Kentucky.

BACKGROUND:

In spite of the controversy surrounding the Federal program, tobacco-state congressmen were able to obtain permanent legislation. However, numerous changes have been made to the program via amendments to Farm Bills or other legislation. The most notable is the No-Net-Cost Tobacco Program Act of 1982, which requires the tobacco price support program to operate at no-net-cost to taxpayers. This program is currently under additional criticism as the Congress acts on the tobacco settlement.

SUMMARY:

The Federal tobacco program is under permanent legislation, which has provided production and income stability for tobacco producers since the late 1930's. Tobacco is a key source of income for several states, especially Kentucky.

CONTACT:

Verner Grise, Tobacco and Peanuts Division, FSA 202-720-5291; home

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0027

FARM AND FOREIGN AGRICULTURAL SERVICES

ISSUE:

Proposed provisions to help tobacco farmers in the Ford Bill ("Leaf Act") section of the McCain Bill in relation to the proposed National Tobacco Settlement.

DISCUSSION:

The tobacco settlement will have a wide reaching impact on all segments of the tobacco industry, but a disproportionate effect on small and minority tobacco quota owners and producers. Of the 338,000 individual tobacco quotas nationwide, nearly 66 percent are considered small farm operations. Five percent of all quotas are owned by minorities, the majority of which run small and family-sized operations. If a settlement is reached, cigarette prices would increase sharply because of manufacturer payments or increased taxes, and tobacco production would decline with a concomitant reduction in income. Limited resource farms would be especially vulnerable because of their already low level of income and significant dependence on tobacco as a source of family income.

BACKGROUND:

Several bills have been introduced to compensate tobacco quota holders and producers for the reduced income resulting from a tobacco settlement. The three bills that received the most attention were the Ford Bill (as known as the Leaf Act), the Lugar Bill, and the Robb Bill. The Leaf Act would continue the current program with payments for lost production, the Lugar Bill would buy out quotas and eliminate the current program, and the Robb Bill would shift the program from a Federal to privatized program. The tobacco farm leadership has adopted the Ford Bill/Leaf Act as a model and incorporated some provisions of the Robb Bill, especially for flue-cured tobacco.

The Ford Bill has been incorporated in the McCain Bill (S.1415) as the farmer portion of the McCain Bill. On April 1, the Senate Commerce Committee approved the bill, 19 to 1, and Senator McCain said he hoped the Bill would be before the full Senate before memorial Day. A few modifications were made during the markup, but the thrust of the farmer portion of the Ford Bill remained intact.

TALKING POINTS:

As we understand the current compromise, the following are the main points included in the farmer portion of the McCain Bill:

- **Payments to Farmers for:**
 - * **Burley, fire-cured, and dark air-cured tobaccos** - (In Kentucky, more than 95 percent of the quotas are for burley tobacco).

- All quota holders given a one-time option to relinquish quota and get \$8.00 per pound over 10 years or less.
 - Remaining quota holders get payments to the extent quota falls below the base level equal to \$4 per pound for every pound quota drops, with a lifetime limit of \$8 per pound times the entire base quota.
 - Quota lessees and tenants get (1) option to acquire relinquished quota and (2) payments to the extent quota falls below the base level equal to \$2 per pound for every pound quota drops, with a lifetime limit of \$4 per pound times the base quota.
- * **Flue-cured tobacco** - (Not produced in KY, but produced in NC, SC, GA, FL, VA, and AL)
 - All quota holders relinquish quota and get \$8 per pound over 10 years or less.
 - Active quota holders will be issued permits limiting right to produce future crops.
 - Quota renters and tenants get (1) permits limiting right to produce future crops and (2) payments to the extent national quota falls below the base level equal to \$2 per pound for every pound quota drops, with a lifetime limit of \$4 per pound times the entire base quota.
- **Base Quota Years** - Years upon which payments will be based are the average of 1996 through 1998 crop years.
 - * Burley - base quota 657 million pounds.
 - * Flue-cured - base quota 885 million pounds.
- **Costs Incidental to the Tobacco Program** - All USDA costs associated with tobacco are paid out of a tobacco growers trust fund, including administrative costs, crop insurance, cooperative extension service costs, and any other costs, as calculated by the Secretary of Agriculture.
- **Farmer Opportunity Grants** - Quota holders and active tobacco producers and their families are eligible for higher education grants of up to \$1,700 per academic year, adjusted upward every five years by \$300. Academic eligibility is modeled after Pell grants, and program is administered by the Secretary of Education.
- **Benefits for Displaced Workers** - Up to \$25 million annually for 10 years will be made available to provide benefits for displaced workers program. The program is

administered by the Secretary of Labor.

