

**NLWJC - KAGAN**

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**CM014      260050SS [1]**

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**OA/ID Number:** 21724  
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# Withdrawal/Redaction Sheet

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**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]
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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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cm014

THE WHITE HOUSE  
WASHINGTON

April 8, 1998

THE PRESIDENT HAS SEEN  
4-9-98

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 price 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.

<b>Payments to Tobacco Farmers Under Proposed Legislation</b>		
	<b>Burley, fire-cured, and dark air-cured tobaccos</b>	<b>Flue-cured tobacco</b>
<b>Buy-out</b>	<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
<b>Those who remain in program --quota or permit</b>	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.
<b>Payments to remaining quota holders who remain in system</b>	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
<b>Lessees (burley), renters (flue-cured), and tenants (essentially sublessees)</b>	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

**KENTUCKY TRIP**

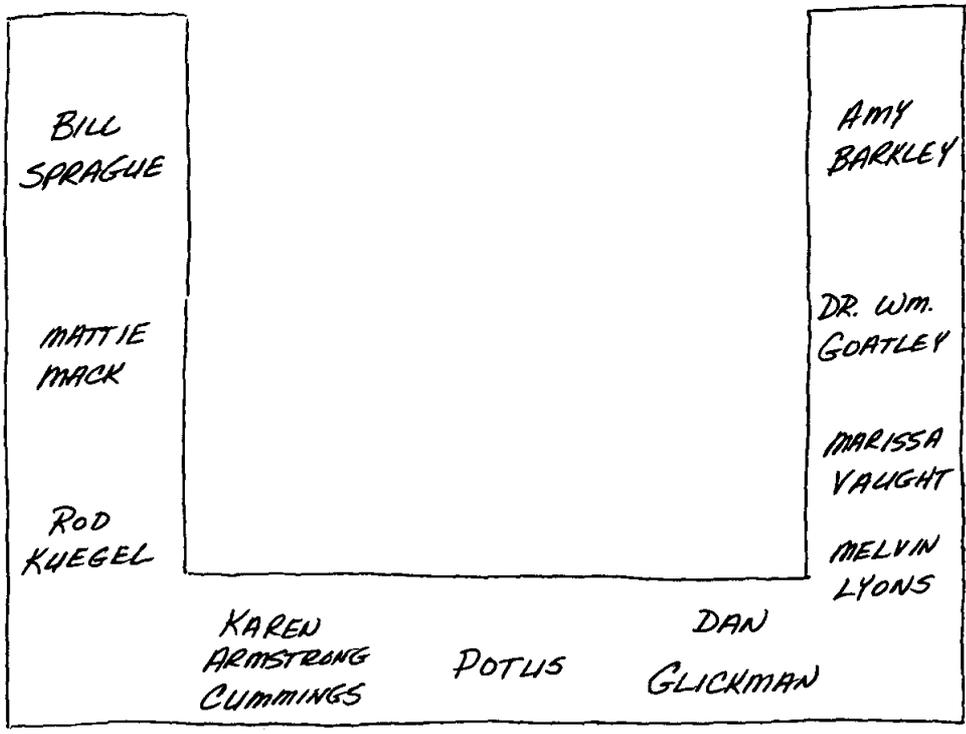
**and**

**ROUND TABLE WITH TOBACCO FARMERS**

**April 9, 1998**

Phil - should we copy  
Josh on 2nd page?

Del  
No - different  
Josh - Josh being  
doesn't work here  
anymore



ACKNOWLEDGE

Senator Wendell Ford  
Rep Scotty Baesler  
Governor Paul Patton  
Secretary Dan Glickman

THE PRESIDENT HAS SEEN  
4-9-98

STATE

Lt Gov Stephen Henry  
Auditor Edward Hatchett  
Senate President Larry Saunders  
State Senator Walter Blevins  
House Speaker Jody Richards  
~~Agriculture Commissioner Billy Ray Smith~~

LOCAL

Mayor Bill Welty, Carrollton  
~~Mayor Rosanne Qualls, Cincinnati~~  
Gene McMurry, Carroll County Judge Executive

OTHER

~~\_\_\_\_\_~~

- JACQUELINE JONES, INTRODUCER, CARROLL COUNTY SENIOR
- DR ROBERT BIGGIN, SUPERINTENDENT
- RANDY MARCUM, PRINCIPAL
- DR ~~WILBERT~~ GOATLEY, PASTOR - EMINENCE KY BAPTIST CHURCH  
WILBERT
- Mouledouby

# THE PRESIDENT HAS SEEN

4-9-98

## Event Participants: /

Secretary Glickman

Melvin Lyons, Owner of the Kentuckiana Tobacco Warehouse.

Rod Kuegel (KEE-gull), President of the Burley Tobacco Growers Cooperative, Inc.

Amy Barkley, Director of the Coalition for Health and Agricultural Development, Inc.

Mattie Mack, Owner of a small tobacco farm who has raised many foster children.

Karen Armstrong Cummings, Director of the Commodity Growers Cooperative.

Bill Sprague, President of the Kentucky Farm Bureau, the largest farm organization in KY.

Marissa Vaught, Carroll County High School Junior who is active in anti-smoking activities.

Dr. William Goatley, Pastor of the First Baptist Church of Eminence, Kentucky.

\*Governor Patton, Senator Ford and several other state and local elected officials will be present, but not participate in the round table discussion. However, you should feel free to call on Governor Patton and/or Senator Ford to make comments at the conclusion of the round table discussion. [Note: Governor Patton and Senator Ford will be speaking in the program at the Carroll County High School following this event.]

