

PRIVILEGED AND CONFIDENTIAL  
M E M O R A N D U M

TO: Hillary Rodham Clinton  
FR: Chris Jennings, Steve Edelstein  
RE: Meeting with Senator Ford  
cc: Melanne, Steve, Distribution

May 27, 1993

Tomorrow you are scheduled to meet with Senator Ford. The purpose of this meeting is to establish a dialogue and a relationship in preparation for future negotiations regarding possible tobacco tax provisions as part of financing package for the health reform initiative.

In attendance will be Miles Coggans, special assistant to the President on Agriculture. Attached for your review is (1) a memo discussing the impact of a possible cigarette tax on tobacco production and the potential cost of ameliorating that impact (2) a memo prepared by USDA which provides a background on tobacco (3) a memo from USDA to Miles Coggans outlining the various ways tobacco receives support from the Federal government, and (4) a summary of Senator Ford's health background.

**BACKGROUND:**

Senator Ford wants very much to be the dealmaker regarding any tobacco tax that included in the financing provisions of the Administration's health reform plan. As you know, tobacco is a significant part of Kentucky's farm economy and as such any tax on tobacco will have a major impact on key constituents of his state.

Senator Ford has a well earned reputation in the Senate for aggressively protecting his home state interests. However, in previous discussions with the Senator he has indicated some willingness to discuss a tobacco tax as long as there was some effort to help the Kentucky's tobacco growers.

Senator Ford does not view this meeting as a deal cutting meeting, but rather a general discussion of the issues and an opportunity to establish a relationship to facilitate such a meeting at a future date. You may wish, however to use this meeting as an opportunity to demonstrate your understanding of the issues surrounding the tobacco tax and farm subsidies.

You may also wish to seek Senator Ford's opinion about the advisability of including Congressman Rose at future discussions between you and the Senator on this issue. Congressman Rose of North Carolina envisions a similar deal making role on a tobacco tax for himself in the House.

# ATTACHMENT I

## Cigarette Tax Increase and Tobacco Quota Buyout

The Administration, some members of Congress, and others have proposed raising cigarette excise taxes to help pay for health care reform. Different amounts of increase have been proposed but they range from a few cents to \$2.00 per pack. To evaluate the full potential effects of the increase we will assume the tax is jumped \$2.00 per pack.

An increase of \$2.00 per pack of 20 in the Federal excise tax would reduce U.S. cigarette consumption by 25 to 40 percent from 500 billion to 300 to 375 billion cigarettes. As a result, U.S. tobacco production could fall as much as 30 percent.

To soften the impact of the decline in U.S. tobacco production, a proposal has been made to pay quota owners to retire unneeded quotas. Quotas are pounds of tobacco for which government price support is available. Since quotas cannot be sold between counties, the capitalized value of quota varies widely from as little 25 cents in some marginal producing counties to as much as \$3.50 per pound in some of the most extensive producing counties. A wider variation probably exists for burley quota values than for flue-cured but both vary considerably. Burley and flue-cured are the major cigarette kinds of tobacco grown in the United States. Burley is grown mainly in Kentucky and Tennessee and flue-cured is produced mostly in North Carolina, South Carolina, Georgia, and Virginia.

The average capitalized value of flue-cured and burley quotas probably averages \$2.00 to \$2.50 per pound. For illustrative purposes, we will use \$2.25 per pound. In 1993, the flue-cured effective quota totals 890 million pounds and the burley effective quota totals 730 million pounds. If an additional \$2.00 per pack excise tax was imposed, flue-cured and burley quotas would fall about 500 million pounds. The flue-cured quota would fall about 230 million pounds and burley about 270 million pounds because of the decline in cigarette consumption and cost-saving measures for producing cigarettes. The relative decline in burley would be greater because a larger share of burley is used domestically to produce cigarettes. At an average rate of \$2.25 per pound, it would require about \$1.1 billion to buy out the unneeded burley and flue-cured quotas. In addition, if other tobacco product taxes were increased at the same rate as cigarettes, another \$100 million would be required to purchase fire-cured, dark air-cured and cigar acreage allotments (Production is controlled by acres rather than pounds for these kinds).

There are about 450,000 individual tobacco quota owners in 15 states in the United States. Around 300,000 or two-thirds are burley quotas. There are about 55,000 flue-cured quotas and 95,000 fire-cured, dark air-cured, and cigar acreage allotments. About 200,000 of the burley quotas are 2,000 pounds (1 acre) or less. These quota owners would likely have the greatest interest in selling quota. Flue-cured quotas are much larger averaging

over 16,000 pounds per quota. A likely scenario might see 125,000 burley quotas, 15,000 flue-cured, and 30,000 other allotments retired.