- **Tobacco Community Economic Development Grants** - Block grants to tobacco States will be made annually for rural business enterprise grants, farm ownership loans, initiatives which create farm and off-farm employment, expanding infrastructure, long-term business technical assistance, supplemental agricultural activities, value-added agricultural initiatives, and compensation to auction warehouse owners.
- **Total Costs of the Farmer Portion of the McCain Bill** - \$28.5 billion total over 25 years, \$2.1 billion per year for the first ten years, \$500 million for years 11-25.
 - * Annual payments to tobacco farmers set at \$1.65 billion for up to ten years.
 - * Economic development grants set at \$375 million minus administrative costs for first ten years. Six percent of economic development funding is earmarked for auction warehouse owners for ten years.
- **Total Cost to Industry/Cigarette Price Increase**
 - * Total cost to tobacco manufacturers over the 25 year period are projected to be \$516 billion.
 - * An increase in cigarette prices of \$1.10 per pack over five years was anticipated. Sixty-five cents of that increase occurs in 1999.
 - * Consumption would fall nine to ten percent because of the 65 cent cigarette price increase. Demand for U.S. flue-cured and burley would decline by a similar amount or even more as manufacturers attempted to trim costs by using greater quantities of cheaper imported leaf.
- **Other Provisions of the McCain Bill** -
 - * Civil liabilities damages capped at \$6.5 billion per year.
 - * Marketing and advertising aimed at children would be curtailed.
 - * Goals of reducing youth smoking of 15 percent in three years and 60 percent in 10 years were established.
 - * The Food and Drug Administration would be given broad latitude in regulating tobacco products.

HIGHLIGHTS OF KENTUCKY TOBACCO FARMER SURVEY

A new survey of 400 Kentucky tobacco farmers shows strong support for provisions of a national tobacco plan to discourage tobacco use by young people and to provide assistance to tobacco-dependent communities. While most of the farmers would prefer to continue growing tobacco as they have for years under the current tobacco program, they express some uncertainty about the future of tobacco farming and are therefore willing to explore alternatives. The farmers surveyed also question how concerned the tobacco companies are about the well-being of tobacco farmers.

Support for National Tobacco Control Measures

Almost three-fourths of Kentucky tobacco farmers support establishing a national minimum age of eighteen for buying tobacco products, with the requirement that retailers check identification of all young buyers. Just 15 percent oppose this provision as part of a national tobacco policy. Sixty-four percent support prohibiting tobacco companies from marketing or advertising to children, with just 22 percent opposed.

The farmers also want consumers to know what is in tobacco products. Eighty-three percent support a requirement that tobacco companies provide accurate information about the ingredients of their products.

The tobacco farmers clearly believe they should be part of any national tobacco policy. Nearly three-fourths (73%) of those surveyed say a national tobacco policy should provide economic development assistance to tobacco-dependent communities. Sixty-eight percent support allocating a portion of revenues from a federal excise tax on tobacco products to tobacco-dependent communities.

This level of support for public health measures is somewhat surprising given that large majorities of the farmers surveyed agree that health groups (84%) and restrictions on smoking (76%) are a threat to tobacco farmers.

Opinions on the Tobacco Program

While most Kentucky tobacco farmers (82%) agree Congress should leave the tobacco program alone, a majority (59%) believe the program will be eliminated within the next five years. Thus, it is not surprising that just 41 percent of the farmers surveyed say it is very likely that they or someone in their family will be growing tobacco on their farm in ten years; another 19 percent say it is somewhat likely. Fifty-nine (59%) say that if they had children, they would encourage them to grow tobacco.

This uncertainty about the tobacco program leads 57 percent of Kentucky tobacco farmers to favor a voluntary buyout, where they could either decide to keep their quota or sell it. Another 7 percent support a mandatory buyout that would end the current quota and price

support system for everyone. About one-fourth (27%) oppose a burley buyout of any kind, saying the current program should be maintained. When asked what a fair buyout price would be, the median response was \$12, although almost 20 percent offered no response.

Forty-eight percent of the tobacco farmers said they are very (16%) or somewhat (31%) interested in trying additional non-tobacco activities on their farms. Forty-three percent said they are somewhat (8%) or very (35%) uninterested. Reflecting this split, 43 percent said they would use money from a buyout to expand or diversify their farming operation. The most popular uses of the funds were to invest in a savings or retirement plan (71%) and pay off debts (69%).