## IV. PRESS PLAN

Pool Press.

## V. SEQUENCE OF EVENTS

- YOU will enter the room and greet each of the round table participants and elected officials present.
  - Once YOU have taken your seat, the pool will enter the room.
  - YOU will make an opening statement.
  - YOU will then invite the participants to speak by posing a question to each person.
  - YOU will first call on Melvin Lyons, the owner of the Kentuckiana Warehouse, to thank him for hosting you and describe the work that takes place at the warehouse.
  - YOU will then pose questions to each of the participants, concluding with Secretary Glickman.
- [\*SEE ATTACHED SCRIPT]
- YOU will then make brief informal closing remarks and then depart.

## VI. REMARKS

Talking points for opening statement provided by Speechwriting.

*Handwritten notes:*  
- speak mel lyons  
- pose a ? to each speaker  
- Glad to end

## TOBACCO ROUND TABLE PARTICIPANTS

(IN SUGGESTED SPEAKING ORDER)

**Melvin Lyons**, Owner of the Kentuckiana Tobacco Warehouse.

***SUGGESTED QUESTION:*** *Thank you for hosting us here today. Could you please explain for everyone here today what work goes on in this warehouse?*

**Rod Kuegel (KEE-gull)**, President of the Burley Tobacco Growers Cooperative, Inc. He currently farms 70 acres of tobacco, as well as other crops. He has worked closely with the Campaign for Tobacco Free Kids in developing the Core Principles against youth smoking between the tobacco producers and the public health community. He is very supportive of Senator Ford's bill to continue the tobacco program. He is also the Chairman of Secretary Glickman's Burley Advisory Committee.

***SUGGESTED QUESTION:*** *Do you think that we can reduce youth smoking while protecting tobacco farmers and their communities?*

**Amy Barkley**, Director of the Coalition for Health and Agricultural Development, which is a statewide organization of public health advocates and farmers who work together to address both economic development and public health issues relating to tobacco.

***SUGGESTED QUESTION:*** *How does the public health community work together with the farming community here in Kentucky?*

**Mattie Mack**, Owner of a small tobacco farm. She has raised 38 foster children and four of her own children through the success of her farm. She is adamantly opposed to youth smoking and is proud that none of the children she has raised smoke.

***SUGGESTED QUESTION:*** *You bring new meaning to the phrase "family farmer." What has your farm meant to you and the children you have raised?*

**Karen Armstrong Cummings**, Managing Director of the Commodity Growers Cooperative, which develops markets for family farm products to help protect the future of small farms. She is very active locally against teen smoking.

***SUGGESTED QUESTION:*** *What can the government do to help protect the small farmer?*

**Bill Sprague**, President of the Kentucky Farm Bureau, the largest farm organization in the state. He is a fifth generation farmer and has 3,000 acres of tobacco crop.

***SUGGESTED QUESTION:*** *Do you think it is crucial to farmers in Kentucky for tobacco legislation to be passed soon? Can you tell us what impact the lack of resolution is having?*

**Marissa Vaught**, Carroll County High School Junior. Her grandmother died of lung cancer from smoking, and she has since become very active in her high school to prevent teen smoking.

***SUGGESTED QUESTION:*** *What prompted you to get involved in efforts to reduce teen smoking at your school?*

**Dr. William Goatley**, Pastor, First Baptist Church, Eminence, Kentucky

***SUGGESTED QUESTION:*** *Do you believe there is a role for the religious community in the fight against youth smoking?*

**Secretary Dan Glickman**

***SUGGESTED QUESTION:*** *Do you have further comments before we close?*

THE PRESIDENT HAS SEEN

4-9-98

Cannon City HS

## RESULTS OF SMOKING SURVEY

NINTH GRADE (136)      TWELFTH GRADE (51)

PERCENT WHO DO NOT SMOKE                      63.9%                      64.7%

### SMOKERS

Family smokes  
Friends smoke                      81.6%                      61%

Family smokes  
Friends don't                      4%                      0%

Family doesn't  
Friends do                      12%                      38.8%

Family doesn't  
Friends don't                      2%                      0%

Percent of smokers who would like to quit                      48.9%                      50%

Percent of smokers whose family depends on tobacco                      12.5%                      21.5%

### NON-SMOKERS

34.7%

Family smokes  
Friends smoke                      24%                      12%

Family smokes  
Friends don't                      27.5%                      9%

Family doesn't  
Friends do                      18%                      30%

Family doesn't  
Friends don't                      29.9%                      48%

Percent whose family depends on tobacco                      21%                      23.5%

44.5076

THE PRESIDENT HAS SEEN  
4-9-98

Lynn

Kuegel

→ Four Four - million cups

K. Buehling

~~★~~ Alt Concentration

① Protest, Pres 21stc

② Min, famer

THE WHITE HOUSE

③ Cont Bill Courts

EXPERTS

④ FBI See Crime  
Skilled

MARILYN MOORE

⑤ Fiscal  
Reception

- URBAN INSTITUTE

THE PRESIDENT HAS SEEN

GARY BURTLESS

4-9-98

- BROOKINGS INSTITUTION

FRED GOLDBERG

- SKADDEN ARPS FIRM

DAVID WALKER

- ARTHUR ANDERSON

SEN KERREY REP HULSHOF

SEN SANTORUM REP POMEROY

107 → TR. NUMBER

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- ② DEKOR
- ③ BEH. DEKOR
- ④ ROTIM. SEW
- ⑤ SEW. SEW

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THE PRESIDENT WAS SEEN  
 H-9-98

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THE PRESIDENT HAS SEEN

4-9-98

**Additional points on individual accounts**

**PROS**

- **Higher Returns.**
- **Greater Sense of Control.**

**CONS**

- **Risk Borne By Individual**
- **Administrative Costs**
- **Transition Costs Could Be Significant**
  - Social Security taxes pay for your parents' or grandparents' benefits.
  - Some forms of individual accounts have significant transition costs: one generation pays twice (once for their parents, and once for their own individual accounts), or many generations to share those costs.

