

Background: Tobacco II

PHOTOCOPY
PRESERVATION

**PRESIDENT CLINTON WILL DECLARE STATE TOBACCO SETTLEMENT A STEP
IN THE RIGHT DIRECTION AND CALL ON CONGRESS TO FINISH THE JOB**

November 16, 1998

Today, President Clinton will declare that the proposed state tobacco settlement is a step in the right direction and call on Congress to finish the job. The President will praise the state Attorneys General for their perseverance in this fight to hold the tobacco industry accountable for targeting children and announce that enacting national tobacco legislation to finish the job will be one of his top priorities in the next Congress. The President also will underscore the Administration's strong commitment to the FDA tobacco rule, noting that the Solicitor General has decided to seek the Supreme Court's review of the Fourth Circuit's latest decision.] → rule.

Proposed State Settlement is a Step in the Right Direction

The President will make his comments on the proposed state tobacco settlement following the unveiling of the package by the state Attorneys General at the National Press Club. While the President will say the settlement is a real step in the right direction, he will say there is still a great deal left for Congress to do to ensure a substantial reduction in youth smoking.)) - like what?

National Tobacco Legislation will be one of the President's Top Priorities for Next Congress

The President will announce that he will push the Congress to finish the job and that enacting national tobacco legislation will be one of his top priorities for the next Congress. The American people want progress not partisanship. They want Congress to protect children, not special interests. The new Congress has the chance to put politics aside and do what the last Congress failed to do -- by acting now to prevent three million children from starting smoking and saving one million lives over the next five years.

The Solicitor General will Seek Supreme Court Review of the Fourth Circuit FDA Decision

The President will reiterate his support for the FDA tobacco rule which he unveiled in 1995 and which the tobacco industry has challenged in court ever since. Last week, the Fourth Circuit Court of Appeals denied the Administration's request for a rehearing in the FDA case. Today the President will make clear that the Solicitor General has authorized the filing of a petition for certiorari in the Supreme Court seeking review of the Fourth Circuit's decision in this matter. Confirming the FDA's authority over tobacco products is necessary to help stop young people from smoking before they start by stopping advertising targeted at children and curbing minors' access to tobacco products. If the leadership in Congress would act responsibly, it would enact bipartisan comprehensive tobacco legislation to confirm the FDA's authority and take this matter out of the courtroom.

Tobacco Q&A
November 16, 1998

Q: What will the President say in his tobacco statement today?

A: Today, President Clinton will declare that the proposed state tobacco settlement is a step in the right direction and call on Congress to finish the job. The President will praise the state Attorneys General for their perseverance in this fight to hold the tobacco industry accountable for targeting children and announce that enacting national tobacco legislation to finish the job will be one of his top priorities in the next Congress. The President also will underscore the Administration's strong commitment to the FDA tobacco rule, noting that the Solicitor General has decided to seek the Supreme Court's review of the Fourth Circuit's latest decision.

Q: But how can the President praise this proposed settlement? Doesn't it fall far short of the McCain bill the President endorsed? Isn't it even a step backwards from the proposed settlement from June 20th of last year?

A: The President will say the proposed state settlement is a step in the right direction and call on Congress to finish the job. This settlement will in effect put in place the state part of the McCain bill, which provided states with \$196 billion over 25 years to settle their lawsuits. (Of course, the final amount contained in this settlement will depend on how many states sign onto the deal -- states have until Friday to decide.) The proposed state settlement also contains some but not all of the advertising and marketing restrictions contained in the McCain bill and the FDA rule.

Q: So will the President include in his budget the parts of the McCain bill left out of this settlement?

A: It is completely premature to speculate on what the President will include in his budget. We have not yet reviewed the details of the proposed state settlement and until we know how many states will opt into it, we will not know whether it will apply nationwide.

Q: Is it safe to assume the President will include a significant cigarette tax in his budget, as reported in last week's Wall Street Journal?

A: Absolutely no decisions have been made about what, if anything, the President's budget will include on tobacco. Staff members are in the process of considering many options, and have made no recommendations of any kind to the President. Of course, the President will continue to press for strong legislation to reduce youth smoking, but it's too early to say what his budget will include or what specific tobacco control policies he will call for.

Q: The President noted that the Department of Justice will be appealing the FDA case to the Supreme Court. Isn't the Administration unlikely to prevail and doesn't that mean that the only hope you have for FDA jurisdiction over tobacco is legislation?

A: We believe the Food and Drug Administration has the authority to promulgate the tobacco rule without additional authority from Congress. However, if the leadership in Congress would act responsibly, it would enact bipartisan comprehensive tobacco legislation to confirm the FDA's authority and take this matter out of the courtroom.

Q: When will the Department of Justice file its appeal?

A: These matters will be determined by the Office of the Solicitor General, and any further questions on this matter should be directed to the Justice Department

Q: Would you support an FDA-only bill?

A: We would not rule it out. However, a significant reduction in youth smoking will take actions on many fronts, including a price increase and public health efforts such as research and cessation, as well as the advertising and access restrictions in the FDA rule.

Q: If the advertising restrictions from the proposed state settlement are put in place, why do you need FDA jurisdiction?

A: Nicotine is a powerful and addictive drug, and for the sake of public health the Food and Drug Administration should be able to treat it as it does other drugs. In addition, the proposed state settlement allows the tobacco industry to continue many forms of advertising that appeal to children that would be restricted in the FDA rule.

Q: We've seen little evidence over the last few months that tobacco remained at the top of the President's agenda. Why the change of heart today?

A: The President's commitment to reducing teen smoking has been steadfast. Remember, he took on this battle in 1995, long before it became fashionable, when he announced the proposed FDA tobacco rule. This year, after a minority of the Senate led by the Republican leadership and \$40 million in industry attack ads thwarted his efforts to enact comprehensive tobacco legislation, the President took executive action to track and make more public the tobacco industry's efforts to target our children and he supported a California ballot initiative to reduce youth smoking in that state. He also repeatedly criticized the Congress for not passing comprehensive legislation to reduce youth smoking. The new proposed settlement is merely bringing renewed attention to his views.

Q. What California tobacco initiative did the President support?

A. The California initiative does what Congress failed to do, which is take significant steps to reduce youth smoking. By raising the price of cigarettes by 50 cents per pack, the ballot initiative will reduce youth smoking in California and fund critical public health and prevention programs such as counteradvertising and smoking cessation, as well as child care and early childhood development programs. The Administration strongly supported this initiative; the First Lady and the Vice President campaigned for it in California. However, if we hope to reduce youth smoking substantially in all 50 states, Congress must pass national legislation.

Q: What executive actions on tobacco has the President taken since May?

A: As the President continued to push for legislation, he moved forward to reduce teen smoking through executive action:

- On June 22nd, the President called on HHS to collect more accurate information on teen tobacco use, including information on tobacco use by brand, so that parents will know which companies are marketing products to their children and that public health officials can use this information to reduce tobacco use among youth.
- On July 17th the President directed HHS to coordinate a public health review of the recently-released tobacco industry documents and to develop a plan to make the documents more accessible to the public and to analyze them to gain critical public health information. He also announced that the Department of Justice will file a brief in trial court supporting the State of Minnesota's motion to unseal an industry-created index to the documents.

Tobacco Q&A
November 11, 1998 -- Revised

Q. What is the Administration's position on the state tobacco settlement that reportedly will be announced later this week?

A: We will review the state settlement as soon as it becomes available. From what we know, the settlement is a real step in the right direction, and we appreciate the work the state Attorneys General have done to hold the tobacco industry to account for marketing their product to children. But even with this settlement, there is a great deal left to do, and we will continue to push the Congress to enact comprehensive legislation to substantially reduce youth smoking.

Q: Is it true that the Fourth Circuit denied the Administration's request for a rehearing in the FDA case? What's the next step for the Administration?

A: The Fourth Circuit did decline the Administration's request for an en banc review, and the Solicitor General has now decided to seek a review of the Fourth Circuit's decision in the Supreme Court. Any further questions on this matter should be directed to the Justice Department.

Additional Tobacco Q&A
November 11, 1998

Q: Will the President propose to increase cigarette taxes, as reported in today's Wall Street Journal?

A: Absolutely no decisions have been made about what, if anything, the President's budget will include on tobacco. Staff members are in the process of considering many options, and have made no recommendations of any kind to the President. Of course, the President will continue to take action to reduce youth smoking, but it's too early to say what his budget will include or what specific tobacco control policies he will call for.

Q: If the states settle their tobacco cases for \$200 billion, will the Administration propose something smaller than the per-pack price increase called for in last year's budget?

A: It is completely premature to speculate on what the President will include in his budget, or on how the settlement will affect the President's proposals. We have not even seen the state settlement yet, and we certainly do not know how many states will opt into it or how large it will be.

Tobacco Q&A
November 12, 1998

- Q. What do you think about the victory of California's tobacco tax ballot initiative and its implications for a national tobacco settlement?**
- A.** We are very pleased that this initiative has passed: California now has done what Congress failed to do, which is take significant steps to reduce youth smoking. By raising the price of cigarettes by 50 cents per pack, the ballot initiative will reduce youth smoking in California and fund critical public health and prevention programs such as counteradvertising and smoking cessation, as well as child care and early childhood development programs. The Administration strongly supported this initiative; the First Lady and the Vice President campaigned for it in California. However, if we hope to reduce youth smoking substantially in all 50 states, Congress must pass comprehensive legislation.

Tobacco Q&A
October 9, 1998

- Q. How do you respond to the new youth smoking statistics in today's papers?**
- A. The figures released yesterday by the Centers for Disease Control show that between 1988 and 1996, the number of children who become regular smokers increased by 73 percent, and this increase resulted in 1.5 million more children becoming regular smokers over the eight year period. In 1996 alone, more than 1.2 million children under 18 became regular smokers, up from 708,000 in 1988. These startling new statistics provide just one more reason why Congress must pass comprehensive tobacco legislation which includes a significant price increase, restrictions on advertising and marketing to children, and other public health programs designed to stop kids from smoking before they start and help those who want to quit.**

Q&A on Tobacco & Appropriations
October 8, 1998

Q. Today's Congress Daily says the tobacco recoupment issue could complicate completion of the omnibus appropriations bill. Does the Administration support an appropriations rider that would waive the Federal government's claim to Medicaid funds from state tobacco settlements?

A. We are not actively pursuing a resolution to this issue. If it is raised in the appropriations context, we will strongly oppose a no-strings rider which prevents federal recoupment and allows states unrestricted use of all the funds. We will not support waiving federal claims unless states agree to devote the federal share of settlement funds to a list of specified activities along the lines of the menu negotiated in the McCain bill and preferably including tobacco control activities.))

↳ preferable tobacco control.

Q&A on California Tobacco Initiative
October 8, 1998

Q. Does the Administration support the California tobacco tax initiative which was praised in today's New York Times editorial?

A. We do support the California initiative to raise the price of cigarettes by 50 cents per pack, because it will take significant steps to reduce youth smoking in California and fund critical public health and prevention programs such as counteradvertising and smoking cessation, as well as child care and early childhood development programs. However, if we hope to reduce youth smoking substantially in all 50 states, Congress must pass comprehensive legislation.

Background: The First Lady has spoken in support of this initiative.

Tobacco Q&A
October 6, 1998

Q. What do you think of the potential settlement between the states and the tobacco industry?

A. We are watching with interest to see whether there is a settlement reached between the states and the tobacco companies. The terms of the possible settlement, as we understand them, will be only a first step -- although a significant one -- toward substantially reducing youth smoking. Congress will still have a lot of work to do in this area, and we will continue to push for comprehensive legislation that will achieve all our goals.

*state settlement as one
piece of the puzzle.*

Tobacco Q&A
September 8, 1998

Q. What are your views on the article in this week's Journal of the American Medical Association which indicates that declining rates of adult smoking slowed, and teen smoking rates rose, in California between 1993 and 1996?

A. The rising rates of teen smoking in California between 1993 and 1996 once again demonstrate the need for comprehensive bipartisan tobacco legislation to reduce youth smoking. Clearly, a national effort is needed to counter the increased industry spending that the researchers believe is responsible for this rise in teen smoking.

[Background: The JAMA article found that in California between 1989 and 1993, adult smoking rates declined over 50% faster than in previous years. However, between 1993 and 1996, the decline slowed to only 34% of that rate. While teen smoking remained stable between 1989 and 1993, it increased 26.3% between 1993 and 1996, to 12% of teens. The authors expect teen smoking rates to continue to rise through 1999. They attribute these trends to decreased state spending on tobacco control efforts, and increased industry spending on advertising.]

Q&A on Tobacco Court Decision
8/14/987

Q: Isn't the 4th Circuit tobacco decision a major set-back for the Administration?

A: The Department of Justice is examining the opinion right now. We should be able to state our intentions shortly regarding seeking further judicial review.

The President is firmly committed to the FDA's rule and its role in protecting our children. Reaffirming the FDA authority over tobacco products is necessary to help stop young people from smoking before they start by stopping advertising targeted at children and curbing minors' access to tobacco products. Currently, nearly 90 percent of people begin smoking before age 18, despite the laws that make it illegal to sell cigarettes to minors. Almost 3,000 young people become regular smokers each day, and 1,000 will die as a result.

If the leadership in Congress would act more like parents and less like politicians, it could enact bipartisan comprehensive tobacco legislation to reaffirm the FDA's authority. Instead the GOP leadership has done the bidding of Big Tobacco.

status: are we appealing the FDA rule?

Q&A
July 30, 1998

Q. What does today's new study from the Centers for Disease Control on tobacco say?

A. Today's study indicates that cigarette price increases would lower smoking rates and improve public health. It also indicates that the decrease in smoking rates would be particularly great for lower income, minority, and younger populations. Controlling for important factors like income and education, blacks are twice as responsive as whites to price increases and Hispanics are even more price responsive. About one quarter of 18-24 year old Hispanic smokers and approximately 10 percent of 18-24 year old black smokers are estimated to quit smoking altogether in response to a 10-percent price increase, with the effect of price on smoking rates declining with age. The study examined data on adults only.

minorities
more price
sensitive.

Q. The study measures "price elasticity". What does that mean?

A. Price elasticity measures the amount of decrease in consumption that occurs from a 1% increase in price. The CDC found an overall price elasticity of -0.25. This means that for every 10% increase in the price of cigarettes, overall consumption goes down 2.5%.

Q. During deliberations on the McCain bill, the Department of Treasury maintained that the total price elasticity on cigarettes is -0.45. Doesn't the current study, which estimates a total price elasticity of only -0.25, undermine the Treasury estimate?

A. No. The reported overall price elasticity of -0.25 is only slightly smaller than the commonly reported consensus range of -0.3 to -0.5 and the point estimate used by the Department of Treasury, and is broadly consistent with the range of -0.25 to -0.5 used by the Congressional Budget Office in their analyses of possible tobacco settlement legislation. Additionally, the methods used in this study may have underestimated the full or long-term price effect on adult smokers. Another study -- by Nobel-prize winning economist Gary Becker -- used similar data but a slightly different approach, and found a short-run elasticity of about -0.4 and a long-run elasticity of about -0.75, illustrating that the effect of a price increase could get larger over time. The CDC study only examined short term effects.

As C.O. noted in its review of the data, "the estimated price elasticities vary from study to study because no two estimates are based on exactly the same population, time period, definition of smoking, control variables, model of price response, or statistical model." In this light, the CDC's overall price elasticity of -0.25 is broadly consistent with other studies of price elasticity.

→ Some variation on perception

- Q. Don't the results of this study, which says that Blacks are more likely to quit than whites in response to a price increase, contradict the recent study which said that Blacks have higher nicotine levels in their blood, making it more difficult to quit?**
- A. These are difficult questions, and we need far more research in this area before we can fully understand these complex issues. This research will someday enable us to target interventions to particular communities in order to help people quit and to prevent young people from smoking in the first place. That is why the President's call for a significant increase in funding for medical research is such a critical component of comprehensive tobacco legislation designed to reduce youth smoking.
- Q. Do you think that today's study will have any impact on the prospects for tobacco legislation in Congress?**
- A. This new study should make it even more clear to the American people why we need comprehensive federal legislation to prevent young people from smoking before they start. Such legislation needs to significantly raise price of cigarettes to reduce teen smoking, give FDA full authority over tobacco products, impose heavy surcharges on tobacco companies that keep marketing cigarettes to young people, and contain significant funding for critically important counteradvertising programs, smoking cessation, and medical research.

Press Contact at the Centers for Disease Control: Sylvia Rosas (770) 488-5493.