Opinions of Tobacco Companies

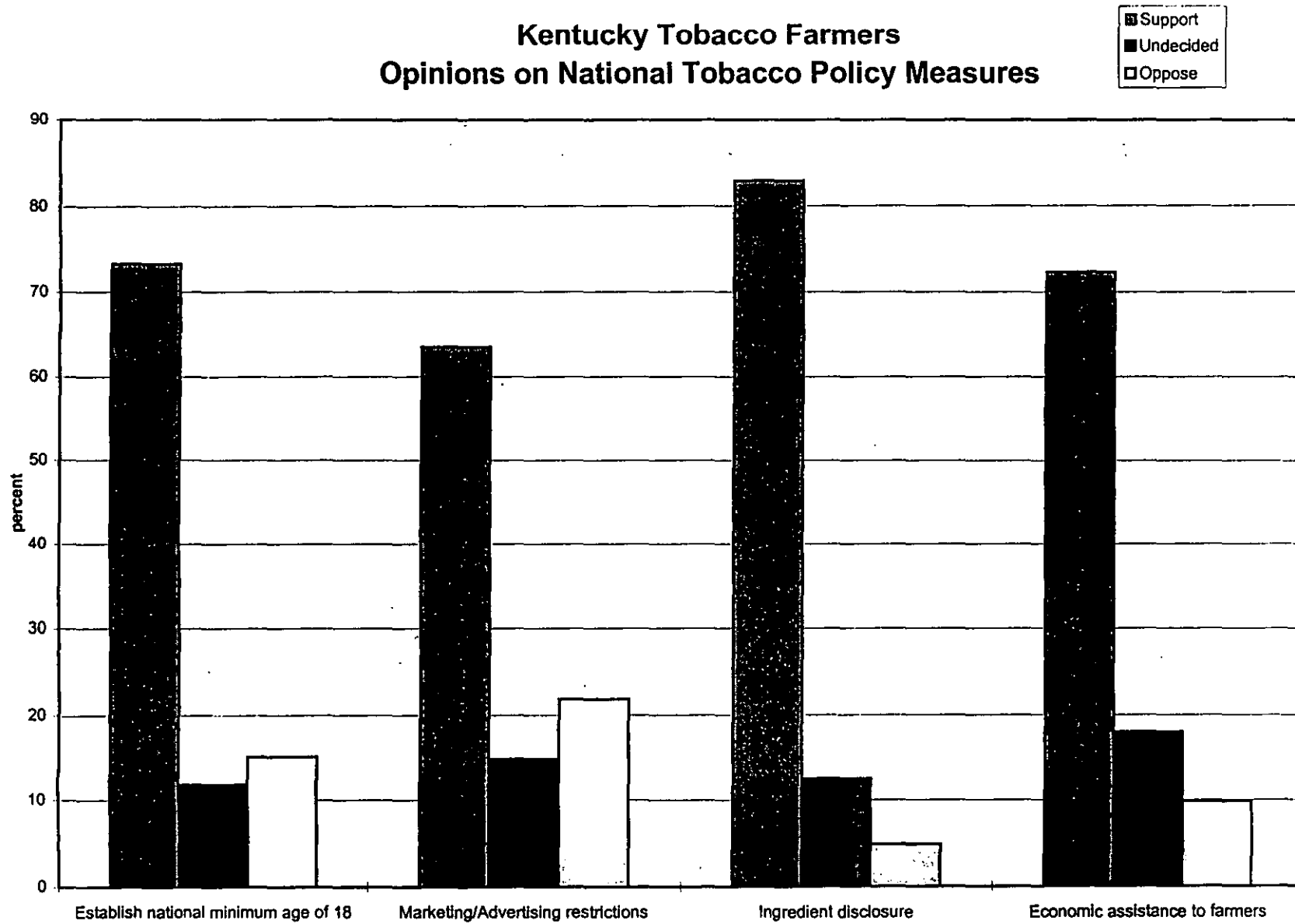
The uncertainty on the part of tobacco farmers about the future of the enterprise may reflect, in part, their apparent ambivalence toward the tobacco companies. One-half of those surveyed disagree strongly (32%) or somewhat (18%) that tobacco companies are concerned about the well-being of tobacco farmers, while 41 percent agree strongly (19%) or somewhat (23%) that the tobacco companies are concerned about them.

Fifty-nine percent of the tobacco farmers agree that if tobacco companies do well, tobacco farmers do well. Thirty-seven percent disagree with this assertion.

The Survey

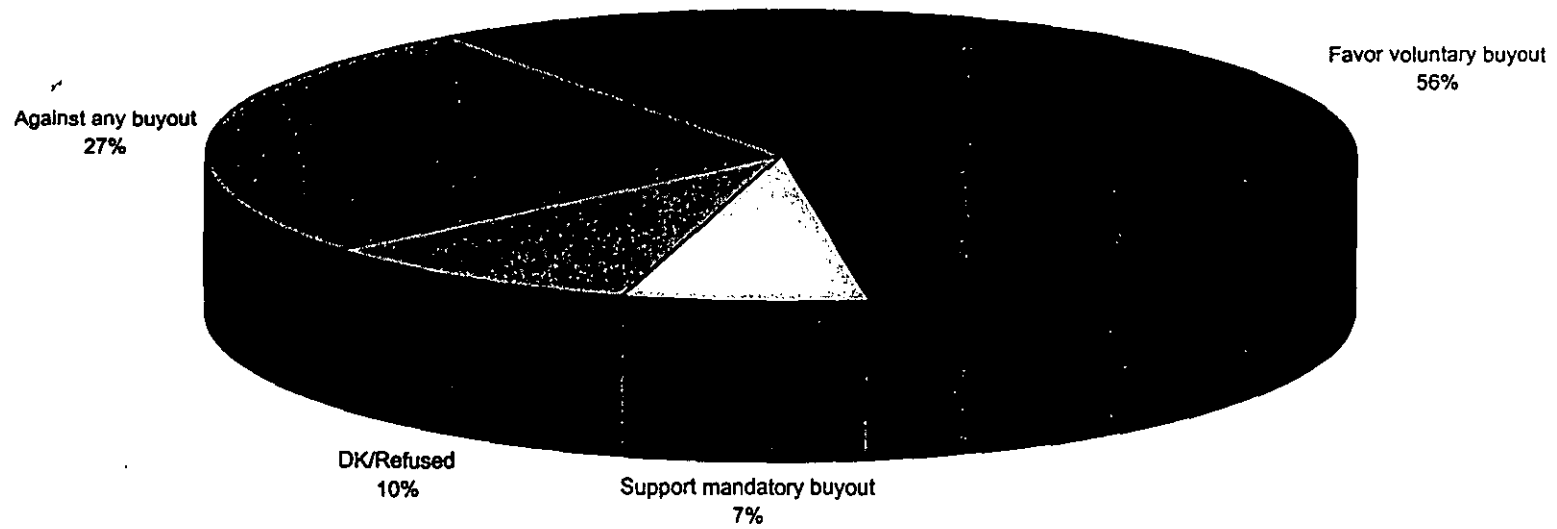
The telephone survey of 400 Kentucky tobacco farmers was a cooperative effort between the Campaign for Tobacco-Free Kids and the Kentucky Health and Agriculture Forum. It was conducted by Global Strategies, Inc. with a random sample of burley quota holders from a list provided by the United States Department of Agriculture. Qualified respondents live in the state of Kentucky and have an effective burley quota of 2200 pounds (roughly one acre) or more. The sample of 400 has a margin of error of plus or minus 4.9 percentage points.