Rain Ret Age  
Cur CPI  
inc. in time  
~~shift~~ 1%

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THE PRESIDENT WAS SEEN  
4-9-98

2.23

## **INDIVIDUAL ACCOUNTS**

**Many Ideas Are on the Table As Part of a Comprehensive Plan. Overall Plan Must Meet Principles.**

**Opposed to Radical Privatization, but Not Necessarily All Individual Accounts.** Radical privatization means that the Social Security system would no longer meet one of my principles.

Don't want to pass judgment on all forms of accounts. Need fair hearing.

## ISN'T SOCIAL SECURITY A LOUSY DEAL? WOULDN'T I DO BETTER INVESTING MYSELF?

- **Social Security is More Than a Retirement Program.**
  - It provides disability insurance and survivors' insurance.
  - For example, typical 35-year old worker with a spouse and one young child, earning roughly \$27,000 a year. If worker either becomes disabled or dies, the worker's family receives up to \$17,500 a year under Social Security.
  - Social Security's benefit always there for you, no matter what happens to stocks, interest rates, inflation.
- **Second, Your Payroll Taxes Do Two Things: They Are Your Contribution to Your Later Benefits, But They Also Pay Now For Your Granparents' and Parent's Benefits.**

## INVESTING TRUST FUNDS IN EQUITIES

### Important Issue to Be Discussed.

#### Pros:

1. **Higher Returns.** Over long period of time, stock market yielded more.
2. **Low Administrative Cost.** Social Security's costs only 0.8 percent of annual payments.
3. **Canadian Example.** Canada recently moved to invest Social Security in stock market.

#### Cons

1. **Concerns Over Government Interference in the Stock Market.**
2. **Higher Risk.** Blessed with strong stock market. But need to remember that stock markets fluctuate. Stocks have higher risk.

## **AREN'T YOU RAIDING THE TRUST FUNDS?**

- **When Social Security receives more money than needs to pay benefits, receives bonds which are paid back later when it needs the money.**
  - Bonds backed by full faith and credit of United States
  - Congress would have to change the law *not* to make good on Trust Funds' bonds.
- **Prior to 1993, some concerned that we could not afford to pay back bonds later, when Social Security needed money.**
- **But put fiscal house back in order -- making it easier to repay bonds without squeezing other parts of the budget.**
  - Cut deficit from \$290 billion in 1992 to roughly balance now
  - Surplus of over \$1 trillion over the next decade
  - Can pay back bonds held by the Social Security Trust Funds through 2029.

## **DISABILITY INSURANCE**

- There are currently 6 million disabled workers and their dependents receiving Social Security benefits -- 14 percent of the total.
- 1.7 percent of the 12.4 OASDI tax goes to disability benefits. The other 10.7 percent goes to retirement and survivors benefits.
- The probability of becoming disabled between age 20 and age 65 is 26 percent. That is, 1/4 of 20 year-olds would be expected to be disabled during their working life.
- Consider a typical 35-year old worker with a spouse and one young child (under 18). The worker is earning roughly \$27,000 a year. If the worker either becomes disabled or dies, the worker's family will receive up to \$17,500 a year.

## BACKGROUND ON SOCIAL SECURITY

- Social Security represents main source of income for 2/3 of elderly beneficiaries, and are *only* source of income for 18 percent.
- Elderly poverty rate down from more than 35 percent in 1959 to 10.8 percent in 1996. Even today, would be 48 percent without Social Security. Social Security benefits lift roughly 15 million *elderly* Americans out of poverty (and another 1 million non-elderly Americans out of poverty).
- Very important to women -- for single elderly women, poverty rate would be 60 percent without Social Security (relative to 20 percent with Social Security).
- Nearly one-third of Social Security's 44 million beneficiaries are either disabled or survivors (or their dependents).
- 3.8 million children receive benefits: 1.9 million as survivors of deceased parents; 1.4 million as children of disabled workers; and 0.4 million as children of retired workers.

## MOYNIHAN

- **Year of Debate.**  
-- This year should be used to elevate the debate on Social Security.
- **Deserve Credit for Putting Forward a Full Comprehensive Plan.**  
-- Regardless of specific proposals, deserve credit for putting forward a full comprehensive plan.
- **Generated Real Debate.**  
-- Already provoked real debate.
- *If pushed:* One of my principles is that need to preserve financial security for low-income and disabled. Want to ensure that under any plan, those at the bottom end up with a strong benefit.

## GINGRICH, KASICH, AND ROTH

- **Gratified That They Are Coming Forward With Proposals.**  
-- Answering my call to make this a year of debate on Social Security.
- **But We Must Save Social Security First: Do Not Drain the Surplus Before We Achieve Comprehensive Reform.**  
-- Republican plans for individual accounts are not comprehensive.
- *If pressed:* A major question -- which I am not ready to decide yet -- is whether individual accounts can form part of an overall plan that meets my principles.