An increase in the Federal cigarette excise tax would clearly increase Federal revenues. A \$2.00 a pack increase in the excise tax could increase Federal tax revenues \$30 to \$35 billion. However, consumption would likely decline more than could be attributed to the Federal tax increase because States would likely increase their excise taxes and manufacturers would likely increase prices more than the amount of the tax increase to recover losses from lower cigarette consumption. The additional decline in consumption attributable to factors other than the Federal tax increase would represent a reduction in potential tax receipts. Consequently, Federal excise tax collections after a \$2.00 hike might be closer to \$25 billion than \$35 billion.

Gains from the increase in Federal tax revenues with a higher cigarette tax would be offset by several losses. State taxes would decline by \$2 to \$3 billion (unless rates were increased), both agricultural and nonagricultural jobs would be lost-- estimates indicate 1 to 1.5 million jobs could be lost. Some community infrastructures could be decimated by reductions in tobacco production, particularly marginal producing areas. Tenants, farmworkers, tobacco warehouse operators, chemical, fuel and fertilizer dealers, bankers, equipment dealers and others

together with former tobacco growers might well leave some tobacco growing areas.

Although a buyout of quotas would soften the impact of reduced tobacco production in local economies, there is a concern that much of the money would not be reinvested locally. Consequently, other economic assistance in addition to a quota buyout might be needed. Clearly, tenants who own little or no quota would be hurt by a big drop in tobacco production and farmworkers employment opportunities would be reduced.

Because tobacco farms are small, traditional crops such as corn and soybeans do not come close to replacing tobacco as a source of income. Other high value crops such as vegetables offer only limited opportunities because these crops can be produced more economically in other areas. Consequently, other economic assistance in addition to a quota buyout might be needed to retrain tenants and farm operators for off-farm jobs, explore alternative agricultural enterprises and provide training for a limited number of people, provide investment capital for new farm and nonfarm business ventures to generate economic activity and help replace the tax base lost because of reduced tobacco production. Although tobacco farming areas would experience the greatest impact of a \$2.00 Federal tax increase, reduced cigarette consumption would cause unemployment of cigarette manufacturing plant workers, wholesalers, distributors, and retailers.

## ATTACHMENT 2

MAY 27, 1993

MEMORANDUM TO: HEALTH CARE TASK FORCE  
FROM: U.S.D.A.  
SUBJECT: BACKGROUND ON TOBACCO

Tobacco is produced in 20 states. In 15 states, tobacco production is under the Federal price support-production control program. Growers vote whether or not they wish to be covered by the Federal program. If covered, they are guaranteed minimum prices for their tobacco. Most costs of operating the tobacco program are borne by growers and manufacturers.

Tobacco is produced on relatively small farms. There are two major cigarette kinds: flue-cured and burley. Burley is grown mainly in Kentucky and Tennessee. Flue-cured is produced mainly in North Carolina, South Carolina, Virginia, and Georgia. Burley farms are small averaging only about 3 acres of tobacco per farm. Flue-cured farms are somewhat larger and average around 25 acres per farm. About 2,200 pounds of tobacco is produced per acre. Gross income from an acre of tobacco totals nearly \$4,000 per acre. Net income totals \$1,000 to \$2,000 per acre. After falling sharply in the mid-1980's, grower incomes have increased from 1986 to 1992. However, big jumps in cheaper imported leaf is causing production to decline in 1993. Unless imports are curtailed, further declines in production are expected in subsequent years.

Traditionally, tobacco growers, warehouse operators, export dealers, and cigarette manufacturers have been united on issues facing the tobacco industry. However, large increases in imports have caused some grower groups to question their commitment to support for limiting increases in Federal excise taxes. For their support, growers are seeking a commitment from tobacco companies that they will limit imported leaf use in their cigarette blends. Some grower groups prefer that the commitments be incorporated into law because they feel cigarette companies reneged on promises of the mid-1980's to limit use of imported leaf.

The proposed Federal cigarette tax increase of \$1.00 to \$2.00 per pack of 20 cigarettes would reduce U.S. consumption 25 to 40 percent. Tobacco production would decline 25 to 30 percent. The relative decline in burley would be greater because a larger share of burley is used domestically to produce cigarettes. Because tobacco farms are small, traditional crops such as corn and soybeans do not come close to replacing tobacco as a source of income. Other high value crops such as vegetables offer only limited opportunities because

these crops can be produced more economically in other areas.

To soften the impact of the decline in U.S. tobacco production, a proposal has been made to pay quota owners to retire unneeded quotas. Quotas are pounds of tobacco for which government price support is available. The capitalized value of quotas averages about \$2.25 per pound. With a \$2.00 per pack increase in the Federal excise tax, about 500 million pounds of current quota would be unneeded. Consequently, at the current capitalized rate, about \$1.1 billion would be needed to buy out quotas. Around 170,000 of the 450,000 quotas might be sold under such a program.