Kentucky Tobacco Farmers Opinions on National Tobacco Policy Measures

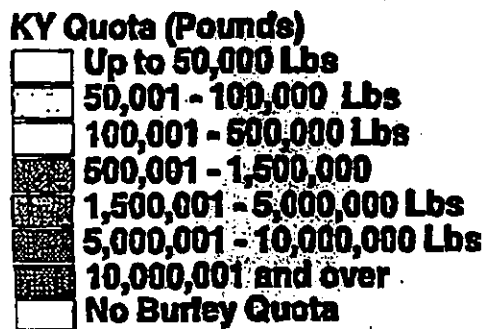
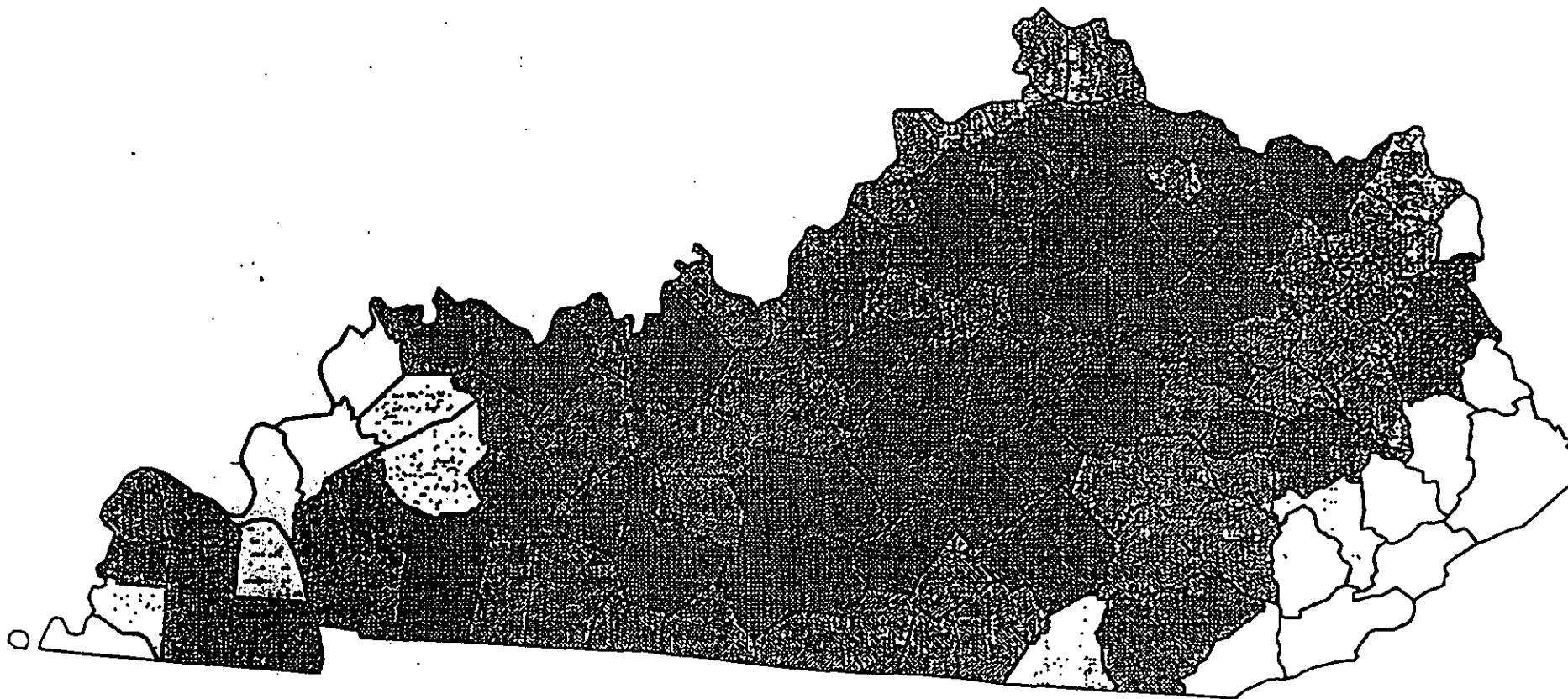