## GENERAL TALKING POINTS ON TAX ISSUES

- **Should Not Have to Raise Payroll Tax *Rate* as Part of Comprehensive Plan.**
- **But Don't Want to Take Things Off the Table -- Give Everything a Fair Hearing.**
- **Bipartisan Process for Fair and Workable Solution. Confident can come up with a fair and workable bipartisan solution.**

THE WHITE HOUSE  
WASHINGTON  
ORM OPTICAL DISK NETWORK

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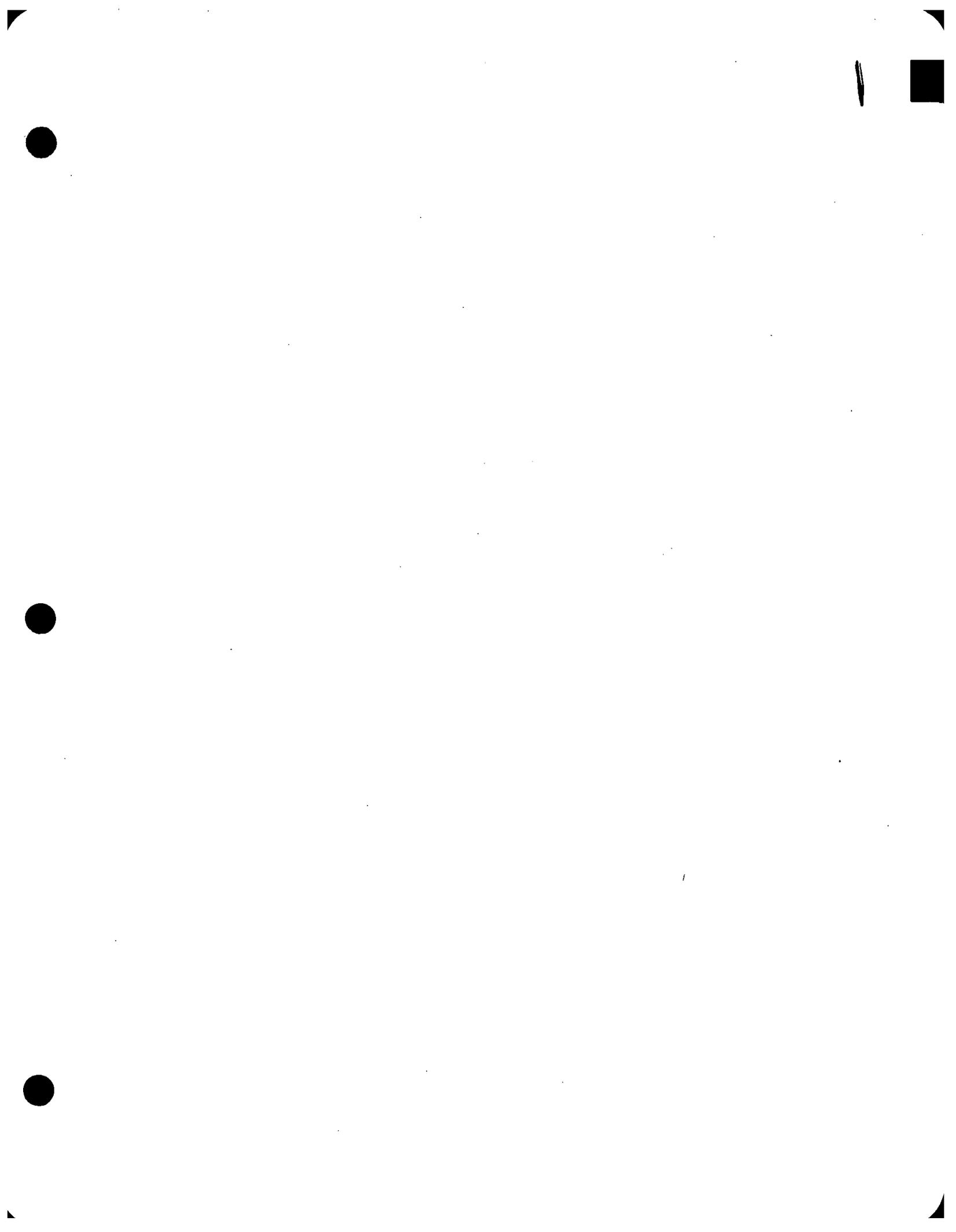
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Comments:

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**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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## 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.

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## **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**