Tobacco Q&A
July 20, 1998

Q. What do you think of Friday's court decision overturning the EPA's study on the dangers of second hand smoke?

A. It is widely accepted in the scientific community that second-hand smoke poses significant health risks to children and adults. The court's decision challenging EPA's second-hand smoke study is based on procedural concerns regarding technical aspects of EPA's review of health data, and should in no way change these scientific conclusions. The court's decision does not challenge EPA's findings on the serious respiratory impacts kids face from second-hand smoke, and since EPA's 1993 report, health study after health study confirms that both kids and adults are at serious risk from second-hand smoke.

EPA attorneys are working with the Department of Justice to review the decision, and evaluate what aggressive actions the agency can take to challenge the ruling, including an appeal. There is no doubt in the courts of scientific and public opinion that breathing second-hand smoke is dangerous for kids and adults. We are confident that we will ultimately prevail.

Background: In 1993, EPA released a report, after five years of extensive scientific review, concluding that second-hand smoke causes lung cancer in adult nonsmokers and impairs the respiratory health of children. The agency classified second-hand smoke as a Group A known human carcinogen -- a designation that has been used by EPA for only 15 other pollutants. On Friday, July 17, a US District Court judge in North Carolina ruled that EPA's designation of second-hand smoke as a Group A carcinogen was flawed due to technical and procedure problems in its review of health data. The ruling does not challenge EPA's conclusions that second-hand smoke poses significant health risks to children.

Despite this ruling, EPA stands behind the science used in the report. EPA looked at the total weight of scientific evidence, including more than 30 studies of the link between second-hand smoke and lung cancer. An independent Science Advisory Board made up of 18 experts from academia, government and research organizations examined virtually every one of the tobacco industry's arguments about lung cancer. The Board concurred in EPA's methodology and unanimously endorsed EPA's conclusions.

→ what the status of this case?

|||✓

Q. What do you think of the new report described in today's Washington Post highlighting the number of trips that Republicans took on tobacco industry corporate jets?

A. This just provides one more example of how many Republicans remain in the pocket of big tobacco. It is not just a coincidence that much of the travel cited in this report occurred precisely at the time that the tobacco industry was working to kill the McCain bill. While taking trips on tobacco industry corporate jets at a fraction of their cost may have represented just "another big perk" for Republicans on Capitol Hill, it helped result in a great loss for the children of this country -- 3000 of whom start smoking every day and 1000 of whom will die early as a result.

Executive Actions

Tobacco Q&A July 17, 1998

Q. How does the President intend to make progress on reducing youth smoking when the legislation appears dead?

A. First and foremost, we will continue to push Congress to enact comprehensive bipartisan legislation that will significantly reduce youth smoking by imposing a significant price increase on cigarettes, reaffirming FDA's full authority over tobacco products, and imposing heavy surcharges on tobacco companies that keep marketing tobacco to young people. We're going to keep working to build bipartisan support for these measures, and keep the pressure on Congress to pass a strong bipartisan bill this year. So long as 3000 young people start smoking every day, we're not letting Congress off the hook.

But even as we continue to fight to enact legislation, the President is moving forward to reduce youth smoking by executive action.

- On July 17th the President directed HHS to coordinate a public health review of the recently-released tobacco industry documents and to develop a plan to make the documents more accessible to the public and to analyze them to gain critical public health information. He also announced that the Department of Justice will file a brief in trial court supporting the State of Minnesota's motion to unseal an industry-created index to the documents. *making documents more accessible*
- On June 22nd, the President called on HHS to collect more accurate information on teen tobacco use, including information on tobacco use by brand, so that parents will know which companies are marketing products to their children and that public health officials can use this information to reduce tobacco use among youth. *collect inform. action*

The President will continue in the coming months to do everything in his power to reduce youth smoking. Congress should do its part as well and pass bipartisan comprehensive legislation to address this important issue.

Q&A on Tobacco Documents Executive Memorandum
July 17, 1998

Q. What did the President announce today?

A. Today, President Clinton directed the Secretary of Health and Human Services to coordinate a public health review of the tobacco documents and to develop a plan to make the documents more accessible to researchers and the public at large. As a first step toward greater public access, the President announced that the Department of Justice will file in trial court a brief supporting the State of Minnesota's motion to unseal an industry-created index to the documents.

DoJ
brief

Q: Why is it important for the tobacco documents to be reviewed and more accessible?

A: Because these documents provide new information about which types of advertising appeal to children, they can help public health experts design counter-advertising campaigns and other strategies to protect children. These documents also can assist scientists in understanding more about the addictive nature of nicotine, the health consequences of tobacco use, and the effects of certain tobacco product designs and ingredients. With today's action the President is moving forward to protect America's children from tobacco even as he continues to fight to enact comprehensive tobacco legislation this year.

have this
info. available

Q. But aren't there a lot of tobacco documents already on the web, including a significant selection of documents posted on the web by the tobacco industry?

A. It is true that some of documents are already posted on the Internet -- but only a very small portion. In fact, the tobacco industry websites contain only 1-2% of the 33 million pages of tobacco industry documents from the Minnesota trial. Although there are also some other websites with industry documents, as many as 27-28 million pages from the Minnesota trial are not in electronic form and must be searched manually at one of two depositories. And even the documents on the web are notoriously difficult to search and download. So there is really no question that the President's actions today will significantly enhance the public's ability to gain access to these important documents.

In addition, there has been no coordinated public health review of these documents. These documents provide new information about what kinds of advertising appeal to children, and thus can help public health experts design counter-advertising campaigns and other strategies to protect children. These documents also can assist scientists in understanding more about the addictive nature of nicotine, the health consequences of tobacco use, and the effects of certain tobacco product designs and ingredients. The president's directive instructs HHS to coordinate a review of the documents for such critical public health information.

Q. Is it true that the Administration is planning to file suit against the tobacco companies to recover billions of dollars in federal health care costs related to smoking?

A. First and foremost, we will continue to push Congress to enact comprehensive bipartisan legislation that will significantly reduce youth smoking. Of course, if Congress fails to act, we are going to consider all of our options. This includes exploring what we can do to reduce teen smoking by executive action, as well as a variety of other activities, which may or may not include bringing suit.

Q: But if the state attorneys general settle with the companies, won't that take the wind out of the sails of a Congressional bill?

A: Further action by the states should only increase pressure on Congress to do its part and help us finish the job -- by reaffirming FDA's full authority over tobacco products, imposing surcharges on tobacco companies that keep marketing cigarettes to young people, and launching a nationwide counteradvertising to warn young people not to smoke. We're going to keep working to build bipartisan support for these measures, and keep the pressure on Congress to pass a strong bipartisan bill this year. So long as 3000 young people start smoking every day, we're not letting Congress off the hook.

Q. What exactly did the President direct Secretary Shalala to do?

A. The President issued a memorandum directing the Secretary Shalala to report back to him within 90 days on her plan to:

(1) Coordinate review of the documents and make available an easily searchable index and/or digest of the reviewed documents.

(2) Disseminate widely the index and/or digest as well as the documents themselves, including through expanded use of the Internet.

(3) Coordinate a broad public and private review and analysis of the documents to gain critical public health information. Issues to be considered nicotine addiction and pharmacology; biomedical research, including ingredient safety; product design; and youth marketing strategies.

Q. What did the President announce regarding the Justice Department?

A. The President announced that the Justice Department plans to file an amicus brief in trial court in support of the State of Minnesota's motion to unseal a comprehensive index to industry documents created by the industry for use during litigation (known as the "4-A Index"). The tobacco industry has fought to prevent the release of this index. It is the industry's road map to its own documents and could improve significantly the ability of public health experts, scientists, state and federal officials, and the public to search through industry documents.

Q. Does the action taken by the President accomplish everything that the McCain legislation would have accomplished regarding industry documents?

A. Both the McCain legislation and the President's action today make the documents widely available to the public. The McCain legislation would have made even more documents available to the public, by requiring a three Judge panel to review any document for which a tobacco manufacturer continues to claim attorney client privilege. This provision would ensure that manufacturers do not use such a claim to shield information that should rightfully be available to the public.

Q: Does this mean the President is giving up on passing comprehensive tobacco legislation?

A: No. The President is going to continue to push for Congress to pass comprehensive legislation. But he is not going to sit idle until Congress heeds his call to action. He is going to do everything he can, and use every power he has, to reduce youth smoking in this period of Congressional inaction.

Tobacco Q&A
July 14, 1998

Q. Is it true, as reported in USA Today, that you are planning to file suit against the tobacco companies to recover billions of dollars in federal health care costs related to smoking?

A. First and foremost, we will continue to push Congress to enact comprehensive bipartisan legislation that will significantly reduce youth smoking. Of course, if Congress fails to act, we are going to consider all of our options. This includes exploring what we can do to reduce teen smoking by executive action, as well as a variety of other activities, which may or may not include bringing suit.

Q: But if the state attorneys general settle with the companies, won't that take the wind out of the sails of a Congressional bill?

A: Further action by the states can only increase pressure on Congress to do its part and help us finish the job -- by reaffirming FDA's full authority over tobacco products, imposing surcharges on tobacco companies that keep marketing cigarettes to young people, and launching a nationwide counteradvertising to warn young people not to smoke. We're going to keep working to build upon bipartisan support for these measures, and keep the pressure on Congress to pass a strong bipartisan bill this year. So long as 3000 young people start smoking every day, we're not letting Congress off the hook.



Cynthia A. Rice

07/10/98 07:36:56 PM

Record Type: Record

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

cc:

Subject: Mike wasn't quite as positive as our Q&A

Q Mike, could you talk about tobacco, in terms of why, if the state attorneys general and the tobacco companies come to a settlement that does not meet federal action -- why would that be bad?

MR. MCCURRY: I didn't say it would be bad. I think that we applaud the state attorneys general and the work that they've done, and clearly understand exactly why they would want to protect the citizens of their states by wanting to recover funds from the companies to make good on the claims that they've had to pay for those who have suffered from health effects of tobacco use, tobacco addition.

But that's not the same thing as meeting the requirements of the President's approach to a national public health policy on tobacco which includes FDA jurisdiction, includes developing the kind of counterweight advertising that would discourage people from smoking, and particularly kids, that will achieve the kind of targets on reducing teenage smoking use that we want to see, and that provides some protections for rural communities. None of that are featured in the negotiations that the states have underway with the tobacco companies, and so they only are addressing part of the what is a larger problem that needs a national response.

Q -- new talks come to some kind of a settlement, does that make it harder for the President to push for what he wants -- take away some of the --

MR. MCCURRY: Not necessarily, because I think that those familiar with this would agree that you get the desired result, which is a public health policy that discourages young people from taking up the habit of smoking, only with the kind of national response foreseen in the approach that has been embedded in federal legislation, specifically through the kind of increase in price that would discourage use. And you don't get that from settlements that deal with claims with the payment of health care payments that states have made. You get that when you embrace a new national policy.

So the work will continue and we will continue to work hard to try to break the gridlock that the industry and the

Republican leadership of Congress have on the issue at the moment. They won't keep it forever because they're on the wrong side of history.

Q Are you telling the attorneys general to go ahead and make the best deal they can?

MR. MCCURRY: We understand that they're going to do what they think they have to do to protect their citizens, and that's one consequence of the Republican leaders of Congress not giving the American people what the American people want, which is a new national health care policy that protects kids from tobacco.

Tobacco Q&A
July 10, 1998

Q: What do you think of the rumored plan for the states to settle with the tobacco industry?

A: We're doing everything in our power to reduce teen smoking, and we're delighted that states are pressing ahead to do everything in their power. The only ones who haven't done anything yet are the Republican leaders in Congress, who conspired with the industry to kill a strong bill and have let the tobacco companies dictate a weak one.

Further action by the states and the administration can only increase pressure on Congress to do its part and help us finish the job -- by reaffirming FDA's full authority over tobacco products, imposing surcharges on tobacco companies that keep marketing cigarettes to young people, and launching a nationwide counteradvertising to warn young people not to smoke. We're going to keep working to build upon bipartisan support for these measures, and keep the pressure on Congress to pass a strong bipartisan bill this year. So long as 3000 young people start smoking every day, we're not letting Congress off the hook.

Background:

Next week, the state attorneys general will meet to consider a possible new agreement between the states and the tobacco industry. The industry is interested in a new "state-only" deal that would give the states the \$200 billion over 25 years they negotiated last year in return for settling the state cases. No federal or state legislation would be required. The deal would produce a price increase of 30-35 cents per pack, but would not say anything about FDA authority, farmers, lookback surcharges, or federal investments in research, counteradvertising, cessation and so on (although states would have substantial funds to invest in counteradvertising, tobacco education and prevention, etc.). The industry would agree to the advertising restrictions from the Minnesota settlement (no billboards or transit advertisements; no promotional products which bear the brand name, logo, or recognizable color or motto of a brand; no direct or indirect payments for product placements in movies) which are less than those required in the FDA rule (now tied up in court). Apart from settling the state cases, the industry would receive none of the liability protections of the June 20th agreement.

If such a deal materializes, we believe we should challenge Congress to finish the job by passing a streamlined bill that includes a smaller (e.g. 50-cent) tax increase to pay for targeted tax cuts (marriage penalty, long-term care), along with FDA authority, counteradvertising, and lookback surcharges.

**Comparison of Advertising Restrictions
in the FDA Rule and the Minnesota Settlement
(July 10, 1998)**

Advertising Restriction	FDA Rule	Minnesota Settlement
Bans outdoor advertising within 1000 feet of schools and public playgrounds	Yes	Yes
Restricts advertising to black-and-white text only for publications, direct mail or outdoor billboards except in publications with a predominant adult readership or at adult only facilities	Yes	No
Restricts advertising to black-and-white text only for point of purchase sales.	Yes	No
Prohibits the sale or giveaways of promotional products like caps or gym bags that carry cigarette brand names or logos	Yes	Yes
Prohibits brand-name sponsorship of sporting or entertainment events, but permits it in the corporate name	Yes	No
Prohibits placement of tobacco products in films	No	Yes

Q&A
July 7, 1998

Q. What do you think of the new study regarding African American smokers?

A. The Journal of the American Medical Association study, released today, revealed that African American smokers have higher levels of metabolized nicotine than whites or Mexican Americans. This is true even though African Americans smoke fewer cigarettes per day than white smokers. This finding may someday help explain why African American smokers have more difficulty in quitting smoking, and are at higher risk of developing and dying from lung cancer than whites.

This new study will only make it more clear to the American people why we need comprehensive federal legislation to prevent young people from smoking before they start. Such legislation needs to significantly raise price of cigarettes to reduce teen smoking, give FDA full authority over tobacco products, impose heavy surcharges on tobacco companies that keep marketing cigarettes to young people, and contain significant funding for critically important counteradvertising programs, smoking cessation, and medical research.

Q&A
July 6, 1998

Q. Do you think that the Florida tobacco suit currently heading to trial will affect the prospects for tobacco legislation in Congress?

A. This case, Engle v. RJ Reynolds, is unique in that it is the first time that a class action suit brought by smokers against the tobacco industry has reached trial. This will only make it more clear to the American people why we need comprehensive federal legislation to prevent young people from smoking before they start.

Tobacco Q&A
June 29, 1998

- Q. Do you support the complaint being filed with the Federal Election Commission by the Campaign for Tobacco-Free Kids, alleging that tobacco companies are making illegal corporate campaign contributions by promising to run political advertisements on behalf of Republican Senators who opposed the McCain bill?**
- A.** We cannot comment on a specific complaint filed with the FEC. But it's clear that the tobacco companies have spent massive amounts of money in their effort to kill the McCain bill, and that these company advertisements provided cover to the minority of Senators who voted against the legislation.

Tobacco Q&A
June 24, 1998

Q. What is your position on the Hatch-Feinstein tobacco bill?

A. We just received a copy of the bill, and we have yet to review it closely. Of course, we continue to support the McCain bill -- as do a majority of Senators. Some of what we know about the Hatch bill causes us real concern, but we appreciate the efforts of Senators Hatch and Feinstein trying to pass comprehensive tobacco legislation, and we will continue to talk with these Senators and others about how best to achieve this objective.



Bruce N. Reed
06/26/98 11:14:02 AM

Record Type: Record

To: Nanda Chitre/WHO/EOP, Laura Emmett/WHO/EOP

cc: Cynthia Dailard/OPD/EOP, Elena Kagan/OPD/EOP

Subject: Re: Can you address the question below? 

Mike's answer should be something like, right now, we're focusing on what we can do by executive action to carry out the McCain bill -- along the lines of the survey announcement we made earlier this week. If pressed, he can say he's unaware of anything else HHS is doing on tobacco.

[This question is the result of a Newsweek Periscope item suggesting that we are considering suing to recoup Medicare expenses. HHS currently has no plans to do so, but there's always a chance that could change, and the less said about it, the better.]