In addition to quota owners, a drop in tobacco production would hurt tenants who own little or no quota and farm workers. Consequently, in addition to a quota buy out, assistance for retraining for off-farm jobs, investment capital for new farm and non-farm businesses, and exploration of alternative agricultural enterprises for a limited number of people would be needed.

Tobaccos' political base is far-reaching. It is a major source of income in 6 states and is grown in 14 others.

1991 BURLEY TOBACCO  
LIST RANKING FOR EFFECTIVE QUOTAS

RANK	REPRESENTATIVE	PARTY	STATE	CONG. DIST.	POUNDS
1	Scotty Baesler	D	KY	06	162,244,766
2	William H. Natcher	D	KY	02	137,183,403
3	Jim Bunning	R	KY	04	125,365,214
4	James H. Quillen	R	TN	01	73,014,959
5	Tom Barlow	D	KY	01	64,024,880
6	Harold Rogers	R	KY	05	52,151,602
7	Bart Gordon	D	TN	06	50,781,804
8	Jim Cooper	D	TN	04	33,992,064
9	Rick Boucher	D	VA	09	33,949,265
10	Lee H. Hamilton	D	IN	09	22,870,524
11	Charles H. Taylor	R	NC	11	20,767,283
12	<del>Robert</del> <i>RES PORTMAN</i>	R	OH	02	17,763,911
13	Don Sundquist	R	TN	07	15,388,842
14	John J. "Jimmy" Duncan, Jr.	R	TN	02	14,367,044
15	Cass Ballenger	R	NC	10	13,149,774
16	Stephen L. Neal	D	NC	05	9,210,333
17	Ted Strickland	D	OH	06	8,473,616
18	Pat Danner	D	MO	06	7,271,025
19	Nick Joe Rahall II	D	WV	03	4,253,729
20	Marilyn Lloyd	D	TN	03	4,191,937
21	Robert E. Wise, Jr.	D	WV	02	3,534,626
22	Bob Clement	D	TN	05	3,436,634
23	John S. Tanner	D	TN	08	1,190,785
24	Romano L. Mazzoli	D	KY	03	960,995
25	Lewis F. Payne, Jr.	D	VA	05	613,951
26	Frank McCloskey	D	IN	08	571,664
27	Philip R. Sharp	D	IN	02	447,746
28	Nathan Deal	D	GA	09	239,891
29	David L. Hobson	R	OH	07	179,462
30	Harold L. Volkmer	D	MO	09	153,938
31	Douglas Applegate	D	OH	18	140,523
32	David Mann	D	OH	01	139,006
33	Jim Slattery	D	KS	02	114,150

1991 BURLEY TOBACCO  
LIST RANKING FOR EFFECTIVE QUOTAS

RANK	REPRESENTATIVE	PARTY	STATE	CONG. DIST.	POUNDS
34	Ike Skelton	D	MO	04	110,226
35	Robert W. Goodlatte	R	VA	06	97,299
36	John T. Myers	R	IN	07	72,214
37	Alan B. Mollohan	D	WV	01	63,975
38	Mel Hancock	R	MO	07	48,553
39	Bud Cramer	D	AL	05	35,994
40	Norman Sisisky	D	VA	04	25,229
41	Tim Hutchinson	R	AR	03	22,238
42	Dan Burton	R	IN	06	21,436
43	Bill Emerson	R	MO	08	11,351
44	J. Alex McMillan	R	NC	09	10,323
45	Tony P. Hall	D	OH	03	5,423
45	John A. Boehner	R	OH	08	5,423
46	Thomas J. Bliley, Jr.	R	VA	07	2,942
47	Howard Coble	R	NC	06	1,902
47	Melvin Watt	D	NC	12	1,902