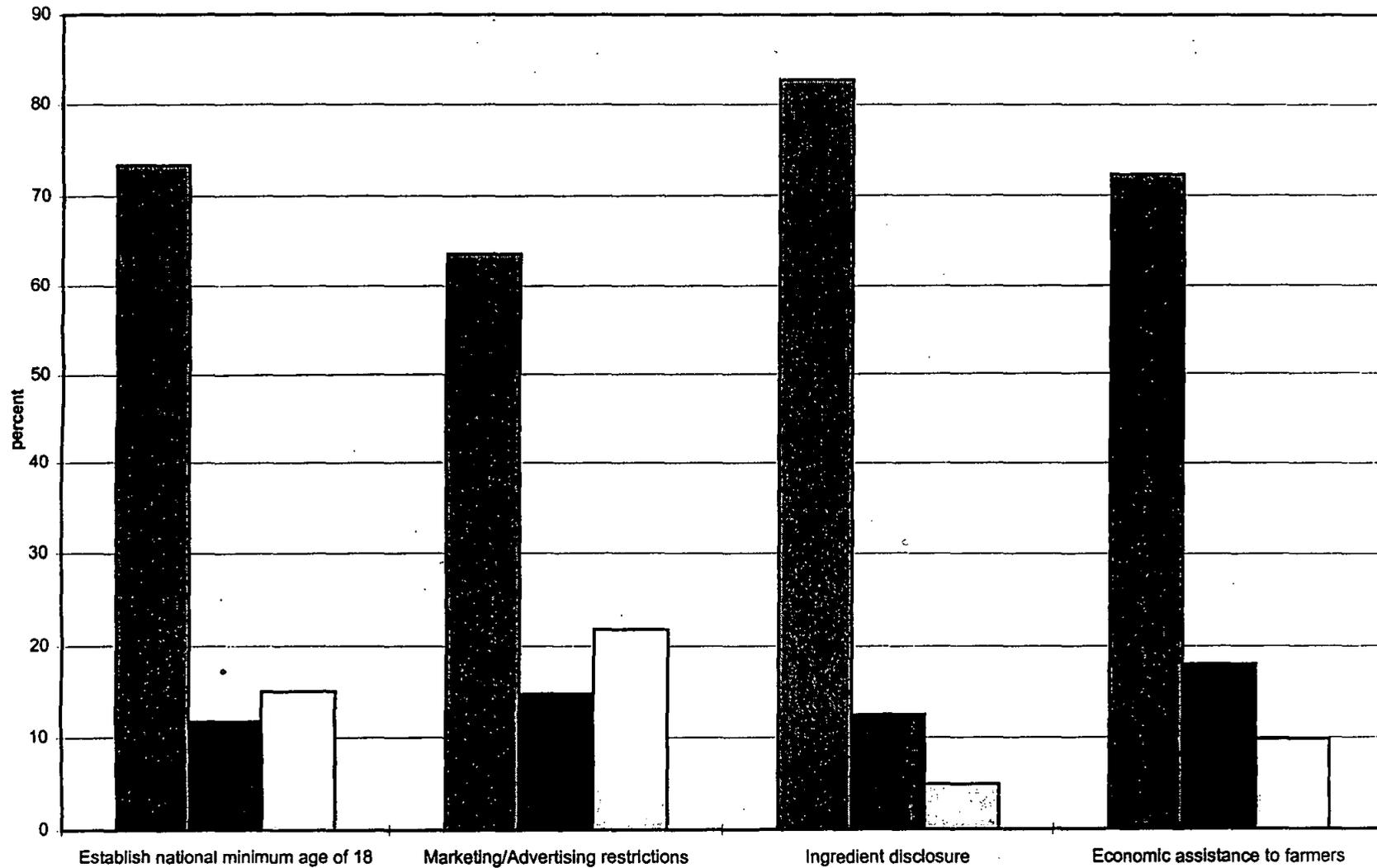
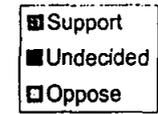
The uncertainty on the part of tobacco farmers about the future of the enterprise may reflect, in part, their apparent ambivalence toward the tobacco companies. One-half of those surveyed disagree strongly (32%) or somewhat (18%) that tobacco companies are concerned about the well-being of tobacco farmers,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