Q&A on Tobacco
June 25, 1998

Q. What are your thoughts on the proposed House Republican tobacco bill?

A. Today, House Republicans released an outline of watered-down tobacco legislation they want to force through the House next month. House Republican leaders have made the same wrong choice as their Senate counterparts: to do what the tobacco lobby wants, not what America's parents want. Three thousand young people start smoking every day; one thousand will die early as a result. A bill written by the tobacco industry won't save children's lives, and it won't save the political lives of the politicians who are cynically promoting it, either. A bipartisan majority of Senators support comprehensive legislation to raise the price of cigarettes to reduce teen smoking, give FDA full authority over tobacco products, and impose heavy surcharges on tobacco companies that keep marketing cigarettes to young people. The only thing the House Republican bill does about teen smoking is to let the tobacco industry keep getting away with it.

Note: The VP's office is planning to insert a statement into his remarks today.

Tobacco Q & A
June 19, 1998

Q. Why did the President today express opposition to a “skinny” tobacco bill? Why do you need a comprehensive bill?

A. We do not want a bill written by the industry that fails to take meaningful steps to reduce youth smoking. We want a comprehensive bill that will protect children, not the industry -- a bill that will make a real dent in youth smoking. Every day, 3000 children and adolescents begin smoking, and 1,000 will die prematurely as a result. Experts agree that in order to dramatically reduce youth smoking we need to take a comprehensive approach that will attack the problem from a variety of angles.

- **Price:** All experts agree that the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. That is why the President has proposed raising the price of cigarettes by \$1.10 over five years -- an increase that both the Treasury Department and the Congressional Budget Office agree should cut youth smoking by about a third.
- **Advertising:** Studies show that industry advertising significantly contributes to youth smoking rates. The Treasury Department has estimated that the advertising and marketing restrictions in the McCain bill should cut youth smoking by about 15 percent. This is a conservative estimate: an American Medical Association study recently found that a full 34% of teen smoking is attributable to promotional activities.
- **FDA Jurisdiction:** Reaffirming the FDA authority over tobacco products is necessary to help stop young people from smoking before they start. Currently, nearly 90 percent of people begin smoking before age 18, despite the laws that make it illegal to sell cigarettes to minors.
- **Access:** To ensure underage children don't have access to tobacco products, legislation must require verification of age by photo ID for anyone 26 or younger, require face-to-face sales, and ban vending machines except in adult only facilities. Legislation must include funds to ensure compliance with these access restrictions.
- **Surcharges:** Strong lookback surcharges will act as an insurance policy to ensure that the tobacco industry takes meaningful steps to reduce youth smoking. If the bill's provisions on price, advertising, and FDA jurisdiction do not bring youth smoking down as much as expected, penalties will kick in to ensure that the industry has every incentive to take further action to reduce youth smoking.

All of these measures support and reinforce each other; all are necessary to ensure that legislation dramatically reduces youth smoking.

► Paul J. Weinstein Jr.
06/19/98 09:37:26 AM

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Record Type: Record

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

cc:

Subject: McCurry on the Rest of the Agenda

----- Forwarded by Paul J. Weinstein Jr./OPD/EOP on 06/19/98 09:25 AM -----



Jake Siewert
06/18/98 05:25:00 PM

Record Type: Record

To: Paul J. Weinstein Jr.

cc:

Subject: McCurry on the Rest of the Agenda

Message Creation Date was at 18-JUN-1998 17:25:00

Q Mike, could you talk more broadly about, in light of tobacco, where you see the domestic agenda that the President had laid out at the start of the year?

MR. MCCURRY: Sure.

Q Do you see all these things now to be a matter of public conflict, or is there still some possibility of --

MR. MCCURRY: I said earlier that we've got a work to do now. The tobacco legislation was important, but it was by no means the only important domestic initiative that the President is pursuing. As I mentioned earlier, about one-third of his \$20 billion child care initiative came through the tobacco legislation, and that was the contribution that was going to be made to the state-administered child care block grant and the menu of things that could be provided.

But the rest of the President's child care proposal, including tax credits for child care for 3 million families, doubling the number of children served by early Head Start, providing after-school for up to half a million children a year, providing new support to states for early learning programs -- that's funded through other offsets. And in the budgetary process now, the

administration will go and make a case for that.

In education, as I mentioned, the class size reduction proposal was funded through tobacco funds, but his other education initiatives are funded entirely independent of tobacco legislation, including federal tax credits to build and renovate public schools, help school districts raise standards, help provide education opportunity zones in 50 high in poverty urban and rural communities, toughen accountability, end social promotions -- the guts of the President's education initiative, which we have fought for hard in this Congress in which the Republicans -- most Republicans -- so far have refused to come along. That's either going to be an issue that we make progress on in the budget context or that we fight out in the course of coming months leading up to November.

In health, we did have some funded increases in research in public health as part of the tobacco bill, but we've got additional funding increases pending in Congress through the normal appropriations process for many of the President's core initiatives in health, including the Patient's Bill of Rights; expansion of access to health care coverage for Americans aged 55 to 65; increases in the Ryan White AIDS funding; the President's initiative to reduce racial health disparities, which has been fundamentally a part of the budget proposals the President laid before Congress and that we're continuing to work hard on as the appropriations process moves forward.

In the area of community empowerment and crime, all of the President's community empowerment agenda was financed outside of the tobacco legislation, including funding for the second round of empowerment zones, increasing the low-income --

Q Sorry I asked. (Laughter.)

Q Can I ask a follow-up?

MR. MCCURRY: No, I'm not, because I'm going to -- you wanted to know what is the domestic agenda we're pursuing and this is it, and you're going to get it in detail, John. And I'm going to keep going. Increasing the low-income housing tax credit, expanding the community development financial institutions fund. Many of these things we are getting, and are getting a lot of them.

Q Most of those things you've not talked about --

MR. MCCURRY: A lot of them are funding and a lot of them are going to be contained -- as we go through the budget fights in the appropriations process, each and every one of these things in one way or another we're going to be fighting for. We're going to get some of it, we won't get others of it. We're going to fight over some of it in November. But it's important to remind everybody of all the stuff that we have laid out that we have been working on, so that you don't leap to the temptation to declare one single legislation the be all and the end all of the work we're doing here.

Funding 50,000 housing vouchers for families moving from welfare to work, all the welfare-to-work aspects of implementing that initiative, which are still hanging in the balance. The President's crime agenda, including comprehensive juvenile crime legislation; funding for the national drug control strategy, which clearly we're going to get a lot of, if not most of; continuing to put more police on the street -- the COPS program -- all of that was independent of tobacco. All of that is serious, substantive work that we have been doing all these many months. I know that many of you have not taken the time to check in and cover any of that, but we have been working on that during all this period and will continue to do so in the weeks and months ahead.

Q Are you concerned, though, if the tobacco issue is one that you --

MR. MCCURRY: Thank you for the question, John.
(Laughter.)

Q -- my pen ran out. (Laughter.)

Q But if the tobacco issue is one that you think resonated most strongly with the public, and the public was most solidly on your side, and still the Republicans wouldn't deal on it, isn't there concern about the rest of the program?

MR. MCCURRY: Is there concern that we have to fight a lot of these issues tooth and nail with this Republican Congress because we have a different set of priorities? Yes. I mean, we're going to have to go back and face them and challenge them, try to mobilize public support. But, look, we did this -- remember in 1996 when early in the year everything was declared dead as a doornail, we weren't going to get anything done? And then, low and behold, as the American people began to say to Congress, you all have not done much of anything. In this Congress, what have they done? They've renamed an airport. That is the only thing that this Congress has done.

Q And a lake.

MR. MCCURRY: Meanwhile, they have now killed the opportunity to protect kids from tobacco. They've killed a significant middle-income tax cut. They've killed a significant antidrug program. And all because of a misleading campaign launched by big tobacco. They've killed campaign finance reform.

Now, is there -- is it plausible that there is a connection between the fact that they're taking \$42 million so far in tobacco contributions -- no, that's not right -- \$4.2 million in tobacco contributions since the beginning of 1997. They kill campaign finance reform so they can continue to line their campaign coffers with money from big tobacco and then they do big tobacco's bidding by killing this bill. Is there a cause and effect there? You know, you guys spend a lot of time asking that question about us.

And when are you going to turn that heat and that inquiry on to the Republicans and what they have just done on this bill, and on the campaign finance bill?

Q Is this an election year? (Laughter.)

MR. MCCURRY: It sure is. And we can get -- as I just said about 1996, we got a lot done in 1996 when the American people finally said to the Congress, you guys are a joke, get something done, work together and get something done in the interest of the American people. And we passed the Kennedy-Kassebaum bill, we passed welfare reform, we passed the minimum wage increase. And I think there's a good strong possibility that as people begin to recognize that this Congress and this Republican leadership has delivered zero to the American people, that they might want to start asking, when are you guys going to get serious about addressing the needs of the American people. And I think we'll come back to it and we'll continue to press the case. And maybe, just as it was the case in 1996, we have a lot of late summer or early fall bill signings right out here at the Rose Garden.

Q Why do think that the dynamics of the congressional election year will serve as the same kind of --

MR. MCCURRY: Because these guys have nothing to run on. The Republican Congress have given their candidates zero to run on -- zero achievement -- unless they want to do the Ronald Reagan Airport. That's about it.

Q So you'd be willing to hurt Democratic chances with a lot of late summer-early fall bill signings? (Laughter.)

MR. MCCURRY: Look, Democratic incumbents would like to have something to run on, too. I think they would be proud to go out and run on a record that included protecting kids from tobacco, doing something to improve the quality of education, doing something to improve health care opportunities especially for aging Americans. I mean, look, most people like this -- most candidates that I've ever heard like to say, I'm going to run on my record. How many times have you heard political candidates say that? Well, members of this Congress don't have any record to run on right now. So between now and November they may want to stuff a few accomplishments in their pocket, along with their tobacco contributions.

Q Mike, one thing you didn't put on that voluminous list was the expansion of Medicare. Has the President dropped that?

MR. MCCURRY: No -- the age of 55 to 65, increases -- sure, that was on that list, too. (Laughter.) Did you need me to go back and repeat it, Mara?

Q Mike, for example, the expansion of Medicare -- I mean, that is dead. Or do you think it's still alive and you have a way to pull it out of the hat?

Tobacco Q&A
June 18, 1998

Q: How are you going to fund your domestic agenda without tobacco funds?

A: Actually, very little of our domestic agenda depends on tobacco revenues. For example:

- Child Care.
The President's budget funded only one-third of his \$20 billion child care initiative through tobacco (the contribution to the existing state-administered child care block grant). The rest of the President's child care proposal, including tax credits for child care for three million families, doubling the number of children served by Early Head Start, providing after school care for up to half a million children a year, and provides new support to states' early learning programs, was funded through other offsets.
- Education.
The President's class size reduction proposal was funded through tobacco funds, but his other education initiatives are funded entirely independent of tobacco legislation, including federal tax credits to build and renovate public schools; education opportunity zones in 50 high poverty urban and rural communities to help them raise standards, toughen accountability, and end social promotions; our High Hopes for College initiative, which would create partnerships between colleges and middle and junior high schools to spark an interest in and help low income students prepare for college; and investments in education technology, with a special emphasis on training teachers to use technology in the classroom.
- Health.
In health care, the tobacco bill did fund increases in areas such as research and public health, but we expect the Congress to fund increases through the normal appropriations process for many of these initiatives. Moreover the core of the President's health agenda -- including the patients' bill of rights, the expansion of access to health care coverage for Americans 55 to 65, increases in Ryan White AIDS funding, and the President's initiative to reduce racial health disparities are funded completely outside of tobacco.
- Community Empowerment and Crime.
All of the President's community empowerment agenda was financed outside of tobacco, including funding for a second round of Empowerment Zones, increasing the low-income housing tax credit, expanding the Community Development Financial Institutions Fund, and funding 50,000 housing vouchers for families

moving from welfare-to-work. Similarly, all of the President's crime agenda -- including comprehensive juvenile crime legislation, funding for his National Drug Control Strategy, and continuing to put more police on the street and in our schools -- is independent of tobacco.

For those initiatives funded through tobacco -- essentially, one-third of our child care proposal and our class-size initiative -- we are exploring and working with Members of Congress to find alternative offsets.

Q. Does the defeat of the tobacco bill mean at least that the President's child care initiative is dead?

A. No. The President is committed to making child care better, safer, and more affordable for America's working families. His balanced budget request included an historic investment to achieve those goals, of which only one-third was funded by tobacco revenue. The Administration will continue to fight for the Administration's proposals -- to help working families pay for child care, build the supply of good after-school programs, improve the safety and quality of care, and promote early learning. We believe that there is broad bipartisan support for these measures, and that the American people will continue to demand action in this area.

Tobacco Q&A's
June 18, 1998

Q. What will you do now that the tobacco legislation was defeated in the Senate?

A. We will continue to fight for comprehensive tobacco legislation in both the Senate and the House. First, we will work to ensure that the Senate returns to and eventually passes the McCain legislation. It is a good strong bill with bipartisan support that would cut youth smoking in half and save a million lives over the next five years -- at the same time it would give a tax cut to millions of American families. The Republicans may have voted against this legislation because of the influence of the tobacco industry, but we will force them to choose again and again between the interests of this industry and the interests of American families. Second, we will work with Members of the House on a discharge petition for the Hansen-Meehan bill. We are going to continue to move forward with this effort because it is what the American people want and because it is necessary to protect the health of American children.

Q. But isn't the issue really dead?

A. No. A majority of the Senate supported this bill because the American people want to reduce youth smoking. So we will continue to fight to do just that.

Q. How do you react to critics who say that the bill just got too big and needed to be scaled back?

A. The McCain bill is basically the same size as the settlement agreed to last year by the State Attorneys General, plus a tax cut. To the extent that the bill got larger or less focused in the Senate, it was because of amendments -- on taxes, drugs, lawyers fees, and other matters unrelated to youth smoking -- that were offered and passed by Republican Senators.

Tobacco Q&A
June 17, 1998

Q. If this bill does not pass the Senate, what will you do? Will you support other tobacco legislation?

A. We are confident that the McCain bill will pass the Senate. It is a good strong bill with bipartisan support that will cut youth smoking in half and save a million lives over the next five years. The Senate has also resolved three issues that Republicans cared very much about -- namely, using funding under the bill for tax cuts and anti-drug efforts, and limiting attorneys' fees. There is now no reason for the Republicans to vote against this legislation. If they come out of today's closed-door meeting determined to kill the bill, it can only be because of the strong influence -- and the large contributions -- of the tobacco industry.

Q. What is your position on Senator Gorton's amendment to the tobacco bill on attorneys fees which passed the Senate yesterday? Doesn't this just function as a form of liability protection for the tobacco companies, as today's Los Angeles Times reports?

A. The President's overriding priority is ensuring that tobacco legislation promotes the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how the legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook. Senator Gorton's amendment only surfaced very recently and we have not had a chance to review it carefully, but we will do so.

Q. What is the Administration's position on the tobacco farmers' provisions under debate today in the Senate?

A. The Administration strongly supports the LEAF Act sponsored by Senators Ford and Hollings. That measure would maintain a tobacco control program and provide appropriate levels of funding for farm programs. The LEAF Act would guarantee stable prices for small farmers, control the amount of tobacco grown in the United States, offer farmers the option of having their tobacco quotas bought out, and provide adequate funding for economic transition for rural communities. The Administration does not support the legislation sponsored by Senator Lugar. That legislation would end the tobacco program at a cost of \$18 billion over the next three years. The Lugar measure would lead to increased production of tobacco in the United States, destabilize prices for small farmers, and require large cuts in health spending pending in the McCain legislation. Indeed, the Lugar measure would require health research and public health programs in the pending tobacco legislation to be cut by 69% over the next three years.

Q. Is there a possibility of a compromise on tobacco farmer issues? Does the Administration support a compromise?

A. The Administration strongly supports a compromise on the tobacco farmers issues and believes one is possible. Legislation can protect tobacco farmers and their communities and at the same time work to reduce youth smoking. We understand that Senator Ford has reached out to Senator Lugar and others and we are hopeful that they will eventually be able to reach agreement.

Tobacco Q&A's
June 16, 1998

Q. What is your position on the Reed amendment to the tobacco legislation? While the amendment was adopted yesterday, I understand Senator McCain offered a motion to reconsider the amendment.

A. We do not expect another vote on this amendment. We understand that those opposed to the amendment do not believe they have the votes to defeat it. We did not take a position on it, but we view the amendment as an acceptable addition to the bill.

Q. What is your position on the Gorton amendment on attorneys fees?

A. The President's overriding priority is ensuring that tobacco legislation promotes the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how the legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

Q. What is your opinion on the Kennedy-Ashcroft amendment?

A. The Kennedy-Ashcroft amendment would make the tobacco company payments under the legislation non-deductible. As a matter of tax policy, we have real reservations about this amendment. Existing tax law allows such payments to be treated as a normal business expenses, and it violates normal tax policy principles to single out one industry, or one kind of normal business expense, for special treatment.