Campaign for Tobacco-Free Kids survey of 400 Kentucky Tobacco Farmers, February 1998

Kentucky Farmers' Opinions on a Burley buyout



1997 Burley Quota - Kentucky

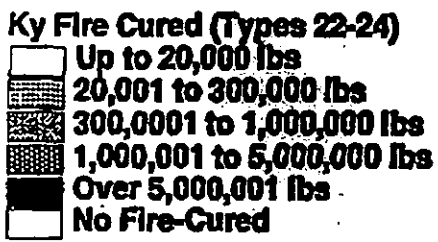
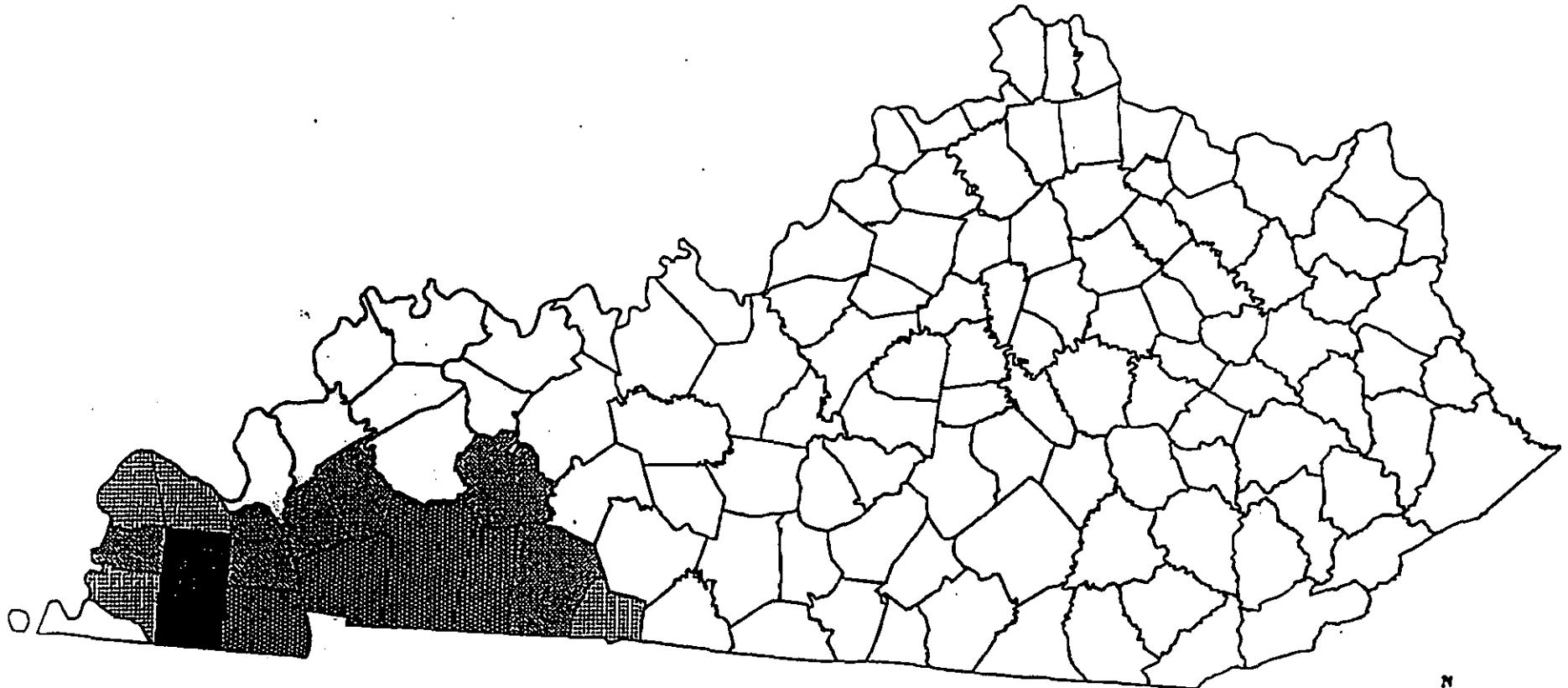