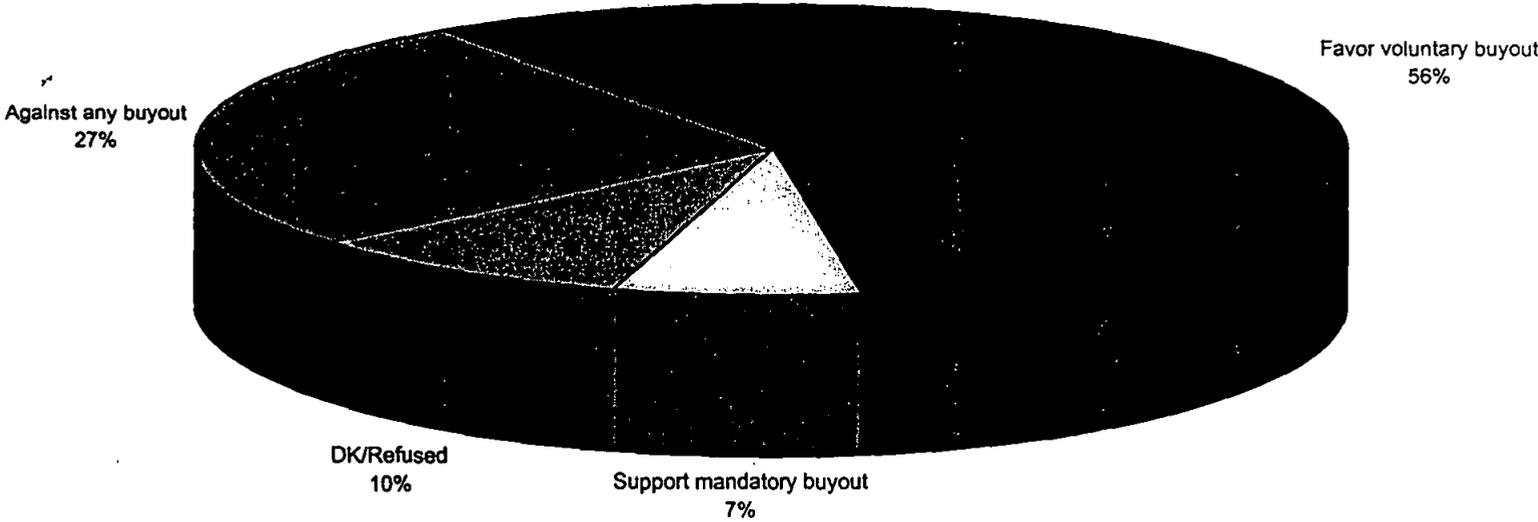
### **The Survey**

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



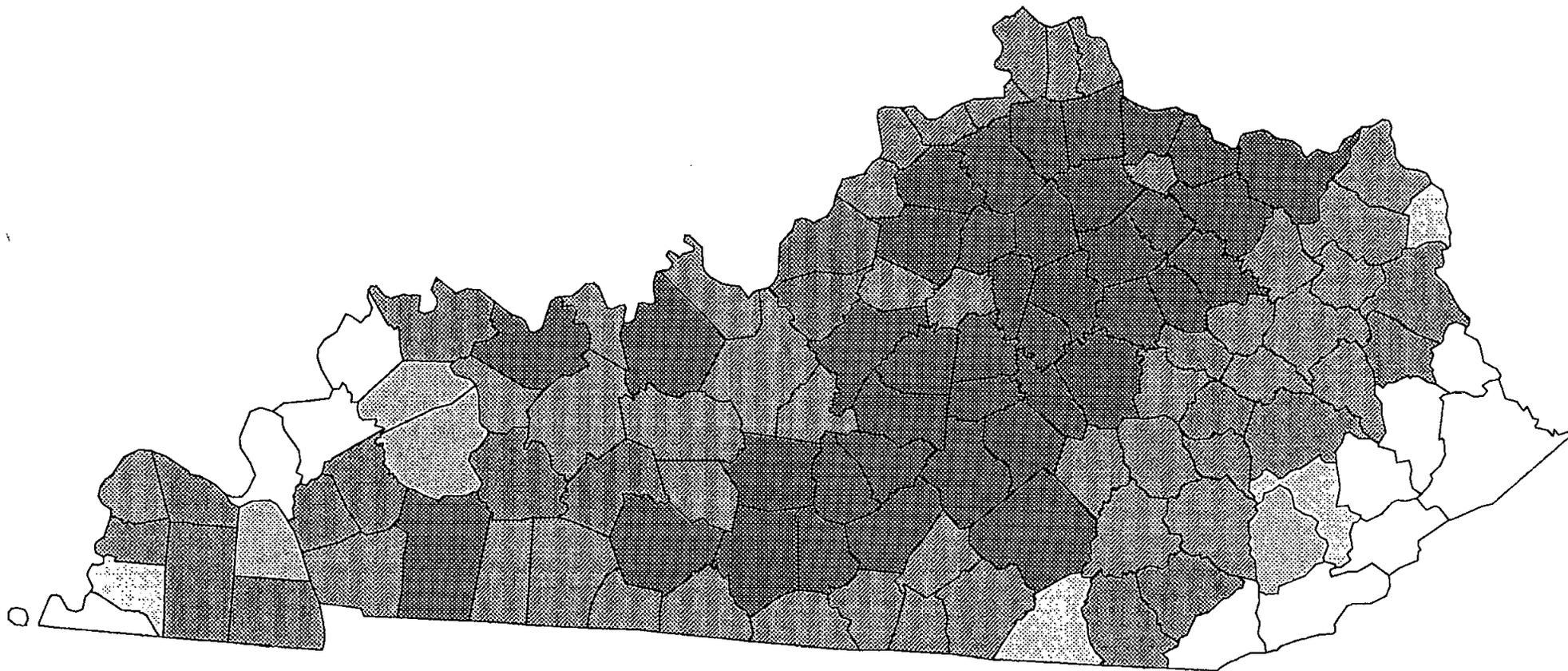
# Kentucky Farmers' Opinions on a Burley buyout



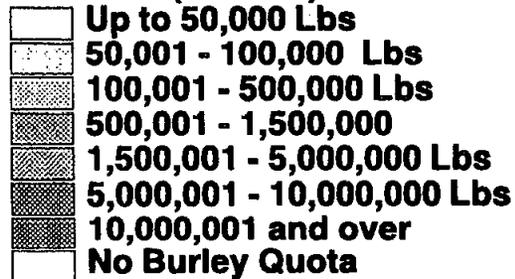
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# 1997 Burley Quota - Kentucky