Q&A
June 15, 1998

Q. Is it true, as Senator Lott says, that the Tobacco legislation is dead?

A. Senator Lott has said that the bill is dead several times in the last few weeks. But last week -- just after Senator Lott said the bill was "dead in the water" -- the Senate made significant progress in resolving two issues that have long been major points of contention -- namely, using funding under the bill for tax cuts and anti-drug efforts. We expect to make further progress in the next few days on other outstanding issues. Actually, it is ironic that Senator Lott is saying the bill is "dead in the water" and calling it a "bad bill," given that it is basically the same bill that he voted for in Committee, along with the very tax cuts and anti-drug efforts that he has long supported. We believe that the Senate, and then the full Congress, will pass this bill because it will save 1 million lives over the next five years, and Congress will not be able to explain a failure to act to the American people.

Tobacco Q&A
June 15, 1998

Q: What is the President going to say about tobacco in his speech today?

A: Today, President Clinton will call upon the Senate to get the job done now and pass the strong, bipartisan tobacco bill now under consideration. The bill will save a million lives over the next five years by raising the price of cigarettes by \$1.10, reaffirming the FDA's full authority over tobacco, protecting all Americans against environmental tobacco smoke, and imposing even stronger lookback surcharges on tobacco companies if youth smoking does not decline by 67% over the next decade. It has been nearly a year since the state attorneys general's proposed settlement brought comprehensive tobacco legislation to the Congress, and a month since the full Senate began to consider the issue. In the past year, over one million children -- 3,000 a day -- have become regular smokers, and one third will die as a result. While the President doesn't agree with everything in this bill, he believes we will have time to work through these issues and that it is critical for this strong tobacco bill move forward.

Q: How can the President still support the bill, now that the tax and anti-drug amendments have eliminated so much of the public health spending?

A: The tobacco policy contained in the bill is extremely strong and in fact has gotten stronger during Senate consideration. The bill will save a million lives over the next five years by raising the price of cigarettes by \$1.10, reaffirming the FDA's full authority over tobacco, protecting all Americans against environmental tobacco smoke, and imposing even stronger lookback surcharges on tobacco companies if youth smoking does not decline by 67% over the next decade. The bill also still contains substantial funds for critically important counteradvertising programs, smoking cessation, and medical research. It is true that significant differences over spending exist, and we will make every effort as we make progress on this bill to fund our health priorities and ensure that we rein back irresponsible tax cut proposals. But we should remember that this bill contains extremely strong provisions to reduce youth smoking and that this has always been the President's first priority. We will have time to work through the spending issues, and we believe it is critical that this strong tobacco bill move forward.

Q: Do you support the tax provisions in the bill?

A: We opposed the Gramm amendment: it absorbs too much of the funding from the tobacco trust fund; it is insufficiently targeted; and most important, it may take funds from the surplus, which the President believes must be saved until we have protected Social Security. We will work hard over the coming weeks and months to ensure that any tax cut is fully paid for and does not come out of general revenues, in line with the President's priority of protecting Social Security first.

Q. Would the President veto the legislation over the tax provisions? Don't they conflict with his "save Social Security first" pledge?

A. We do not think it will come to that. We will work hard over the coming weeks and months to ensure that any tax cut is fully paid for and does not come out of general revenues, in line with the President's priority of protecting Social Security first. There is plenty of time to work this through as we continue to move forward on this important public health legislation.

Q On Senator Lott, Mike, he also seems to have set a deadline or a time limit on the tobacco bill of this week. One, do you think it could be completed this week?

MR. MCCURRY: I think the President's views conveyed to Majority Leader Lott through the Chief of Staff are that this bill could be completed at just about any moment. There is very strong bipartisan support for this bill. This bill hasn't gotten any worse -- in fact, some would say it's gotten better -- in the time since Senator Lott voted for it in committee, the bill, if anything, from the viewpoint one would think of Senator Lott, has improved, because it's now got some tax relief included in it.

So our view, as communicated to the Majority Leader, is get on with business and pass this bill. The American people expect this Congress to pass a historic comprehensive approach to protect the public health of kids, to protect them from tobacco addiction, and it's time for the Senate to move on with the regular order of business and get the job done.

Q If I could follow that, do you accept the deadline of a week on this bill?

MR. MCCURRY: Our view is that it could be done at virtually any moment. Senator Lott knows best the schedule in the Senate, and there's certainly no reason why they couldn't complete action within a week.

Q Did you say, though, the bill has been improved by the addition of the tax relief for married couples, in your view?

MR. MCCURRY: No, I said, if anything from Senator Lott's view, this bill has gotten better. It would be hard to argue that this bill is now a bad bill, having seen it voted overwhelmingly out of committee, including with his own vote, and seen the kind of support that it's had. He can say, well, my ideas or my opinion of the bill has changed, but he can't say that the bill itself has changed for the worse.

.....

Q Did you say his Chief of Staff had been in contact with Lott?

MR. MCCURRY: They talked by telephone earlier today, yes.

Q And what was his -- did he get some picture of where Lott now stands?

MR. MCCURRY: Well, I think we got the picture where the Majority Leader stands over the weekend. I think it was more our view to convey that our posture was not going to change. We need this legislation. The President is going to speak to this legislation publicly in a few minutes and we're going to continue to press the case. And they should get on with business.

Q What did he say?

MR. MCCURRY: Well, he will have the right to respond as he chooses to respond.

Tobacco Q&A
June 11, 1998

Q. How do you react to the editorial in today's Washington Post stating that the McCain legislation is turning into a "shell" given the tax and anti-drug votes?

A. The tobacco policy contained in the bill is extremely strong and in fact has gotten stronger during Senate consideration. The bill will save a million lives over the next five years by raising the price of cigarettes by \$1.10, reaffirming the FDA's full authority over tobacco, protecting all Americans against environmental tobacco smoke, and imposing even stronger lookback surcharges on tobacco companies if youth smoking does not decline by 67% over the next decade. The bill also still contains substantial funds for critically important counteradvertising programs, smoking cessation, and medical research. It is true that significant differences over spending exist, and we will make every effort as we make progress on this bill to fund our health priorities and ensure that we rein back irresponsible tax cut proposals. But we should remember that this bill contains extremely strong provisions to reduce youth smoking and that this has always been the president's first priority. We will have time to work through the spending issues, and we believe it is critical that this strong tobacco bill move forward.

Q. What is your reaction to the vote on the Gramm amendment?

A. We opposed the Gramm amendment: it absorbs too much of the funding from the tobacco trust fund; it is insufficiently targeted; and most important, it may take funds from the surplus, which the president believes must be saved until we have protected social security. We will work hard over the coming weeks and months to ensure that any tax cut is fully paid for and does not come out of general revenues, in line with the President's priority of protecting Social Security first.

Q. Would the President veto the legislation over the Gramm amendment?

A. We do not think it will come to that. We will work hard over the coming weeks and months to ensure that any tax cut is fully paid for and does not come out of general revenues, in line with the President's priority of protecting Social Security first. There is plenty of time to work this through as we continue to move forward on this important public health legislation.

Q. Do you support the Kerry-Bond amendment to the tobacco legislation to increase funding for child care, which Senator Kerry discussed on the floor this morning?

A. We have no position on that amendment. The President is satisfied with the child care funding currently in the bill.

The McCain bill provides that 40 percent of funds received will go to the states, totaling

\$196.5 billion over 25 years. Half of these state funds must be used for designated programs to enhance the health and well-being of children and families most in need, including child care. If states were to spend their restricted funding in proportion to current expenditures (and use 6% for the Children's Health Insurance Program), at least 40% of the funds, or over \$5 billion over 5 years, could go to child care.

[DRAFT]
Q&A
June 9, 1998

- Q:** The New York Times today described the disputes arising over attorneys fees in the state suits. What is the President's position on capping attorneys fees?
- A:** The President's overriding priority is ensuring that tobacco legislation promotes the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

DRAFT

**Additional Tobacco Q&A
June 8, 1998**

Q: If this tobacco legislation does not pass, is your entire domestic agenda ruined?

A: I believe the Congress will pass a bipartisan bill to dramatically reduce youth smoking this year -- otherwise they will have to explain to the American people why they did nothing to keep tobacco companies from preying upon our youth. We are making steady progress, however slow it may sometimes seem. If we run out of time this year, we will pass a bill next year. This issue is just too important -- smoking is the number one preventable cause of death in this country. If the Congress refuses to act, we will move forward on the rest of our domestic agenda, which has produced the lowest unemployment, crime rate, and welfare rolls in a generation.

Tobacco Q&A
June 8, 1998

Q. Do you think the tobacco bill is dying?

A. Absolutely not. Certainly I would have preferred for Congress to pass the bill last week. But these are complicated issues, and members have a wide range of positions and priorities that they have needed to work through. We are making steady progress, however slow it may sometimes seem. In the end, the Senate, and then the full Congress, will pass this bill, because they will otherwise have to explain their inaction to the American people.

Q. What is your position on the amendments to the tobacco bill that would provide tax cuts to married people?

A. I am skeptical of attempts to divert funding away from public health and medical research for a tax cut. I am concerned that these amendments will endanger our priorities -- namely, providing for smoking cessation and prevention, counteradvertising, research into smoking related diseases such as cancer and heart disease, assistance to farmers and farming communities, and reimbursement to the states for their expenditures for smoking-related illnesses. Of course, tax cuts come in different shapes and sizes, and some would jeopardize my health care priorities more than others. For this reason, I very much prefer Senator Daschle's amendment to Senator Gramm's amendment, because it is reasonably sized, because it includes a tax cut for some health care costs, and because it is better targeted to families who actually have a marriage penalty.

Q. What is your position on the Craig/Coverdell anti-drug amendment to the tobacco bill?

A. Drug abuse among youth is a deadly serious issue, and I welcome discussions with Congress about how to make further progress in this area. But we should not allow people to manipulate the drug issue -- and other issues even further afield from the main concern of this bill -- to kill tobacco legislation. The Craig-Coverdell amendment includes numerous provisions that have nothing to do with youth smoking, including school voucher proposals and anti-union provisions. We must focus in this bill on reducing youth smoking and not allow Members of Congress to inject poison pills that have nothing to do with this issue..

Q. What is your view of activity on tobacco legislation in the House?

A. As you know, the House leadership has been waiting to see what the Senate will do, so not as much progress has been made there as I would have liked. But even in the House, the momentum is building. Representatives Hansen, Meehan and Waxman have proposed a good bipartisan bill that has over 90 co-sponsors. I look forward to working

with them and all of their House colleagues once Senate action is completed to pass comprehensive tobacco legislation. I believe House members will produce a bill soon because they know that if they do not, the American people will hold them accountable.

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Q&A
June 8, 1998

Q. Do you support the Kerry-Bond amendment to the tobacco legislation to increase funding for child care?

A. The President is satisfied with the child care funding currently in the bill. As you know, the President has always believed that funding for child care is a critical component of any comprehensive tobacco legislation, and in negotiations with Senator McCain before he brought the bill to the floor, we managed to add important language to the spending provisions on child care.

Specifically, the McCain bill provides that 40 percent of funds received will go to the states, totaling \$196.5 billion over 25 years. Half of these state funds must be used for designated programs to enhance the health and well-being of children and families most in need, including child care. If states were to spend their restricted funding in proportion to current expenditures (and use 6% for the Children's Health Insurance Program), at least 40% of the funds, or over \$5 billion over 5 years, could go to child care.

In light of this agreement with Senator McCain, we are not supporting the Kerry amendment. However, because we realize that reasonable people may differ as to how to best allocate funding for funding for child care, we also are not opposing it.

Tobacco Q&A

June 5, 1998

Q. What is your position on the Craig/Coverdell amendment to the tobacco bill?

A. Of course, the President believes that drug abuse among youth is a deadly serious issue, and he has taken numerous action to prevent it. But we should not allow people to manipulate this issue -- and others even further afield to kill tobacco legislation. The Craig-Coverdell amendment includes numerous provisions that have nothing to do with youth smoking including school voucher proposals and anti-union actions. We should focus in a tobacco bill on reducing youth smoking and not allow Members of Congress to inject these kind of poison pills.

Q. What is your position on the Daschle amendment to the tobacco bill?

A. We are skeptical of attempts to divert funding away from public health and medical research for a tax cut. We are concerned that these amendments will endanger our priorities -- namely, providing for smoking cessation and prevention, counteradvertising, research into smoking related diseases such as cancer and heart disease, assistance to farmers and farming communities, and reimbursement to the states for their expenditures for smoking-related illnesses. Of course, we very much prefer Senator Daschle's amendment to the Gramm amendment, because it is reasonably sized and because it is far more targeted at families who actually experience a marriage penalty.

[**Background:** Senator Daschle's amendment would provide married couples with a 20 percent deduction against the lower-earning spouse's income, phased out between \$50,000 and \$60,000 of income. The amendment would also provide full-deductibility of health insurance costs for the self-employed. The Daschle amendment would cost significantly less than the Gramm amendment, and targets tax relief at those couples who are actually penalized by the tax code.]

Q. Do you think the bill is dying?

A. Absolutely not. Certainly we would have preferred for Congress to act this week. But these are complicated issues and members have a range of different priorities that need to be worked through. We always knew that passing a comprehensive tobacco bill would not be easy, and we are making steady progress. We continue to believe that the Senate, and then the full Congress, will pass this bill. They will otherwise have to explain themselves to the American people.

Q. Did the President issue a statement on tobacco today?

A. Yes. The President said that he is pleased to see that momentum for tobacco legislation is now building in the House of Representatives. He believes that the bipartisan, comprehensive legislation proposed by Representatives Hansen, Meehan and Waxman, which has over 90 co-sponsors, is a good, tough bill. He said that he looks forward to working with Representatives Hansen, Meehan, Waxman and all of their House colleagues to improve this bill in order to protect farmers and farming communities. With this change, he would be pleased to sign this bill. He called upon the House of Representatives to take up the bill and get down to the serious business of reducing youth smoking in this country.

Tobacco Q&A
June 2, 1998

Q: Does the President support the Gramm amendment to the tobacco bill?

A: No, because the Gramm amendment would prevent the legislation from achieving important health goals. The McCain Manager's amendment contains \$59 billion over 5 years for health research and public health programs, assistance to farmers and their communities, and the states. Under the Gramm amendment, \$46 billion would go to tax cuts, reducing the funding available for these other important purposes by 78 percent.

The Gramm amendment would eviscerate funding for critical public health programs such as smoking cessation, education and counteradvertising. This would significantly undermine efforts to reduce youth smoking in this country and help adults who want to quit. Critical funding for medical research would also be cut drastically, including research into smoking-related diseases such as cancer and heart disease. The amendment would also leave very little funding available for the states. Thus, states would be expected to forgo their claims in court and receive, in exchange, only minimal compensation for their enormous expenditures related to smoking-related illnesses. Finally, the amendment would leave almost nothing left over for tobacco farmers, who have done nothing wrong and who deserve to be compensated for the losses they will suffer as a result of tobacco legislation.

Background information: The Gramm amendment would cost approximately \$46 billion over 5 years. It would provide a tax deduction of \$3,450 to married couples filing a joint return with incomes below \$50,000. Because couples in this income range are in the 15 percent tax bracket, the deduction would be worth about \$518 per year. It is billed as an amendment to eliminate the marriage penalty, but it actually provides an across-the-board tax cut to all married couples with incomes under \$50,000, regardless of whether they actually experience a marriage penalty under the tax code.

Q: Would the President consider a less costly effort to lessen the marriage penalty?

A: Our priority is to ensure adequate funding for public health programs to reduce youth smoking and health research to cure tobacco-related diseases, while also providing states and tobacco farmers with the compensation they deserve. While the President has a strong record of providing low- and middle- income Americans with tax relief, he will not jeopardize his youth smoking goals by supporting irresponsible tax cuts in the context of this legislation. If someone proposes a targeted and reasonable sized tax proposal that does not interfere with these goals, of course the Administration will review it. But so far, we have not seen any such proposals; the tax cuts being talked about now are cuts that will severely undermine the core purposes of this legislation.

Q: Does the President support the Durbin amendment?

A: The President is satisfied with the lookback surcharges currently in the bill. As you know, the President believes that tobacco legislation should include company-specific surcharges to

provide incentives to reduce youth smoking, and in negotiations with Senator McCain before he brought the bill to the floor, we managed to add a strong company specific youth lookback surcharge. The provision imposes a company-specific surcharge of \$1000 per percentage point by which the company misses its youth smoking reduction target -- which amounts to two times the profit of hooking a teenager. In light of this agreement with Senator McCain, we are not supporting the Durbin amendment. However, because we recognize that reasonable people may differ as to how best to structure these incentives, we also are not opposing it.