1991 FLUE-CURED TOBACCO  
LIST RANKING FOR EFFECTIVE QUOTAS

RANK	REPRESENTATIVE	PARTY	STATE	CONG. DIST.	POUNDS
1	Eva Clayton	D	NC	01	287,115,689
2	Tim Valentine	D	NC	02	192,090,160
3	H. Martin Lancaster	D	NC	03	162,400,167
4	Stephen L. Neal	D	NC	05	97,495,162
5	Charles Rose	D	NC	07	83,900,188
6	Lewis F. Payne, Jr.	D	VA	05	66,922,012
7	James E. Clyburn	D	SC	06	65,992,461
8	W. G. "Bill" Hefner	D	NC	08	49,931,619
9	J. Roy Rowland	D	GA	08	47,634,084
10	Arthur Ravenel, Jr.	R	SC	01	35,277,070
11	Jack Kingston	R	GA	01	34,009,365
12	Melvin Watt	D	NC	12	33,534,182
13	David E. Price	D	NC	04	29,591,644
14	John M. Spratt, Jr.	D	SC	05	25,883,888
15	Howard Coble	R	NC	06	24,029,790
16	Sanford Bishop	D	GA	02	21,334,182
17	Cass Ballenger	R	NC	10	20,949,728
18	Douglas (Pete) Peterson	D	FL	02	14,102,214
19	Norman Sisisky	D	VA	04	13,745,158
20	Corrine Brown	D	FL	03	4,693,185
21	Karen L. Thurman	D	FL	05	3,183,337
22	Floyd Spence	R	SC	02	1,190,978
23	Cliff Stearns	R	FL	06	1,022,344
24	Terry Everett	R	AL	02	734,413
25	Cynthia McKinney	D	GA	11	501,192
26	Thomas J. Biley, Jr.	R	VA	07	434,229
27	Robert C. Scott	D	VA	03	265,047
28	Robert W. Goodlatte	R	VA	06	242,232
29	Tillie Fowler	R	FL	04	67,431
30	Earl Hutto	D	FL	01	57,970
31	Rick Boucher	D	VA	09	42,495
32	J. Alex McMillan	R	NC	09	7,841
33	Glen Browder	D	AL	03	2,320



United States  
Department of  
Agriculture

Agricultural  
Stabilization and  
Conservation Service

P.O. Box 2415  
Washington, D.C.  
20013

TO: Miles Goggans, Special Assistant to the President

FROM: Dallas R. Smith, Director *Dallas R. Smith*  
Tobacco and Peanuts Division

SUBJECT: Various Ways Tobacco Receives Support from the Federal Government and  
Names of Principle Interested Parties on Capitol Hill.

### BACKGROUND

Beginning with the 1982 crop, the No Net Cost Tobacco Program Act of 1982 (the Act) mandated that the tobacco price support loan program be administered in such a manner as to result in no net cost to the taxpayers **other than such administrative expenses as are incidental to the implementation of any commodity.** The Act provides authority for USDA to impose producer and purchaser assessments to be used to reimbursement the federal government should the price support program incur losses.

However, because the law exempted price support administrative expenses and non price support activities are not included in the No Net Cost law, USDA does incur expenditures of approximately \$31 million annually. These funds are expended through nine (9) different USDA agencies. The following is a list of the agencies and amounts expended for FY 1992:

<u>AGENCY</u>	<u>EXPENDITURE</u> (million\$)
Agricultural Stabilization and Conservation Service (Price Support)	\$16.3
Agricultural Marketing Service (Market News & Standards)	1.1
Federal Crop Insurance Corporation (Indemnities and Premium Subsidy)	3.3
Agricultural Research Service (Market and Health Research)	5.5
Cooperative State Research Service (Plant Research-insects, weeds, etc.)	2.6
Extension Service (Education and Pest Management Programs)	.8
Economic Research Service (Forecasting and Projections)	.2
National Agricultural Statistic Service (Tobacco Statistic Reports)	.6
Foreign Agricultural Service (World Market Development)	.5
<b>Total</b>	<b>30.9</b>

### CONGRESSIONAL INTEREST

#### Senate

Jessie Helms  
Wendell Ford  
Mitch McConnell

*Howell Heflin*  
*Sam Brown*

#### House of Representatives

Charlie Rose  
Eva Clayton  
Scott Baesler  
Steve Gunderson  
Martin Lancaster  
James Clyburn  
James Quillen



**SENATOR WENDELL FORD (D-KY) (The Senate Majority Whip)**

Senator Ford, the Chairman of the Rules Committee and the Majority Whip, wants to be helpful to the President. During his reelection campaign this year he talked about wanting to work with a President who would sign health care legislation passed by Congress. However, he is a fierce protector of the interests of his state. As he says, "if it is not good for Kentucky, I'm not for it." As a result, Ford can be expected to fight any tobacco tax. He is also nervous about mandated benefits and wants freedom of choice for consumers. He also has a personal interest in health care since his daughter is undergoing chemotherapy following a mastectomy and his brother-in-law is a pediatrician in Kentucky.

Senator Ford opposes giving states too much flexibility, because some may not be prepared for the responsibility. But more likely, it comes down to local politics, and a long-standing feud with Kentucky's Governor Brereton Jones. As a result it places Ford in the unusual position of opposing State-based reform at the same time Kentucky's Democratic Governor is pursuing such an initiative.

At the retreat in Jamestown, Senator Ford noted that his state produces coal, liquor, and tobacco, and that the Administration has been hitting all of these industries and will continue to do so. He expressed a willingness to take the hit on sin taxes, but needs a quid pro quo (something for his 95,000 farmers).