## KY Quota (Pounds)

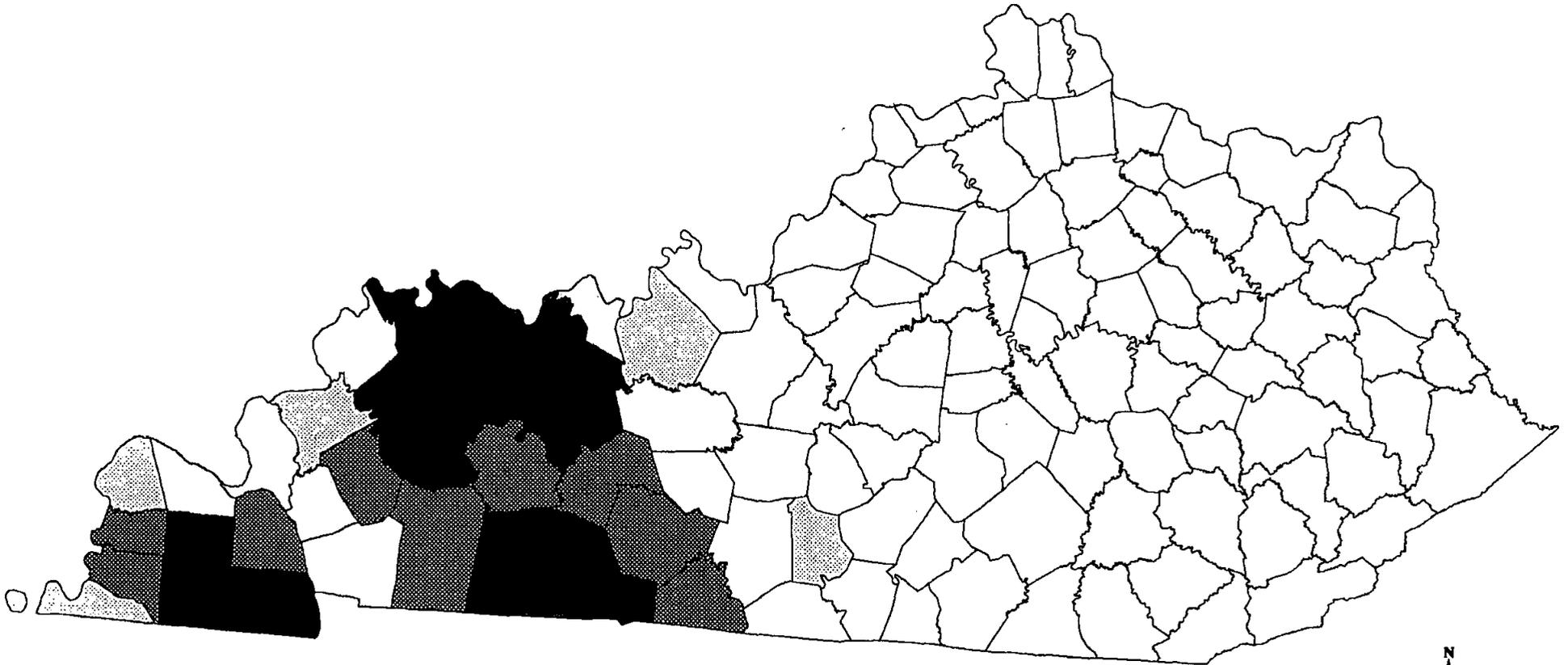


Prepared by  
Farm Service Agency

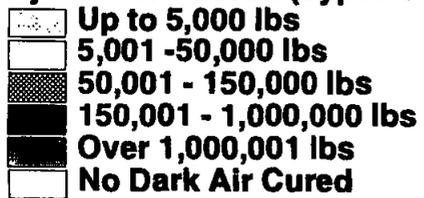
March 6, 1998



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



## Ky Dark-Air Cured (Types 35-36)

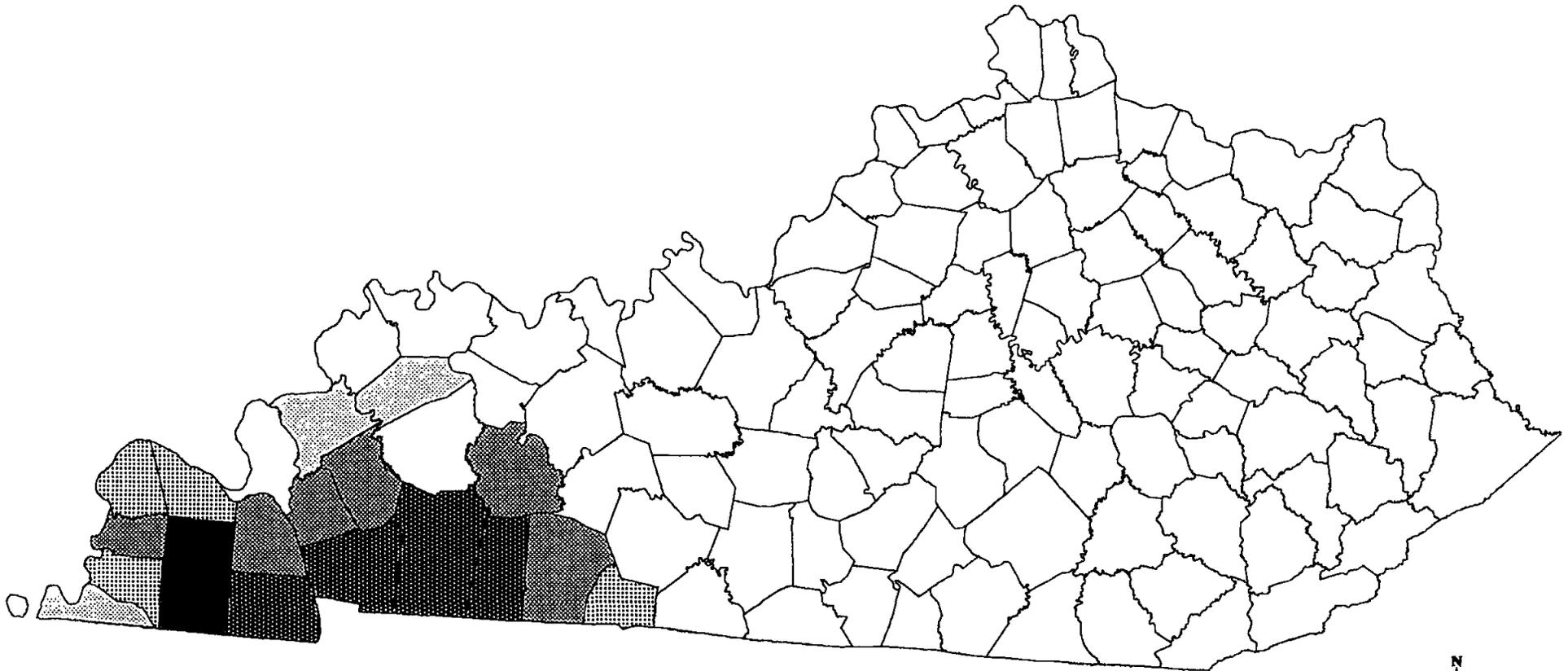


Source: USDA FSA  
County File Upload 370  
Other Kinds of Tobacco  
1997 Farm Crop File  
Summarized by County