Background Information: The Durbin amendment cuts the industry-wide surcharge, while increasing (but also capping) the company-specific surcharge. In addition, the Durbin amendment would raise the McCain bill's youth smoking reduction targets from 60% over 10 years to 67% over 10 years. See the chart below for more background.

Tobacco Legislation Youth Lookback Provisions

	McCain	Durbin Amendment
Youth Smoking Reduction Targets	15% in years 3-4 30% in years 5-6 50% in years 7-9 60% in years 10 and beyond	20% in years 3-4 40% in years 5-6 55% in years 7-9 67% in years 10 and beyond
Surcharges		
1. Industry-wide	\$80 million for the first 5 percentage points by which the industry misses the target, \$160 million for the next five, and \$240 million for each point thereafter.	\$40 million for the first 5 percentage points by which the industry misses the target, and \$120 million for each point thereafter.
2. Company-specific	\$1000 for each teen by which the company misses its youth smoking reduction target. This figure (which is equivalent to about \$64 million per percentage point) represents twice the forgone profits of hooking a teen.	\$80 million per percentage point for the first 5 percentage points, and \$240 million per percentage point thereafter. This figure represents approximately 2.5 times forgone profits for the first 5 percentage points, and about 7.5 times foregone profits for the next 19 percentage points. After that, the cap (see below) kicks in to prevent additional surcharges.
Caps on Payments		
1. Industry-wide	\$4 billion	\$2 billion
2. Company Specific	None	\$5 billion

Tobacco Q&A
May 22, 1998

Q: What does the Senate vote in favor of the Gregg amendment to strip the liability provisions mean for the McCain bill?

A: It's a bump in the road, not something that will have long-term consequences: we have every expectation that the Senate will pass the McCain legislation when it reconvenes after the Memorial Day recess. There is no question that the bill is a good, strong bill that will dramatically reduce youth smoking in this country, and we do not believe that this one vote changes the outlook for its passage. Many of those who voted for the Gregg amendment in the Senate hoped to kill the bill, but many others are very committed to passing comprehensive tobacco legislation to reduce youth smoking. We believe that a majority of the Senate will stand with the public health community and say "no more" to tobacco companies that have preyed upon children for far too long.

Tobacco Q&A's
USA Today Interview
May 21, 1998

Q. The tobacco bill has encountered problems along the way. Why is that? Who is to blame?

A. This is bold, landmark legislation that takes on a number of very important issues and evokes strong opinions. No one said passing comprehensive legislation designed to reduce youth smoking would be easy, and we have overcome numerous challenges to get where we are today with a bill on the Senate floor. Of course, the latest challenge we face is ensuring that tobacco farmers are adequately protected. I have made protecting tobacco farmers and farming communities a top priority for this legislation, and I believe that Senator Ford's LEAF Act, which was included in the bill, fully meets that standard. I am deeply troubled by the Senate Leadership's recent attempt to undermine protection for tobacco farmers and their communities. I sincerely hope that the Senate will work through this impasse and ensure that small, family farmers are protected.

Q. Do you think the tobacco industry's campaign is working?

A. The American people understand that the tobacco companies are just playing politics. It is no surprise that the tobacco industry would oppose the legislation in the Senate, because it is in their interest to object to it now to prevent it from getting even tougher. But I believe that the American people want to change the way the tobacco companies do business and to stop them from targeting our kids. And we are now closer than ever to getting comprehensive tobacco legislation which will dramatically reduce youth smoking.

Q. The GOP is trying to kill this bill, but what about the voices on the left saying it doesn't go far enough?

A. Our negotiations with Senators McCain and Hollings significantly strengthened the bill in the key areas where I called for improvements: namely, strengthening the lookback surcharges, including strong company-specific surcharges; strengthening the environmental tobacco smoke protections; eliminating the antitrust exemption; improving the liability provisions; and funding my public health priorities. And if the bill is genuinely improved in other areas, I certainly will not object.

Q. Some Republicans say Democrats are just playing politics, and would rather have a good issue than pass a bill. Is this true?

A. This isn't about politics. It's about reducing teen smoking. Tobacco has never been a political issue for me. When we first proposed the FDA rule in 1995, some of my

advisers thought I was committing political suicide. When you do the right thing, there's plenty of credit to go around.

Q. Are you happy about how the money in this bill is spent?

A. Yes. I've always said this isn't about the money, it's about getting kids not to smoke. That's what this bill tries to do. It makes an unprecedented commitment to health research cessation, and counteradvertising to tell kids not to start. It helps states invest in health and children, and hopefully we will resolve this impasse over farmers to make sure small family farmers are protected.

Q. Do you need the tobacco companies to come back to the table to make this work?

A. Obviously, we can do more to reduce teen smoking if the companies cooperate than if they keep on advertising to kids and keep fighting us in court. The First Amendment limits what we can do to restrict advertising without their consent -- and advertising has an enormous impact on getting kids to start smoking (34% of young people start because of advertising, according to a recent JAMA study). So I hope the companies do go along in the end.

Tobacco Q&A
May 20, 1998

Q: What does the President think of the new McCain bill?

A: The President today urged Congress to pass the McCain bill this week. He noted significant improvements in the bill that will help reduce youth smoking and protect the public health, including tougher lookback surcharges, enhanced environmental tobacco smoke protections, improved liability provisions, elimination of the antitrust exemption, and spending for public health, health research, assistance for farmers, and assistance to states, including for child care. The McCain bill, as modified by the new manager's amendment, is a strong bill and the President urged Congress to pass it without delay.

Q. Specifically, what changes were made in the manager's amendment?

A. Our discussions with Senators McCain and Hollings significantly strengthened the bill in all the key areas in which the President had called for improvements. These improvements include:

- Tough industry-wide and company-specific surcharges that will finally make reducing youth smoking the tobacco companies' bottom line;
- Protection for all Americans from the health hazards of secondhand smoke;
- A trust fund to provide for a substantial increase in health research funding; a nationwide counteradvertising campaign to reduce youth smoking; effective state and local programs in tobacco education, prevention, and cessation; law enforcement efforts to prevent smuggling and crack down on retailers who sell tobacco products to children; assistance for tobacco farmers and their communities; and funds for the states to make additional efforts to promote public health and protect children; and
- No antitrust exemption for the tobacco industry;
- Strong licensing and anti-smuggling provisions to prevent the emergence of a contraband market and prosecute violators;
- Elimination of special protection for parent companies of tobacco manufacturers, an increase in the annual cap on damages to \$8 billion per year, and changes to ensure that legal protections are available only to tobacco companies that change the way they do business, by agreeing to accept sweeping restrictions on advertising, continue making annual payments and lookback surcharges even if those provisions are struck down, make substantial progress toward meeting the youth smoking reduction targets, prevent their top management from taking part in any scheme to promote smuggling, and abide by the terms of the legislation rather than tying it up in court.

Q. How is the spending apportioned in the manager's amendment?

A. The manager's package contains key provisions to fund important public health programs, health research, and assistance for farmers. It also provides funding to states to be used for a variety of programs, including child care.

Approximately 22 percent of expected revenues from the legislation will go to fund research at NIH, CDC, and Agency for Health Care Policy and Research (AHCPR). Another 22 percent will fund smoking cessation programs, prevention and education programs, international tobacco control efforts, and a variety of enforcement efforts at both the federal and state levels to minimize smuggling and crack down on retailers who sell tobacco products to children. All proceeds from lookback surcharges will go to prevention and education programs.

Forty percent of expected revenues will go to states, with half unrestricted and half to be used for designated purposes -- the Child Care and Development Block Grant, the Safe and Drug-Free Schools Program, Eisenhower Grants, child welfare programs (Title IV-B), the Maternal and Child Health Block Grant, Substance Abuse grant programs, and a limited match for the Children's Health Insurance Program. This entire list is directed at the health and well-being of children and families most in need of assistance.

The remainder of expected revenues from the legislation will go to protect tobacco farmers and to provide assistance to their communities, through the mechanisms of the LEAF Act.

Finally, excess revenues will go to the Medicare program.

Q. But how can the President sign a bill that does not contain real funding for child care or his class size initiative?

A. The McCain bill provides that 40 percent of funds received will go to the states, totaling \$196.5 billion over 25 years. Half of these state funds must be used for designated programs to enhance the health and well-being of children and families most in need, including child care. If states were to spend their restricted funding in proportion to current expenditures (and use 6% for the Children's Health Insurance Program), about 45% of the funds, or approximately \$5.5 billion over 5 years, could go to child care.

Q. Would you support an amendment to raise the price per pack from \$1.10 to \$1.50? The public health groups believe \$1.50 is necessary to reduce youth smoking.

A. The President called for a \$1.10 per-pack price increase in his budget, because this is the increase that the Administration estimates is necessary to meet our youth smoking reduction targets. We have not changed this position. The President, however, would

sign a comprehensive tobacco bill meeting his principles that contains a \$1.50 per-pack price increase.

Q. How do you respond to the charges of some of the public health groups that you have sold out by supporting a \$1.10 per pack increase instead of \$1.50, and by not pressing for even stronger provisions in other areas?

A. Our negotiations with Senators McCain and Hollings significantly strengthened the bill in the key areas where we called for improvements -- namely, strengthening the lookback penalties, including by imposing strong company-specific penalties, strengthening the environmental tobacco smoke protections, eliminating the antitrust exemption, improving the liability provisions, and funding the President's public health priorities. We have always said, starting with our budget, that a \$1.10 per-pack price increase will ensure that we meet the President's youth smoking target, and we have no reason to deviate from that position. The President, however, would sign a comprehensive tobacco bill meeting his principles that contains a \$1.50 per-pack increase. And if the bill is genuinely improved in other areas, the Administration will not object

Q: Yesterday, Senator Gregg, Dr. Koop, and Dr. Kessler held a press conference calling for the liability cap to be stripped from the tobacco bill. What's the President's position on this?

A: We oppose Senator Gregg's amendment to strip the liability provisions from the bill. As revised in the McCain manager's amendment, the liability cap is nothing more than a way to help change the way tobacco companies do business. The new \$8 billion annual cap on legal damages will be available only to tobacco companies that agree to accept sweeping restrictions on advertising, continue making annual payments and lookback surcharges even if those provisions are struck down, make substantial progress toward meeting the youth smoking reduction targets, prevent their top management from taking part in any scheme to promote smuggling, and abide by the terms of the legislation rather than tying it up in court. Because the First Amendment limits what we can do to stop tobacco companies' harmful advertising practices, which cause so many young people to start smoking, we can do more to reduce youth smoking if the companies cooperate instead of fighting us in court every step of the way. If a cap that doesn't prevent anybody from suing the companies and getting whatever damages a jury awards them will get tobacco companies to stop marketing cigarettes to kids, it is well worth it for the American people.

Q. How exactly were the liability provisions improved in Senator McCain's Manager's Amendment?

A. Senator McCain's Manager's Amendment contains key improvements in the bill's civil liability provisions. These changes include:

- Ensuring that the bill's liability provisions -- i.e., the settlement of state lawsuits

and the annual damages cap -- apply only to companies that agree to accept sweeping advertising restrictions and to comply with the key terms of the law, even if those provisions are struck down;

- Raising the annual liability cap from \$6.5 billion to \$8 billion (the same amount as in the Chafee-Harkin bill), with all damage judgements to be paid by the industry;
- Strengthening the provisions in the bill that link liability protections to the achievement of youth smoking targets, by removing liability protections from a company that misses its targets by 20 percent or more unless it proves that it used best efforts to reduce youth smoking;
- Permitting suits against parent companies and affiliates of tobacco manufacturers, as well as their attorneys;
- Ensuring that individuals with tobacco-related disease can use evidence of their addiction in suits against tobacco companies; and
- Ensuring that tobacco companies cannot escape their obligations by making fraudulent transfers or declaring bankruptcy.

In addition, the manager's amendment retains important provisions from the underlying bill:

- The bill contains no limits on class action lawsuits and does not limit the amount that anyone can recover from a tobacco company; and
- The bill assists plaintiffs who have minimal resources in suing big tobacco companies by creating judicial presumptions that the use of tobacco causes a wide array of diseases.

Q. How have the lookback provisions changed in the Manager's Amendment?

A. Unlike the underlying bill, which contained only industry-wide surcharges, the manager's amendment contains important company specific surcharges that will provide each company with a powerful incentive to change their behavior and stop marketing to kids. In addition, the manager's amendment strengthens the industry-wide surcharge.

- The manager's amendment contains an uncapped company-specific surcharge of \$1,000 per youth smoker for every youth smoker by which the company misses its youth smoking targets. This surcharge represents twice the lifetime profits that a company earns from any youth smoker. The companies will not be able to pass these company-specific surcharges onto price, because any price differential between companies will dramatically affect their share of the adult market.

At the levels specified in the manager's amendment, company specific surcharges will reduce profits by \$640 million for every 10 points. The Treasury Department and OMB estimate that a 20-point miss in 2003 would represent one-third of total industry profits. By affecting their bottom line in this dramatic fashion, the company-specific surcharges in the manager's amendment will provide a significant incentive for tobacco companies to change their behavior and reduce sales to children.

- The manager's package also raises the cap on industry-wide lookback surcharges from \$3.5 billion per year to \$4 billion per year. The Treasury Department and OMB estimate that if targets are not met and the full \$4 billion industry-wide surcharge is levied, the price of a pack of cigarettes will rise by about 35 cents.

Q. What do you think of the debate over the competing Hollings and Lugar farmers initiatives?

- A. The President has made protecting tobacco farmers and their communities one of his key principles for national tobacco legislation, and he believes that Senator Ford's LEAF Act, which was part of the Commerce Committee bill, fully meets this standard. He supports giving farmers the chance to have their quotas bought out if they so choose, while maintaining a price stabilization program.

The President has significant concerns about Senator Lugar's proposal. He is concerned that it does not provide adequate protections for farmers. He also shares the concerns of some public health groups, including the Campaign for Tobacco-Free Kids, about ending a tobacco control program, because doing so could increase dramatically the amount of tobacco grown in this country -- essentially providing a subsidy to the companies.

Most important, the President urges the Congress to work through this impasse, which was largely caused by procedural gamesmanship, and get on with the business of passing comprehensive legislation to reduce youth smoking.

Q. Are you comfortable with the "watered down" international provisions in the tobacco bill?

- A. Smoking is a global health problem, and international tobacco control efforts are an important component of S.1415. However, the 2-cent per pack fee for funding international tobacco control efforts that originally appeared in S.1415 was an unconstitutional tax on exports and the provisions on advertising and marketing overseas as drafted were unenforceable and therefore ineffective. Senator McCain's manager's amendment improves these provisions by authorizing multilateral efforts to control international tobacco use and encourage other nations to adopt youth smoking reduction laws similar to our own.

Q: What is the President's position on capping attorneys fees?

A: The President's overriding priority is ensuring that tobacco legislation promotes the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

Q. Why do you focus on tobacco but ignore drugs?

A. We are not by any means ignoring drugs. In fact, under the spending provisions that we negotiated in the McCain bill, states may use their designated funds for substance abuse treatment and prevention programs and the Safe and Drug Free Schools program. In addition, the President has a comprehensive proposal to target drugs. Nobody disagrees about the need to be tough on drug use, but that is no excuse to be less than tough on youth smoking.

Q: What exactly is the President's strategy on drugs?

A. This past February President Clinton released the 1998 National Drug Control Strategy, a comprehensive ten-year plan to reduce drug use and availability by 50% -- to a historic new low. The strategy is backed by a \$17 billion anti-drug budget in FY 1999 -- the largest ever presented to Congress, with a \$1.1 billion increase over last year's budget.

While the strategy incorporates specific goals and objectives in the areas of drug treatment and prevention, domestic law enforcement, interdiction, and international programs, its number one goal is to educate and enable our youth to reject illegal drugs. That is why the largest budget increases (15% over last year's funding levels) are targeted for this purpose. In contrast, Speaker Gingrich and the House Republicans tried to cut the Safe and Drug-Free Schools program -- the program that funds anti-drug efforts in 97% of the nation's school districts -- by a full 50% just a few years ago.

Key initiatives in the drug strategy include:

Protecting Kids:

- \$195 Million National Youth Anti-Drug Media Campaign to make sure that when kids turn on the television or surf the "net," they learn about the dangers of drugs.
- \$50 Million for School Drug Prevention Coordinators to improve and expand the Safe and Drug-Free Schools program by hiring more than 1,000 new prevention professionals to work with thousands of schools in preventing drug use.

Strengthening Our Borders:

- \$163 Million for Border Patrol to hire 1,000 new Border Patrol officers and for “force multiplying” technology.
- \$54 Million for Advanced Technology for the Customs Service to deploy advanced technologies, such as X-ray systems and remote video surveillance.
- \$75.4 Million to Support Interdiction Efforts in the Andean region and Caribbean, and to train Mexican counterdrug forces.