Prepared by
Farm Service Agency

March 6, 1998



1997 Fire-Cured (Types 22-24) Tobacco Pounds Kentucky

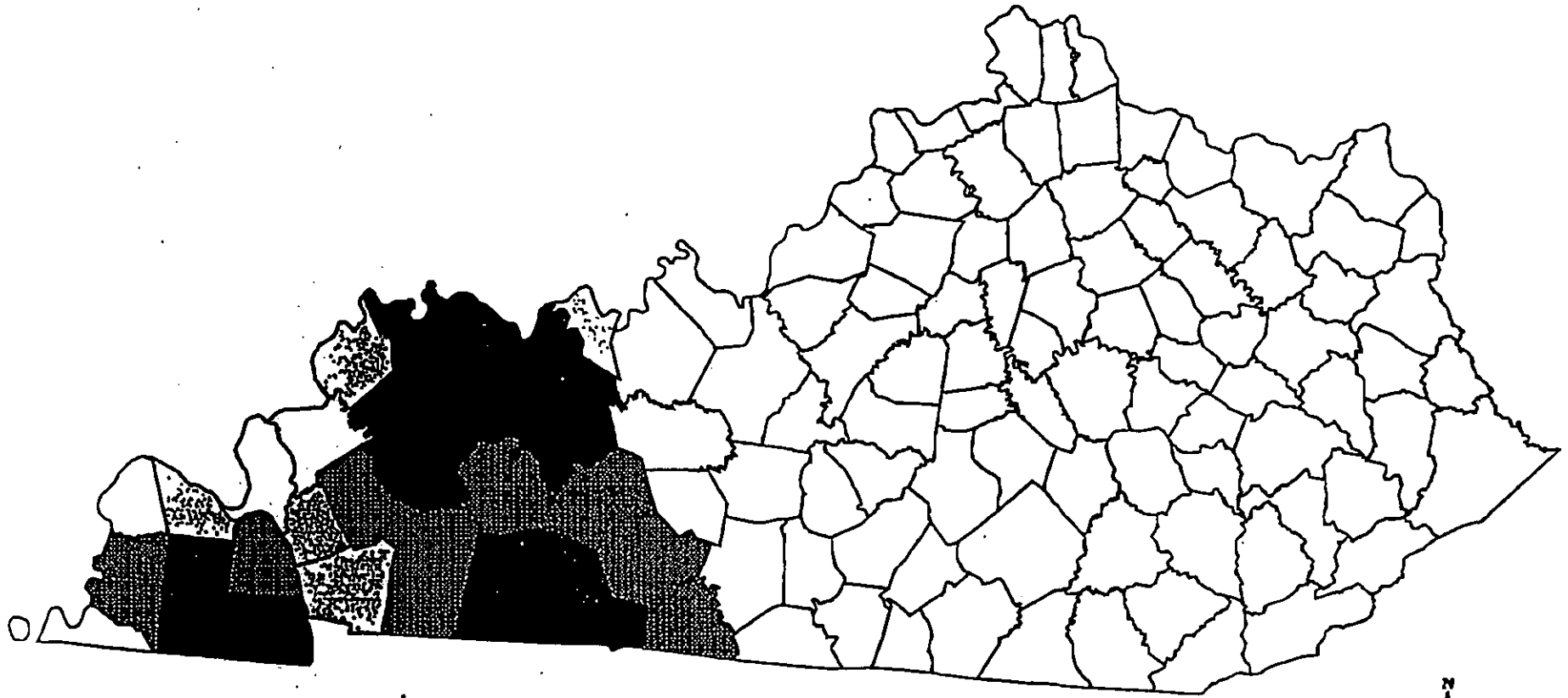


Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County

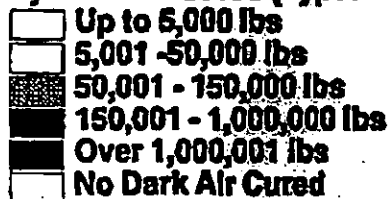


Prepared by
Farm Service Agency

1997 Dark Air-Cured (Types 35-36) Tobacco Pounds Kentucky



Ky Dark-Air Cured (Types 35-36)



Source: USDA FSA
County File Upload 370
Other Kinds of Tobacco
1997 Farm Crop File
Summarized by County



Prepared by

Price-support program called crucial safety net



PHOTOS BY MICHAEL HAYWARD, THE COURIER-JOURNAL

Robert Richardson of Versailles, right, introduced U.S. Secretary of Agriculture Dan Glickman to other farmers.

Agriculture chief says president won't abandon tobacco farmers

By JOE WARD
The Courier-Journal

LEXINGTON, Ky. — U.S. Secretary of Agriculture Dan Glickman told farmers gathered in a tobacco warehouse in Lexington yesterday that the federal tobacco program has served as a safety net for the family farm — and that the stability it provides must be preserved.

He pledged that President Clinton will sign no tobacco bill that doesn't protect the farmers.

It was what the farmers wanted to hear.

At the warehouse forum, attended by 600 to 700 farmers and government officials and employees, and during an earlier visit by Glickman to a Woodford County tobacco farm, the main thrust of farmer commentary was the same: Kentucky farmers need the tobacco price-stability program.

"We're not here to save tobacco," Daviess County farmer and Burley Co-op president Rod Kuegel said at the forum.

"We're here to save the family farm. What people need to realize is that you can't do one without the other here in Kentucky."

Earlier, as Glickman talked with farmers on a grassy slope on Robert and John Richardson's farm on Steele

Road, Woodford County farmer Rusty Thompson told him the furor over tobacco in the Congress and the news media is wearing on tobacco farmers.

"As tobacco farmers, we're getting shot all to pieces every day," Thompson said.

"We've played by the rules all of our lives, and so did my father and grandfather," and don't believe punishment is in order, he said.

Glickman told the farmers that the aim of tobacco legislation pending in Congress is to reduce smoking among the nation's young people, which he said is a worthy goal.

But he said it also is important that the legislation protect the "tens of thousands of farmers" who have been the beneficiaries of the federal tobacco program — which he said has worked better over several decades than most other federal agriculture programs.