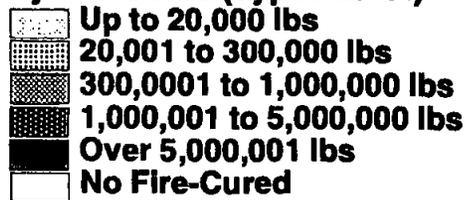


Prepared by  
Farm Service Agency  
March 30, 1998

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



## Ky Fire Cured (Types 22-24)



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



Prepared by  
Farm Service Agency  
March 30, 1998

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## Price-support program called crucial safety net



PHOTOS BY MICHAEL HAYMAN, 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.

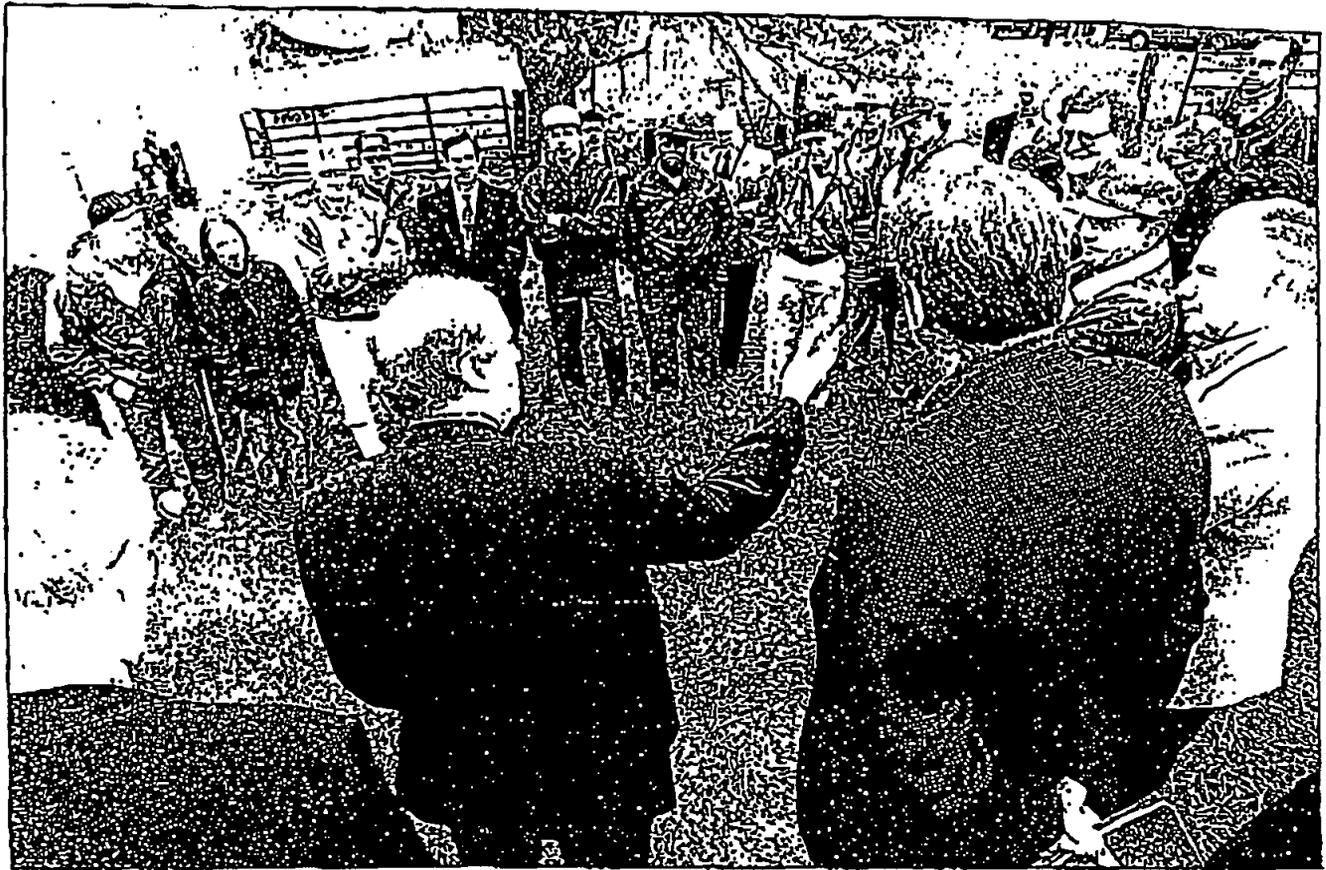
Picking up that theme at yesterday's forum, Kentucky Gov. Paul Patton urged that Glickman, when dealing with tobacco and other farm issues, "take into account the cultural value of small farms."

"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 6 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

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. It consists of marijuana that lacks THC, the substance that causes smokers 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.

Lexington Herald-Leader  
Saturday, April 4, 1988

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."