Strengthening Law Enforcement:

- \$38 Million to Crack Down on Methamphetamine and Heroin by hiring 100 new DEA agents, expanding the Administration’s anti-methamphetamine initiative, and targeting heroin traffickers.

Breaking the Cycle of Drugs and Crime:

- \$85 Million to Promote Coerced Abstinence to help state and local governments implement drug testing, treatment, and graduated sanctions for drug offenders.

Closing the Treatment Gap:

- \$200 Million Increase for Substance Abuse Block Grants to help states close the treatment gap.

Tobacco Q&A

May 19, 1998

Q: What does the President think of the new McCain bill?

A: The President is pleased that the bill contains significant improvements that will help reduce youth smoking and protect the public health, including tougher lookback surcharges, enhanced environmental tobacco smoke protections, improved liability provisions, elimination of the antitrust exemption, and spending for public health, health research, assistance for farmers, and the states, including child care and professional teacher development. The McCain bill, as modified by the new manager's amendment, is a strong bill that meets the President's principles.

Q: Today Senator Gregg, Dr. Koop, and Dr. Kessler are holding a press conference calling for the liability cap to be stripped from the tobacco bill. What's the President's position on this?

A: We vigorously oppose Senator Gregg's amendment to strip the liability provisions from the bill. As revised in the McCain manager's amendment, the liability cap is nothing more than a way to help change the way tobacco companies do business. The new \$8 billion annual cap on legal damages will be available only to tobacco companies that agree to accept sweeping restrictions on advertising, continue making annual payments and lookback surcharges even if those provisions are struck down, make substantial progress toward meeting the youth smoking reduction targets, prevent their top management from taking part in any scheme to promote smuggling, and abide by the terms of the legislation rather than tying it up in court. Stripping the cap may well endanger this bill, and we will fight this effort.

Q: What do you think of the debate over the competing Hollings and Lugar farmers initiatives?

A: The President has made protecting tobacco farmers and their communities one of his key principles for national tobacco legislation, and he believes that Senator Ford's LEAF Act, which was part of the Commerce Committee bill, fully meets this standard. He supports giving farmers the chance to have their quotas bought out if they so choose, while maintaining a price stabilization program.

The President has significant concerns about Senator Lugar's proposal. He is concerned that it does not provide adequate protections for farmers. He also shares the concerns of some public health groups, including the Campaign for Tobacco-Free Kids, about ending a tobacco control program, because doing so could increase dramatically the amount of tobacco grown in this country -- essentially providing a subsidy to the companies.

Most important, the President urges the Congress to work through this impasse, which

was largely caused by procedural gamesmanship, and get on with the business of passing comprehensive legislation to reduce youth smoking.

Q. Are you comfortable with the “watered down” regulations on the export of cigarettes in the tobacco bill?

A. Smoking is a global health problem, and international tobacco control efforts are an important component of S.1415. However, the 2-cent per pack fee for funding international tobacco control efforts that originally appeared in S.1415 was an unconstitutional tax on exports and the provisions as drafted were unenforceable and therefore ineffective. Senator McCain’s manager’s amendment improves these provisions by authorizing multilateral efforts to control international tobacco use and encourage other nations to adopt youth smoking reduction laws similar to our own.

Q: Some Senators plan on offering an amendment to cap attorneys’ fees. What is the President’s position?

A: The President’s overriding priority is ensuring that tobacco legislation promotes the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

[DRAFT] Q&A
May 14, 1998

Q. How did the Joint Tax Committee score the McCain bill?

A. They scored it as having a per pack price increase of \$1.06 in 2001, \$1.49 in 2002, \$1.89 in 2003, \$2.02 in 2004, and \$0.82 in 2005. These figures are nominal, meaning they are adjusted for inflation.

Q. How do you account for the difference between your estimate of \$1.10 and the Joint Tax estimate?

A. The Treasury Department's analysis of the McCain legislation will raise the price per pack by \$1.10 in 2003, in 1998 dollars. The Joint Tax estimate of \$1.89 in 2003 is adjusted for inflation, but is only \$1.69 in 1998 dollars. In arriving at the \$1.10 figure, the Treasury Department studied this issue very carefully and we are quite confident in their analysis. It is also worth noting that Professor Jeffrey Harris, an independent economist from the Massachusetts Institute of Technology and a physician at Massachusetts General Hospital, who is also one of the nation's leading authorities on tobacco taxation, testified yesterday that the real price of cigarettes in 2003 will be \$3.38 -- quite close to our estimate of \$3.19. The Joint Tax estimate would imply that cigarette prices would be close to \$4 per pack.

The differences in our analysis and Joint Tax's are attributable to a number of technical assumptions. These assumptions are based on the expected volume of tobacco product sales. We assume that wholesalers and retailers will not add an additional markup to the \$1.10 price increase. This assumption is supported by virtually all the relevant empirical evidence as well as the FTC (in their analysis of the Attorneys General settlement). We also assume that states will not add new tobacco taxes, due to the large payments they will receive under the legislation, and that smuggling will be minimized through a system based on the current successful model for alcohol.

Q. Would you support an excise tax equal to the price increases in the McCain bill?

A. The Administration supports comprehensive, bipartisan legislation designed to significantly reduce youth smoking. This legislation is possible today because the Attorneys General filed suit against the tobacco companies in over 40 states, and we believe that the structure they devised of substantial industry payments is preferable to an excise tax. We were very encouraged when the Senate Commerce Committee embraced and improved upon this structure, and reported out the McCain bill by a 19-1 vote.

[DRAFT]
Q&A
May 13, 1998

Q. What did David Ogden say in his testimony before the Senate Judiciary Committee today?

A. David Ogden, Counsel to the Attorney General, said that while there are some advantages to having the tobacco industry's participation in the effort to reduce youth smoking, Congress should not allow the lack of industry consent to prevent it from enacting legislation to achieve the President's five principles for comprehensive tobacco legislation. He said that even without consent, Congress can increase the price of cigarettes, impose significant advertising restrictions on the industry, and achieve the important public health goals that the President has identified.

Q. What will Treasury Deputy General Counsel Neal Wolin say in his testimony before the Senate Tobacco Task Force?

A. Similar to Deputy Treasury Secretary Larry Summer's testimony before the Senate Judiciary Committee two weeks ago, Neal Wolin is going to say that we can minimize black market activity through a system similar to the one that's been in place for alcoholic beverages for over sixty years by: 1) creating a "closed" distribution system for tobacco products so that only licensed entities can sell or buy products; 2) clearly branding packages for export, to prevent them from being diverted; and 3) establishing and enforcing penalties and other actions for violators. Senator McCain's bill largely addresses these issues, and we are working with him on technical changes to ensure that diversion and smuggling will not defeat the purposes of comprehensive tobacco legislation.

Q. What will Treasury Assistant Secretary Gary Gensler say in his testimony before the Senate Tobacco Task Force?

A. The Assistant Secretary will say that the tobacco industry is financial strong and faces minimal risk of bankruptcy from comprehensive tobacco legislation. A central feature of comprehensive tobacco legislation is to ensure that most of the payments made by the tobacco companies are passed on to price, in order to reduce youth smoking. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of the three major companies last year were *\$19.1 billion*. These companies are well diversified, with international tobacco sales accounting for 27 percent of operating earnings, and non-tobacco earnings account for 39 percent of earnings last year. The Assistant Secretary will testify that the industry will remain very profitable even under the proposed legislation. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Tobacco Q&A
May 11, 1998

- Q. How do you react to criticism from veterans groups regarding the \$10.5 billion cut in VA benefits for smoking related illness?**
- A.** The FY 1999 budget reverses a 1997 Department of Veterans Affairs General Counsel opinion that veterans are entitled to disability benefits for smoking-related disabilities acquired *after* service and due *solely* to nicotine dependence begun in the military. These benefits would cost \$17 billion over five years. The Administration strongly supports veterans compensation, but these are not traditional VA benefits, and veterans never had them before the GC opinion. There is no question that we should compensate veterans for smoking-related illnesses that became manifest during military service. However, awarding compensation for tobacco-related illnesses acquired after military service -- frequently decades later -- goes well beyond the purpose of the veterans disability program. Nowhere else does the US government assume liability and provide compensation for tobacco use. In fact, Congress already took similar action in 1990 regarding benefits for illnesses related to drug and alcohol use during military service. In line with this approach, the budget instead contains \$87 million annually to fund a new smoking cessation program for all veterans who began smoking in the military.

Tobacco Q&A
May 11, 1998

- Q. How do you respond to Senator Nickles' analysis which says that the McCain bill will actually cost the tobacco companies \$753 to \$869 billion over 25 years, instead of the \$516 billion that you assert?**
- A. Senator Nickles is playing games with numbers to try to prevent Congress from passing comprehensive tobacco legislation. The main reason why Senator Nickles' price is so high is that he is using inflated -- not constant -- dollars. But this debate has always been framed in terms of uninflated dollars, which is the only fair way to analyze this question. Senator Nickles is just trying to make the McCain bill look larger than it is. Under Senator Nickles' logic, the cost of the AG's settlement would rise from \$368.5 billion to \$539.9 billion over 25 years. In addition, Senator Nickles' analysis assumes that the industry will face maximum penalties for failing to reduce youth smoking, even though that is entirely under the industry's control and we expect these payments to be far lower. It is time that the Republican leadership stop playing games and get serious about passing bipartisan comprehensive tobacco legislation designed to reduce youth smoking.**

Tobacco Q&A
May 8, 1998

Q: I understand Minnesota will announce this afternoon that it has settled its tobacco lawsuit. What does this mean for tobacco legislation?

A: Assuming Minnesota has settled its suit as reported in the press, we think it will add to the momentum behind strong, comprehensive, and bipartisan tobacco legislation. In four states, the tobacco industry will have been held accountable -- and will have agreed to tough measures to reduce youth smoking. The remaining challenge is to pass legislation that puts these and other measures into place on a national level. All our nation's children are at risk from tobacco, and we must have comprehensive national legislation to stop young Americans from smoking before they start.

Background: According to the AP, under the settlement, which has not yet been formally announced, the tobacco companies would pay Minnesota and Blue Cross and Blue Shield more than \$6 billion over the next 25 years. Other portions of the proposal, according to "St. Paul's Pioneer Press," are permanent injunctions to combat marketing cigarettes to minors and engaging in anti-competitive activities; the shutdown of the Council for Tobacco Research, an organization used to raise doubts about the health hazards of smoking; and the release of more internal tobacco company documents.

Tobacco Q&A's
May 8, 1998

Q. Today's New York Times indicates that smuggling of US cigarettes abroad is a major problem. Don't you expect this to become exacerbated if there is a significant price increase on cigarettes?

A. The article highlighted that tobacco companies are complicit in smuggling overseas, which reiterates what Treasury Deputy Secretary Larry Summers said last week during a Senate Judiciary Committee hearing. Broadscale smuggling simply does not take place without the companies' knowledge and complicity. It is ironic that on the very day of this report of industry complicity in smuggling, the industry should put out an advertisement saying that comprehensive tobacco legislation would cause smuggling problems.

The Administration has proposed a system that would minimize smuggling, similar to the one that's been in place for alcoholic beverages for over sixty years and largely incorporated in Senator McCain's bill. This system would (1) create a "closed distribution system" for tobacco products so that only licensed entities can sell or buy products; (2) clearly brand packages for export, to prevent them from being diverted, and (3) establish and enforce penalties and other actions for violators. Under this system, US cigarette manufacturers who were complicit in any smuggling operation would face enormous legal risks such as the possibility of losing their license. We believe that with these safeguards in place, tobacco smuggling will be minimized.

Q. How do you respond to the full page ad in today's Washington Post quoting major law enforcement organizations which believe that the McCain bill will create a huge black market for cigarettes?

A. First, as today's New York Times story indicates, broadscale smuggling cannot take place without the knowledge and complicity of the tobacco industry. It's ironic that the industry is running this ad, when the industry that is responsible for this law enforcement problem.

Of course, we take this issue very seriously, but we believe that safeguards can be put in place to minimize the danger of smuggling. Last week, at a Senate Judiciary Committee hearing, Treasury Deputy Secretary Larry Summers proposed a system that would minimize smuggling, similar to the one that's been in place for alcoholic beverages for over sixty years and largely incorporated in the McCain bill. Other major law enforcement organizations, such as the Major Cities Chiefs and the International Association of Chiefs of Police, have written letters agreeing with the Treasury Department that black market activity can be minimized through sufficient law enforcement safeguards. This system would (1) create a "closed distribution system" for tobacco products so that only licensed entities can sell or buy products; (2) clearly brand

packages for export, to prevent them from being diverted, and (3) establish and enforce penalties and other actions for violators.

At the hearing, law enforcement officials from ATF and Customs concurred that with the right system in place we can keep smuggling to a minimum.

Tobacco Q&A
May 6, 1998

Q: I understand Minnesota may be close to settling its tobacco lawsuit. If there is a settlement, what will it mean for tobacco legislation?

A: We think it will add to the momentum behind strong, comprehensive, and bipartisan tobacco legislation. In four states now, the tobacco industry has been held accountable -- and has agreed to tough measures to reduce youth smoking. The remaining challenge is to pass legislation that puts these and other measures into place on a national level. All our nation's children are at risk from tobacco, and we must have comprehensive national legislation to stop young Americans from smoking before they start.

Background: According to CNN, under the settlement being drafted, the tobacco companies would pay Minnesota and Blue Cross and Blue Shield, more than \$5 billion over the next 25 years. Other portions of the proposal, according to "St. Paul's Pioneer Press," are permanent injunctions to combat marketing cigarettes to minors and engaging in anti-competitive activities; the shutdown of the Council for Tobacco Research, an organization used to raise doubts about the health hazards of smoking; and the release of more internal tobacco company documents.

Q: I understand that Reps. Hansen and Meehan may introduce a new tobacco bill today. What's your view of it?

A: I commend Representatives Hansen and Meehan for their hard work to put together a strong, bipartisan comprehensive tobacco bill designed to reduce youth smoking in this country. The Hansen-Meehan bill contains a substantial price increase, strong industry and company penalties for failure to reduce youth smoking, full FDA authority to regulate tobacco, strong restrictions on advertising and youth marketing of tobacco products, and strong protections against exposure to environmental tobacco smoke. I look forward to working with them to ensure that their legislation adequately protects tobacco farmers and to pass a comprehensive tobacco bill this year.

Q: I understand General McCaffrey released a statement today on tobacco. What did he say?

A: In his statement, General McCaffrey said "tobacco use by young people plays a dangerous role in leading to more dangerous, illicit drugs" and "a responsible drug policy must include preventing youth cigarette use."

General McCaffrey made the remarks after meeting in Biloxi with Mississippi Attorney General Mike Moore.

Q&As on Tobacco
May 5, 1998

Q: Do you think you'll get a tobacco bill this year?

A: I believe we have an historic opportunity to pass bipartisan legislation this year which contains all the elements necessary to reduce teen smoking. And I'm going to do everything I can to put politics aside and pass legislation that will achieve that objective. Senator McCain's legislation, which passed the Commerce Committee by a 19-1 vote, is a strong step in the right direction on the road to passing comprehensive tobacco legislation. It shows real momentum in both parties to pass effective, comprehensive tobacco legislation this year.

Q: Isn't the McCain bill a big government, big tax proposal?

A: No. What this bill does is to attack the problem of youth smoking comprehensively, as all experts say we need to do, by combining strong provisions on price, penalties, advertising and access, and FDA jurisdiction. Although we have some differences with Senator McCain, he also recognizes the need to move forward on all these fronts to reduce youth smoking. That's not about big government. It's about sensible, bipartisan steps to dramatically reduce youth smoking.

Q: But won't the McCain bill create 17 new federal bureaucracies?

A: No -- this isn't about big government. What the bill does is to ensure that the federal government has the authority to regulate tobacco products in order to reduce youth smoking, as well as the ability to target tobacco revenues to strong public health and research efforts. The so-called "bureaucracies" that the industry is now complaining about are nothing more than what's necessary to protect the public health in this way -- to ensure that cigarettes are not sold to minors, to promote effective education, and to encourage smoking cessation. The proof that this is an industry con job is clear: almost all these provisions were in the June 1997 proposed settlement put forward by 41 state attorneys general, which the industry agreed to. The industry is criticizing these provisions now only because the political tide has turned against it, and certain other aspects of the legislation have gotten stronger.

Q: Are you worried about the bill creating a black market?

A: This is a serious issue, but we believe we can ensure that no significant black market emerges. We think we can minimize any smuggling through a system similar to the one

that's been in place for alcoholic beverages for over sixty years by: 1) creating a "closed" distribution system for tobacco products so that only licensed entities can sell or buy products; 2) clearly branding packages for export, to prevent them from being diverted; and 3) establishing and enforcing penalties and other actions for violators. Senator McCain's bill largely addresses these issues; it provides a strong foundation for anti-smuggling legislation that will prevent the emergence of a black market.