"We need a solution that provides



Richardson and Glickman examined weather-damaged leaf from last year's tobacco crop.

stability and is fair to the farmers and the small communities," he said.

Congress is considering a massive tobacco bill that would extract several hundred billion dollars from the tobacco industry, and in exchange provide them with some limited protection against lawsuits from parties alleging

Glickman reassures growers

Continued from Page F 1

they were injured by smoking.

The legislation has been in the works since last June, when tobacco companies and attorneys general for 40 states worked out a tentative agreement involving payment of \$368 billion by the industry and curbs on advertising.

Tobacco farmers have long believed that any time Congress considers any tobacco legislation, the federal tobacco program that keeps their prices stable is in jeopardy. The program long has been a target of anti-smoking forces.

The pending legislation also holds the potential of drastically reducing the amount of tobacco consumed, which could seriously cut farm income.

Farmers have had difficulty deciding among themselves what they should seek from Congress. Some favor a buyout that would give farmers who have depended on the program enough money to move to other crops.

Others say tobacco will be grown as long as it is legal, and they want to keep growing it, but they need the program to do it.

The program basically keeps prices up by limiting supply through quotas. The government finds out each year how much tobacco the companies expect to buy and how much can be sold overseas, and then divides up

the right to grow it among the farmers.

That way, the farmers don't over-produce and drive prices down. A price-support mechanism that involves government loans makes sure the farmers get an acceptable price even when the companies buy less than they said they would.

Kuegel and others — including U.S. Sen. Wendell Ford of Kentucky, who long has been tobacco's premiere champion in Congress — say the program enables families to make a living on much smaller farms than would otherwise support them.

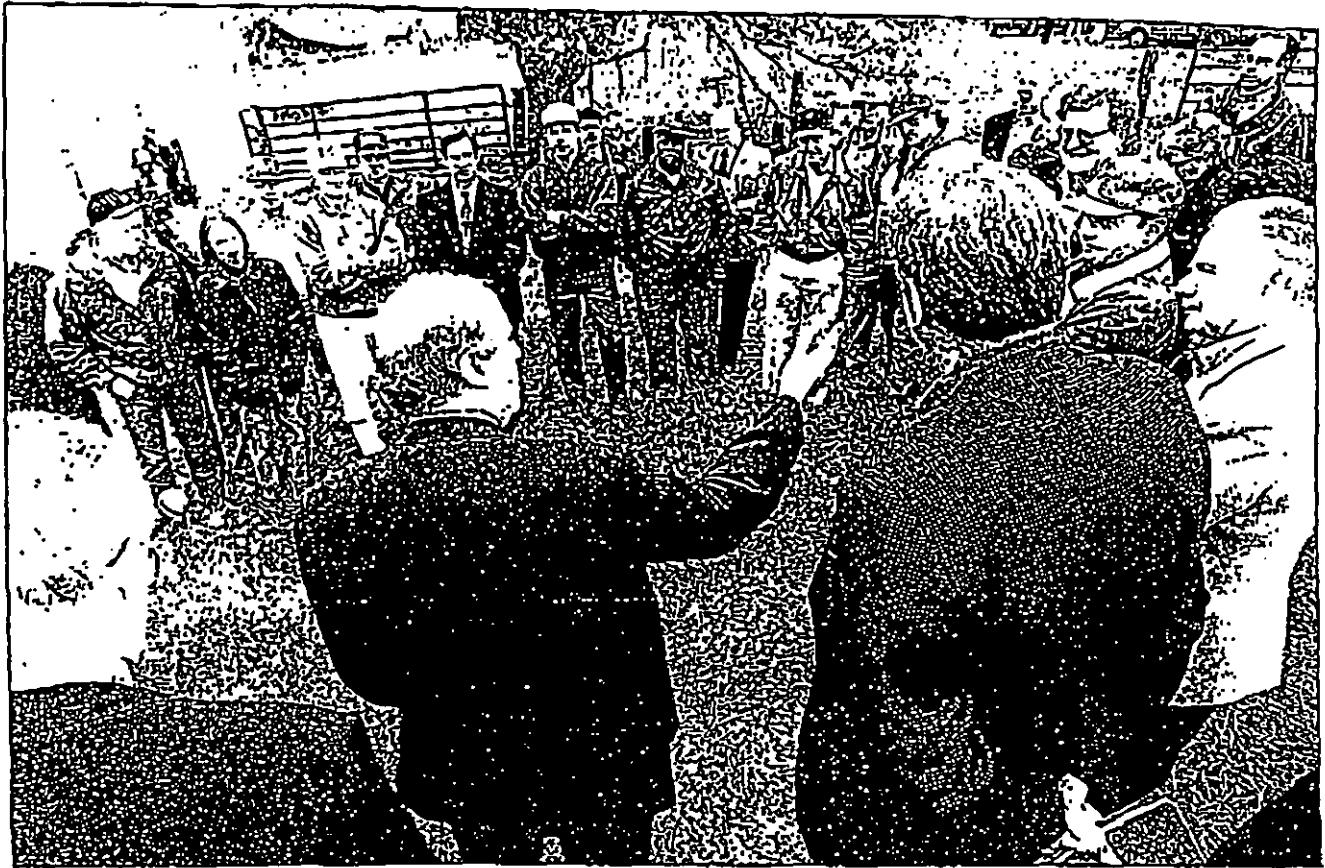
Picking up that theme at yesterday's forum, Kentucky Gov. Paul Patton urged that Glickman, when dealing with tobacco and other farm issues, "take into account the cultural value of small farms."

"Tobacco is the reason we have so many family farms, and so many Kentuckians enjoy the value of rural living," the governor said.

Glickman told reporters at a brief press conference after the forum that he assumes the President and legislators who champion tobacco will accept nothing less than a continuation of the program for farmers who want to keep growing tobacco, and a reasonable price for those who want out.

The pending legislation would do just that, buying quotas from those who want to opt out at \$8 a pound over 10 years.

Finding facts firsthand about family farms



PHOTOS BY FRANK ANDERSON/STAFF

Agriculture Secretary Paul Glickman, with hand outstretched, addressed about 25 Woodford County tobacco farmers yesterday, during a visit to the farm of Robert Richardson. Later, he held a USDA forum in a tobacco warehouse in Lexington.

U.S. agriculture secretary visits farms, hosts forum

By Kit Wagar
HERALD-LEADER STAFF WRITER

U.S. Agriculture Secretary Dan Glickman came to Central Kentucky yesterday to take the pulse of American agriculture, and farmers let him know that Kentucky lives and dies by tobacco price supports.

"We are not here to save tobacco," said Owensboro tobacco grower Rod Kuegel. "We are here to save the family farm. But you can't do one without the other in Kentucky."

Kuegel's comments set the tone for yesterday's farm forum, the first of seven such meetings Glickman is holding across the country to see firsthand how new federal farm policies are working. Sitting in a warehouse filled with the pungent aroma of cut tobacco, officials could not have gotten away from tobacco if they had tried.

Kuegel, who is president of the Burley

Tobacco Growers Cooperative Association, told Glickman and other federal agriculture officials that some farms in Kentucky have only 5 to 10 tillable acres.

"It's tobacco that makes them viable," Kuegel said.

Glickman said he understood the role that tobacco price supports had played in creating a nearly unique culture of small farms in Kentucky. He promised that tobacco farmers would not be left out of a national tobacco settlement.

"The president has said that a fair and reasonable settlement for tobacco farmers is a linchpin of any settlement," Glickman said.

But he declined to endorse a specific plan to protect farmers, saying only that the proposal by Democratic Sen. Wendell Ford of

See GLICKMAN, B2



Gov. Paul Patton, left, listened to Glickman speak at the USDA forum yesterday.

GLICKMAN: Talk covers tobacco, hemp, ostriches

Lexington Herald-Leader
Saturday, April 4, 1998

From Page B1

Kentucky was a positive step. The administration, he said, wants to get a consensus in Congress before endorsing a specific plan.

Ford has proposed a plan that would allow farmers to sell their tobacco quota to the government for \$8 a pound, paid over 10 years. Growers who lose quota could receive \$4 a pound. Farmers who chose to continue growing tobacco would still participate in a price-support system.

The farm forum, which attracted several hundred growers from across Kentucky, included questions that ran the gamut from ostrich farming to hemp growing.

Glickman said he was trying to end the Agriculture Department's traditional bias toward large operations by emphasizing research into ways that small and medium-size farms can be competitive.

He said he was concerned about overconcentration in the beef processing industry, where four firms have 80 percent of the market. In 1980, that portion of the market was shared by 12 firms. He said he is seeking tougher enforcement of antitrust laws to stop monopolistic practices.

He assured growers that the controversial proposed standards for organic foods would be changed. When the standards were issued for comment, he said, they generated some 15,000 responses, more than any other issue in modern history.

The proposed standards included many practices that organic farmers considered heresy. At \$4 billion a year, the organic foods industry can no longer be considered a fringe business, he said.

One farmer asked why the government was not moving to help the U.S. hemp industry. Hemp is legal in Germany and Canada, which is providing \$50 million in assistance to get the hemp industry up and running.

"That issue is to some extent above my pay grade," Glickman said, prompting laughter. He acknowledged that farmers in other states also had inquired about the possibility of growing hemp, a cousin of marijuana that lacks THC, the substance that causes marijuana to get high.

He said the future of hemp is tied up in anti-marijuana issues, so the Agriculture Department has made no decision on whether hemp promotion would be a good idea.

"All I can tell you is: Keep the information flow coming," he said.

Earlier in the day, Glickman visited the Woodford County tobacco farm of Robert Richardson. He told local growers they need to make their voices heard. All of agriculture faces a tough political situation, he said, because farmers make up only 2 percent of the population.

Under new farm policies, which phased out most price supports, the ultimate safety net is export markets, Glickman said. The Agriculture Department was trying to ensure that farm credit remained plentiful and that barriers to U.S. farm exports were eliminated. Farming, he said, is a growth industry because the world's population is exploding and people everywhere want U.S. farm products.

John Richardson, who raises cattle and with his brother grows 120 acres of tobacco, was unimpressed.

"It was about the same thing they say all the time," Richardson said.

"They talk more about grain farmers than tobacco farmers. It gets them off the subject of tobacco."