Q: Wouldn't this scheme extend the reach of the federal government to every mom-and-pop grocery store or 7-11?

A: No. We support with a system that places primary responsibility for licensing retailers on state governments, as the McCain bill does. Thirty six states already license retail sellers of tobacco products, so this is not a major change. The important thing is to work with Congress to devise a scheme that will facilitate the effort to prevent smuggling, while not burdening retailers. The Administration will work with Congress, and the retailers themselves, on this issue.

Q: Won't the McCain bill bankrupt the companies? Lots of Wall Street analysts say it will.

A: We don't want to put the tobacco companies out of business. We just want to put them out of the business of selling cigarettes to kids. A central feature of comprehensive tobacco legislation is to ensure that most of the payments made by the tobacco companies are passed on to price, in order to reduce youth smoking. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of RJR, Philip Morris, and Loews last year were *\$18 billion*. Even RJR, the most highly leveraged firm in this industry, had a *\$1.5 billion* operating profit for its domestic tobacco business, and has over *\$4 billion* in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Q: What do you think of the House Republican proposal to link drugs and tobacco in a single bill?

A: Nobody disagrees about the need to be tough on drug use, but that is no excuse to be less than tough on youth smoking. We need to pass strong, comprehensive tobacco legislation this year that dramatically reduces youth smoking by raising the pack of cigarettes, imposing tough penalties on companies that continue to sell to kids, granting the FDA authority over tobacco products, and restricting advertising and marketing to children. The McCain bill, which passed the Senate Commerce Committee by a 19-1 vote three weeks ago, is a strong step in that direction. If Republicans want to add good

anti-drug provisions to a comprehensive tobacco bill of this kind, I have no objections. But the bill must address the problem of youth smoking comprehensively; anti-drug provisions can't serve as an excuse for watered-down tobacco legislation.

Q. What is wrong with passing a "skinny" tobacco bill? Why do you need a comprehensive bill?

A. Every day, 3000 children and adolescents begin smoking, and 1,000 will die prematurely as a result. Experts agree that in order to dramatically reduce youth smoking we need to take a comprehensive approach that will attack the problem from a variety of angles.

- Price: All experts agree that the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. That is why I proposed raising the price of cigarettes by \$1.10 over five years -- an increase that both the Treasury Department and the Congressional Budget Office agree should cut youth smoking by about a third.
- Advertising: Studies show that industry advertising significantly contributes to youth smoking rates. The Treasury Department has estimated that the advertising and marketing restrictions in the McCain bill should cut youth smoking by about 15 percent. This is a conservative estimate: an American Medical Association study recently found that a full 34% of teen smoking is attributable to promotional activities.
- FDA Jurisdiction: Reaffirming the FDA authority over tobacco products is necessary to help stop young people from smoking before they start. Currently, nearly 90 percent of people begin smoking before age 18, despite the laws that make it illegal to sell cigarettes to minors. FDA Authority will ensure that young people do not have access to these products.
- Penalties: Strong lookback penalties will act as an insurance policy to ensure that the tobacco industry takes meaningful steps to reduce youth smoking. If the bill's provisions on price, advertising, and FDA jurisdiction do not bring youth smoking down as much as expected, penalties will kick in to ensure that the industry has every incentive to take further action to reduce youth smoking.

All of these measures support and reinforce each other; all are necessary to ensure that legislation dramatically reduces youth smoking.

Q&As on Tobacco
April 30, 1998

Q: I understand Deputy Treasury Secretary Larry Summers is testifying before the Senate Judiciary Committee today on the black market for tobacco. What's he going to say?

A: The Deputy Secretary is going to say that we can minimize black market activity through a system similar to the one that's been in place for alcoholic beverages for over sixty years by: 1) creating a "closed" distribution system for tobacco products so that only licensed entities can sell or buy products; 2) clearly branding packages for export, to prevent them from being diverted; and 3) establishing and enforcing penalties and other actions for violators. Senator McCain's bill largely addresses these issues, and we are working with him on technical changes to ensure that diversion and smuggling will not defeat the purposes of comprehensive tobacco legislation.

Q: But didn't Canada have a lot of smuggling when it raised cigarette prices?

A: In the early 1990s, Canada did have a problem with cigarettes being legally exported to the U.S. and illegally smuggled back into Canada. There are several reasons why we believe that example does not apply to the U.S.:

- First and foremost, Canada did not have in place the type of effective licensing, registration, and enforcement system advocated by the Administration to crack down on smuggling.
- Second, smuggling became a problem in Canada because of the ease of access to alternative markets -- 80 percent of the Canadian population lives within a two hour drive of the U.S. border. The U.S. population is more dispersed.
- Third, sizable cigarette taxes existed in Canada both before and after Canada's smuggling difficulties in the early 1990's, and thus smuggling in Canada does not seem directly related to price.

Q: Wouldn't this big government scheme extend the reach of the federal government to every mom-and-pop grocery store or 7-11?

A: No. We are comfortable with a system that places primary responsibility for licensing retailers on state governments, as the McCain bill does. Thirty six states already have licensing systems in place, so this will not represent a major change. In most of these states, retailers have to participate in only a modest and simple identification process, and this will continue to be the case. We will work with Congress to ensure that the scheme adopted in legislation will facilitate the effort to prevent smuggling, while not burdening retailers. The Administration will work with Congress, and the retailers themselves, on this issue.

Q: How do you answer the Wall Street charges that this will bankrupt companies?

A: We don't want to put the tobacco companies out of business. We just want to put them out of the business of selling cigarettes to kids. A central feature of comprehensive tobacco legislation is to ensure that most of the payments made by the tobacco companies are passed on to price, in order to reduce youth smoking. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of RJR, Philip Morris, and Loews last year were \$18 billion. Even RJR, the most highly leveraged firm in this industry, had a \$1.5 billion operating profit for its domestic tobacco business, and has over \$4 billion in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Q: Do you really think you'll get a tobacco bill this year?

The President believe we have an historic opportunity to pass bipartisan legislation this year which both contains the elements necessary to reduce teen smoking. And he's going to do everything he can to put politics aside and pass legislation that will achieve that objective. Senator McCain's legislation, which passed the Commerce Committee by a 19-1 vote, is a strong step in the right direction on the road to passing comprehensive tobacco legislation. It shows real momentum in both parties to pass effective, comprehensive tobacco legislation this year.

Q: Isn't the McCain bill a big government, big tax proposal?

A: No. What this bill does is to attack the problem of youth smoking comprehensively, as all experts say we need to do, by combining strong provisions on price, penalties, advertising and access, and FDA jurisdiction. Although we have some differences with Senator McCain, he also recognizes the need to move forward on all these fronts to reduce youth smoking. That's not about big government. It's about sensible, bipartisan steps to dramatically reduce youth smoking.

Q: But won't the McCain bill create 17 new federal bureaucracies?

A: No -- this isn't about big government. What the bill does is to ensure that the federal government has the authority to regulate tobacco products in order to reduce youth smoking, as well as the ability to target tobacco revenues to strong public health and research efforts. The so-called "bureaucracies" that the industry is now complaining about are nothing more than what's necessary to protect the public health in this way -- to ensure that cigarettes are not sold to minors, to promote effective education, and to encourage smoking cessation. The proof that this is an industry con job is clear: almost all these provisions were in the June 1997 proposed settlement put forward by 41 state attorneys general, which the industry agreed to. The industry is criticizing these provisions now only because the political tide has turned against it, and certain other aspects of the legislation have gotten stronger.

Q&As on Tobacco -- Al Hunt Interview
April 28, 1998

Q: Do you really think you'll get a tobacco bill this year?

A: I believe we have an historic opportunity to pass bipartisan legislation this year which both contains the elements necessary to reduce teen smoking. And I'm going to do everything I can to put politics aside and pass legislation that will achieve that objective. Senator McCain's legislation, which passed the Commerce Committee by a 19-1 vote, is a strong step in the right direction on the road to passing comprehensive tobacco legislation. It shows real momentum in both parties to pass effective, comprehensive tobacco legislation this year.

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Q: Are you worried about the bill creating a black market?

A: We think we can minimize black market activity through a system similar to the one that's been in place for alcoholic beverages for over sixty years by: 1) creating a "closed" distribution system for tobacco products so that only licensed entities can sell or buy products; 2) clearly branding packages for export, to prevent them from being diverted; and 3) establishing and enforcing penalties and other actions for violators. Senator McCain's bill largely addresses these issues, and we are working with him on technical

changes.

Q: Wouldn't this big government scheme extend the reach of the federal government to every mom-and-pop grocery store or 7-11?

A: No. We are comfortable with a system that places primary responsibility for licensing retailers on state governments, as the McCain bill does. The important thing is to work with Congress to devise a scheme that will facilitate the effort to prevent smuggling, while not burdening retailers. The Administration will work with Congress, and the retailers themselves, on this issue.

Q: Won't the McCain bill bankrupt the companies? Lots of Wall Street analysts say it will.

A: We don't want to put the tobacco companies out of business. We just want to put them out of the business of selling cigarettes to kids. A central feature of comprehensive tobacco legislation is to ensure that most of the payments made by the tobacco companies are passed on to price, in order to reduce youth smoking. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of RJR, Philip Morris, and Loews last year were *\$18 billion*. Even RJR, the most highly leveraged firm in this industry, had a \$1.5 billion operating profit for its domestic tobacco business, and has over \$4 billion in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Q&As
Surgeon General Report on Minority Tobacco Use
 April 27, 1998

Q. What does the Surgeon General's Report say?

- A.** The Surgeon General's Report being released today is the first comprehensive report on the use and health effects of tobacco among minority groups. The report finds that from 1991 to 1997, smoking increased by 80 percent for African-American youths and by 34 percent for Hispanic youth. The report finds that cigarette smoking is a major cause of disease and death among minority populations, which will only get worse if these trends are not reversed. The report also documents that efforts to reduce and prevent smoking among minority and ethnic populations are undermined by the tobacco industry's heavily targeted advertising and promotion of tobacco products within these communities.

In short, the report demonstrates, once again, why Congress needs to pass comprehensive tobacco legislation to reduce youth smoking this year.

Additional Background

Youth Smoking: Smoking Among High School Students (9-12th graders)

	Percent Smoking, 1991	Percent Smoking, 1997	Percent Increase
African American	12.6%	22.7%	80%
Hispanic	25.3%	34.0%	34%
White	30.9%	39.7%	28%
All Students	27.5%	36.4%	32%

Youth Smoking: Smoking Among High School Seniors (12th graders)

	Percent Smoking, 1990	Percent Smoking, 1995	Percent Increase
Asian American/ Pacific Islander	17.5%	20.5%	17%
American Indians/ Alaska Natives	37.8%	47.7%	26%

Adult Smoking

	African American	Hispanic	Asian American/ Pacific Islander	American Indian/Alaska Native	White
Percent	26.5%	18.9%	15.3%	39.2%	25.9%

Q: What does the report say about the tobacco industry targeting of minority communities?

A: The Surgeon General's report shows the need for comprehensive tobacco legislation to reduce youth smoking that includes limits on advertising. The report found that the tobacco industry has targeted advertising and promotion campaigns intensively in minority and ethnic communities. For example, a 1990 study of San Francisco found that 62 percent of billboards in predominantly African American neighborhoods advertised cigarettes, compared with 36 percent of billboards citywide. A 1993 study of San Diego found the highest proportion of billboards featuring tobacco companies was in Asian American neighborhoods, followed by African-American then Hispanic neighborhoods.

The report chronicles how tobacco companies have promoted their products by sponsoring numerous ethnic activities and events, such as Chinese New Year festivities, Cinco de Mayo festivities, as well as activities related to Asian/Pacific Heritage month and African-American history month. A study of magazines found that there were 12 percent more cigarette advertisements in magazines targeted to African Americans (*Jet*, *Ebony* and *Essence*) than in magazines targeted to the general population (*Time*, *Newsweek*, *People*, and *Mademoiselle*).

Q: Does the President have a specific proposal to address the particular problem of tobacco use within minority communities?

A: Passing comprehensive tobacco legislation designed to reduce youth smoking will help all Americans -- regardless of their background or ethnicity. The Surgeon General's report illustrates that this is an extremely important issue in minority and ethnic communities. It also demonstrates that we need to better understand the use and effects of tobacco among minority and ethnic groups. For example, we want to look carefully at why smoking rates increased by 80 percent for African-American youth and by 34 percent among Hispanics from 1991 to 1997 so that we can develop the prevention and cessation programs that will work best in those communities. We will continue to work closely with minority health experts to determine how best to address these issues.

Q: Why are the smoking rates of African Americans lower than whites?

A: The Surgeon General report documents a number of studies that show that differences in social attitudes and lifestyle factors between white and African-American youth help account for their different smoking rates. However, further research is needed to better account for these different smoking rates as well as to understand the recent increases in smoking among African-American youth.

Additional Background

Studies cited in the Surgeon General's report show that over time African-American high school seniors have become increasingly more likely than white seniors to acknowledge

the health risks of tobacco, to claim that smoking is a “dirty habit”, and to claim that they prefer to date non-smokers. African-Americans are also likely to start smoking later than whites.

One study in Tennessee showed that white high school age girls are four times more likely than their African-American counterparts and white boys twice as likely as African-American boys to believe that “smoking can help you control your weight and appetite.” This same study revealed that 60 percent of white girls and nearly 20 percent of white boys cited weight control as a reason for smoking, whereas none of the African-American students cited weight as a reason for smoking. Another study showed that African-American teenage girls are less likely than white girls to think that smoking enhances their image.

A previous Surgeon General’s report found that when parents express concerns about smoking it appears to reduce the likelihood that their children will smoke. Various studies across the country have documented that African-Americans are more likely to have received anti-smoking messages from their parents.

Q. Aren’t the minority health organizations and the Congressional Minority Caucuses drafting legislation to address the problem of tobacco use among minorities, including by earmarking funds to this issue? What is your reaction to these proposals?

A. Comprehensive legislation that meets the principles that the President has outlined would address many aspects of this problem: the best way to reduce youth smoking among minority populations is to design effective, comprehensive legislation that will reduce youth smoking in all our communities. But the Surgeon General’s report underscores the need to understand the use and effects of tobacco among minority communities, and to devise the prevention and cessation programs that will work best in those communities. We look forward to reviewing closely any proposals that address our shared concerns.

Q: Aren’t the fees imposed by the Administration’s plan and the McCain bill regressive and therefore hit minority communities hardest?

A: The tobacco industry has spent billions of dollars marketing to low-income and minorities, and made billions of dollars at their expense. Big Tobacco doesn’t care about poor people -- it just wants to keep hooking future smokers. As a result, low-income people have suffered a disproportionate level of tobacco-related harm. The Administration is committed to making sure cessation programs are available to help all smokers quit -- and just as important, that we change the way the tobacco industry does business so it no longer preys on poor kids in the first place.

Q: Are you concerned about the information reported in last week's New York Times that young African Americans are smoking more to enhance the high from marijuana?

A: This Administration has long recognized that cigarettes, alcohol, and illegal drugs all pose a serious threat to our youth. Studies have shown that kids who make it to their 21st birthday without having smoked a cigarette, taken a drink or turned to drugs are almost certain to avoid chemical dependency throughout their lives. That is why our goal must be to keep teenagers from having that first drink, trying a cigarette, or experimenting with illegal drugs before they are old enough to know better and to realize the consequences of their decisions.

We are greatly concerned by data showing that smoking among African American youth has increased by 80 percent over the last six years. New information relating this trend to marijuana use is very disturbing, and provides still further reason to take strong action against illegal drugs. Of course, as The New York Times points out, the increase in tobacco use is even more heavily associated with advertising and other media messages that have a great impact on young people. That's why minority youth tend to smoke Kool and Newport, brands advertised with minority images, while white youth smoke Marlboro and Camel, whose ads feature white characters.

These facts underscore why we need comprehensive legislation to reduce youth smoking by raising the price of cigarettes, putting into place tough restrictions on advertising and access, imposing penalties on the industry if it continues to sell cigarettes to children, and ensuring that the FDA has authority to regulate tobacco products.

Q: What do you think of the House Republican proposal to link drugs and tobacco in a single bill?

A: Nobody disagrees about the need to be tough on drug use, but that is no excuse to be less than tough on youth smoking. We need to pass strong, comprehensive tobacco legislation this year that dramatically reduces youth smoking by raising the pack of cigarettes, imposing tough penalties on companies that continue to sell to kids, granting the FDA authority over tobacco products, and restricting advertising and marketing to children. The McCain bill, which passed the Senate Commerce Committee by a 19-1 vote three weeks ago, is a strong step in that direction. If Republicans want to add good anti-drug provisions to a comprehensive tobacco bill of this kind, we have no objections. But the bill must address the problem of youth smoking comprehensively; anti-drug provisions can't serve as an excuse for watered-down tobacco legislation.

Q: What exactly is the President's strategy on drugs?

A: This past February President Clinton released the 1998 National Drug Control Strategy, a comprehensive ten-year plan to reduce drug use and availability by 50% -- to a historic new low. The strategy is backed by a \$17 billion anti-drug budget in FY 1999 -- the

largest ever presented to Congress, with a \$1.1 billion increase over last year's budget.

While the strategy incorporates specific goals and objectives in the areas of drug treatment and prevention, domestic law enforcement, interdiction, and international programs, its number one goal is to educate and enable our youth to reject illegal drugs. That is why the largest budget increases (15% over last year's funding levels) are targeted for this purpose. In contrast, Speaker Gingrich and the House Republicans tried to cut the Safe and Drug-Free Schools program -- the program that funds anti-drug efforts in 97% of the nation's school districts -- by a full 50% just a few years ago.

Key initiatives in the drug strategy include:

Protecting Kids:

- \$195 Million National Youth Anti-Drug Media Campaign to make sure that when kids turn on the television or surf the "net," they learn about the dangers of drugs.
- \$50 Million for School Drug Prevention Coordinators to improve and expand the Safe and Drug-Free Schools program by hiring more than 1,000 new prevention professionals to work with thousands of schools in preventing drug use.

Strengthening Our Borders:

- \$163 Million for Border Patrol to hire 1,000 new Border Patrol officers and for "force multiplying" technology.
- \$54 Million for Advanced Technology for the Customs Service to deploy advanced technologies, such as X-ray systems and remote video surveillance.
- \$75.4 Million to Support Interdiction Efforts in the Andean region and Caribbean, and to train Mexican counterdrug forces.

Strengthening Law Enforcement:

- \$38 Million to Crack Down on Methamphetamine and Heroin by hiring 100 new DEA agents, expanding the Administration's anti-methamphetamine initiative, and targeting heroin traffickers.

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- \$85 Million to Promote Coerced Abstinence to help state and local governments implement drug testing, treatment, and graduated sanctions for drug offenders.

Closing the Treatment Gap:

- \$200 Million Increase for Substance Abuse Block Grants to help states close the treatment gap.

Q. What is wrong with passing a “skinny” tobacco bill? Why do you need a comprehensive bill?

A. Every day, 3000 children and adolescents begin smoking, and 1,000 will die prematurely as a result. Experts agree that in order to dramatically reduce youth smoking we need to take a comprehensive approach that will attack the problem from a variety of angles.

- Price: All experts agree that the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. That is why the President has proposed raising the price of cigarettes by \$1.10 over five years -- an increase that both the Treasury Department and the Congressional Budget Office agree should cut youth smoking by about a third.
- Advertising: Studies show that industry advertising significantly contributes to youth smoking rates. The Treasury Department has estimated that the advertising and marketing restrictions in the McCain bill should cut youth smoking by about 15 percent. This is a conservative estimate: a study recently published in the Journal of the American Medical Association found that a full 34% of teen smoking is attributable to promotional activities.
- FDA Jurisdiction: Reaffirming the FDA authority over tobacco products is necessary to help stop young people from smoking before they start. Currently, nearly 90 percent of people begin smoking before age 18, despite the laws that make it illegal to sell cigarettes to minors. FDA Authority will ensure that young people do not have access to these products.
- Penalties: Strong lookback penalties will act as an insurance policy to ensure that the tobacco industry takes meaningful steps to reduce youth smoking. If the bill's provisions on price, advertising, and FDA jurisdiction do not bring youth smoking down as much as expected, penalties will kick in to ensure that the industry has every incentive to take further action to reduce youth smoking.

All of these measures support and reinforce each other; all are necessary to ensure that legislation dramatically reduces youth smoking.

Q: Isn't the President's plan a big government, big tax proposal?

A: No. What the President's approach does is to attack the problem of youth smoking comprehensively, as all experts say we need to do, by combining strong provisions on price, penalties, advertising and access, and FDA jurisdiction. Although we have some differences with Senator McCain, he also recognizes the need to move forward on all these fronts to reduce youth smoking. That's not about big government. It's about sensible, bipartisan steps to dramatically reduce youth smoking.

Q. But won't the McCain bill create 17 new federal bureaucracies?

A. No -- this isn't about big government. That's just another Big Lie from Big Tobacco. What the bill does is to ensure that the federal government has the authority to regulate tobacco products in order to reduce youth smoking, as well as the ability to target tobacco revenues to strong public health and research efforts. The so-called "bureaucracies" that the industry is now complaining about are nothing more than what's necessary to protect the public health in this way -- to ensure that cigarettes are not sold to minors, to promote effective education, and to encourage smoking cessation. The proof that this is an industry con job is clear: almost all these provisions were in the June 1997 proposed settlement put forward by 41 state attorneys general, which the industry agreed to. The industry is criticizing these provisions now only because the political tide has turned against it, and certain other aspects of the legislation have gotten stronger.

Q: Hasn't the Administration proposed a big government scheme that would extend the reach of the federal government to every mom-and-pop grocery store?

A: No. The Administration has offered proposals designed to reduce smuggling that would require wholesalers, distributors, and retailers to identify themselves as such. That's no more than what any business has to do now to sell liquor -- and no more than what most states already require sellers of tobacco to do. The important thing is to work with Congress to devise a scheme that will facilitate the effort to prevent smuggling, while not burdening retailers. The Administration will work with Congress, and the retailers themselves, on this issue.

Q: Aren't you just trying to bankrupt the companies?

A: We don't want to put the tobacco companies out of business. We just want to put them out of the business of selling cigarettes to kids. A central feature of comprehensive tobacco legislation is to ensure that most of the payments made by the tobacco companies are passed on to price, in order to reduce youth smoking. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of RJR, Philip Morris, and Loews last year were *\$18 billion*. Even RJR, the most highly leveraged firm in this industry, had a \$1.5 billion operating profit for its domestic tobacco business, and has over \$4 billion in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Tobacco Q&A
April 24, 1998

Q: RJR CEO Gladstone this morning accused the Treasury Department of having a “secret report” which concludes that price increases will reduce youth smoking, and said “Since when does a government financial analysis of the tobacco business and your smoking rates receive a security classification akin to satellite surveillance of Saddam’s Republican Guard?” Is this true?

A: It is, to say the least, ironic that the tobacco industry is accusing others of failing to disclose important information. In any event, the charge is absolutely false. On no less than four occasions in recent weeks, the Treasury Department has detailed both its conclusions about youth smoking rates and the bases of those conclusions. On March 24, Treasury Deputy Secretary Lawrence H. Summers presented oral and written public testimony to the Senate Commerce committee. On March 25th, Summers gave a speech and released a report “The Economic Costs of Smoking in the United States and the Benefits of Comprehensive Tobacco Legislation.” In addition, on February 13th the President released a Treasury analysis showing how his budget proposal would cut youth smoking nearly in half in five years, and on March 23rd, the Vice President released state by state numbers of the estimated reduction in youth smoking. In short, the Administration has been both very public and very clear about its analysis.

Tobacco Q & A
April 22, 1998

Q. What is wrong with passing a “skinny” tobacco bill? Why do you need a comprehensive bill?

A. Every day, 3000 children and adolescents begin smoking, and 1,000 will die prematurely as a result. Experts agree that in order to dramatically reduce youth smoking we need to take a comprehensive approach that will attack the problem from a variety of angles.

- **Price:** All experts agree that the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. That is why the President has proposed raising the price of cigarettes by \$1.10 over five years -- an increase that both the Treasury Department and the Congressional Budget Office agree should cut youth smoking by about a third.
- **Advertising:** Studies show that industry advertising significantly contributes to youth smoking rates. The Treasury Department has estimated that the advertising and marketing restrictions in the McCain bill should cut youth smoking by about 15 percent. This is a conservative estimate: an American Medical Association study recently found that a full 34% of teen smoking is attributable to promotional activities.
- **FDA Jurisdiction:** Reaffirming the FDA authority over tobacco products is necessary to help stop young people from smoking before they start. Currently, nearly 90 percent of people begin smoking before age 18, despite the laws that make it illegal to sell cigarettes to minors. FDA Authority will ensure that young people do not have access to these products.
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All of these measures support and reinforce each other; all are necessary to ensure that legislation dramatically reduces youth smoking.

Q&A on Tobacco and Drugs
April 22, 1998

Q. What do you think of the House Republican proposal to link drugs and tobacco in a single bill?

A. Nobody disagrees about the need to be tough on drug use, but that is no excuse to be less than tough on youth smoking. We need to pass strong, comprehensive tobacco legislation this year that dramatically reduces youth smoking by raising the pack of cigarettes, imposing tough penalties on companies that continue to sell to kids, granting the FDA authority over tobacco products, and restricting advertising and marketing to children. The McCain bill, which passed the Senate Commerce Committee by a 19-1 vote three weeks ago, is a strong step in that direction. If Republicans want to add good anti-drug provisions to a comprehensive tobacco bill of this kind, we have no objections. But the bill must address the problem of youth smoking comprehensively; anti-drug provisions can't serve as an excuse for watered-down tobacco legislation.

Q: What exactly is the President's strategy on drugs?

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While the strategy incorporates specific goals and objectives in the areas of drug treatment and prevention, domestic law enforcement, interdiction, and international programs, its number one goal is to educate and enable our youth to reject illegal drugs. That is why the largest budget increases (15% over last year's funding levels) are targeted for this purpose. In contrast, Speaker Gingrich and the House Republicans tried to cut the Safe and Drug-Free Schools program -- the program that funds anti-drug efforts in 97% of the nation's school districts -- by a full 50% just a few years ago.

Key initiatives in the drug strategy include:

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Q: Are you concerned about the information reported in today's New York Times that young African Americans are smoking more to enhance the high from marijuana?

A: This Administration has long recognized that cigarettes, alcohol, and illegal drugs all pose a serious threat to our youth. Studies have shown that kids who make it to their 21st birthday without having smoked a cigarette, taken a drink or turned to drugs are almost certain to avoid chemical dependency throughout their lives. That is why our goal must be to keep teenagers from having that first drink, trying a cigarette, or experimenting with illegal drugs before they are old enough to know better and to realize the consequences of their decisions.

We are greatly concerned by new data released earlier this month showing that smoking among African American youth has increased by 80 percent over the last six years. New information relating this trend to marijuana use is very disturbing, and provides still further reason to take strong action against illegal drugs. Of course, as the New York Times points out, the increase in tobacco use is even more heavily associated with advertising and other media messages that have a great impact on young people. That's why minority youth tend to smoke Kool and Newport, brands advertised with minority images, while white youth smoke Marlboro and Camel, whose ads feature white characters.

These facts underscore why we need comprehensive legislation to reduce youth smoking by raising the price of cigarettes, putting into place tough restrictions on advertising and access, imposing penalties on the industry if it continues to sell cigarettes to children, and ensuring that the FDA has authority to regulate tobacco products.

Tobacco Q&A
April 21, 1998

Q: What does the President think about Speaker Gingrich's comments last night that Joe Camel and other tobacco advertising are not responsible for youth smoking?

A: The President disagrees strongly with Speaker Gingrich's statement. Many studies have found that industry advertising significantly contributes to youth smoking rates. One showed that as many as children knew about Joe Camel as about Mickey Mouse. That's why we need comprehensive legislation -- addressing industry advertising, as well as increasing price, imposing penalties, and restricting access -- to dramatically reduce youth smoking.

Q: Rep. Waxman said yesterday that he expects Congress to pass strong legislation this year and he doesn't "think the tobacco companies are going to like it, but that's not my major concern." Does the President agree that we can pass comprehensive tobacco legislation without the companies?

A: We would prefer that the companies join, rather than fight, our efforts to reduce smoking. But make no mistake: The President will continue to work to reduce youth smoking no matter what the companies do, and we will get strong legislation on youth smoking whether or not the companies join us. Of course, we view it as a very good sign that Rep. Waxman agrees that we will pass such legislation this year.

Q: Rep. Waxman also said that the penalty provisions of the McCain bill must be strengthened. Does the President agree?

A: The President has said previously that he would like the Congress to strengthen the penalty provisions in Senator McCain's legislation. The President has not reviewed Rep. Waxman's proposal, so cannot yet address whether this proposal is a good one.

Talking Points and Q & A on Tobacco Legislation
April 20, 1998

Today, President Clinton issued a strong statement calling for Congress to pass comprehensive, bipartisan tobacco legislation to reduce teen smoking.

CLEAR FACTS, HIGH STAKES. 3,000 children begin to smoke every day; 1,000 of them will die early as a result. President Clinton is committed to passing comprehensive bipartisan legislation to stop young Americans from smoking before they start, by raising the price of cigarettes, putting into place tough restrictions on advertising and access, imposing penalties on the industry if it continues to sell cigarettes to children, and ensuring that the FDA has authority to regulate tobacco products. That effort can save one million lives over the next five years.

A STRONG FOUNDATION FOR FUTURE TOBACCO REFORM. Senator McCain and Senator Hollings' tobacco legislation bill, which passed the Commerce Committee by a 19-1 vote three weeks ago, is a strong step in the right direction on the road to passing comprehensive tobacco legislation. It shows real momentum in both parties to pass effective, comprehensive tobacco legislation this year.

STANDING STRONG FOR COMPREHENSIVE REFORM, NOT HALF MEASURES. In the days to come, the tobacco industry will try to persuade Congress to pass weaker legislation, which will not reduce teen smoking. We must continue to work with Senator McCain and others to ensure the kind of legislation that will succeed in dramatically reducing teen smoking. This is no time to accept half-measures that will only play into the industry's hands.

Questions and Answers

Q: What did the President think of Speaker Gingrich's statement this weekend criticizing the McCain bill? Do you think the Speaker has adopted the industry's line?

A: The President was very disappointed in the Speaker's statement. The Speaker indicated that he wants to pursue half-measures, rather than a comprehensive approach that will do everything it takes to reduce youth smoking. We need a bill that's strong on price, that's strong on penalties, that's strong on advertising and access restrictions, and that's strong on FDA jurisdiction. Senator McCain's bill is a very strong step in that direction, and we hope Speaker Gingrich will rethink his position and decide to support such a comprehensive approach.

Q: Isn't the President's plan -- and the McCain bill -- a big government, big tax proposal?

A: No. What the President's approach does is to attack the problem of youth smoking comprehensively, as all experts say we need to do, by combining strong provisions on price, penalties, advertising and access, and FDA jurisdiction. Although we have some differences with Senator McCain, he also recognizes the need to move forward on all these fronts to reduce youth smoking. That's not about big government. It's about sensible, bipartisan steps to dramatically reduce youth smoking.

Q: But won't the McCain bill create 17 new federal bureaucracies?

A: No -- this isn't about big government. That's just another Big Lie from Big Tobacco. What the bill does is to ensure that the federal government has the authority to regulate tobacco products in order to reduce youth smoking, as well as the ability to target tobacco revenues to strong public health and research efforts. The so-called "bureaucracies" that the industry is now complaining about are nothing more than what's necessary to protect the public health in this way -- to ensure that cigarettes are not sold to minors, to promote effective education, and to encourage smoking cessation. The proof that this is an industry con job is clear: almost all these provisions were in the June 1997 proposed settlement put forward by 41 state attorneys general, which the industry agreed to. The industry is criticizing these provisions now only because the political tide has turned against it, and certain other aspects of the legislation have gotten stronger.

Q: Isn't the Administration's plans for tobacco legislation based on its need for a certain amount of revenue to fund its favorite spending programs?

A: No. The President's plan was designed to dramatically reduce youth smoking. Of course the plan raises money, because experts all agree that the single most important step we can take to reduce youth smoking is to raise the price of a pack of cigarettes significantly. The President has proposed allocating these revenues to programs that promote public health and assist children. But his priority is to ensure that Congress commits to enacting comprehensive legislation, including a substantial price increase -- not that it agrees to spend resulting revenues in any particular way.

Q: Aren't the fees imposed by the Administration's plan and the McCain bill regressive?

A: The tobacco industry has spent billions of dollars marketing to low-income and minorities, and made billions of dollars at their expense. Big Tobacco doesn't care about poor people -- it just wants to keep hooking future smokers. As a result, low-income people have suffered a disproportionate level of tobacco-related harm. The Administration is committed to making sure cessation programs are available to help smokers quit -- and just as important, that we change the way the tobacco industry does business so it no longer preys on poor kids in the first place.

Q: Isn't the licensing scheme that the Administration proposed a big government scheme that would extend the reach of the federal government to every mom-and-pop grocery store or 7-11?

A: No. The Administration has offered proposals designed to reduce smuggling that would require wholesalers, distributors, and retailers to identify themselves as such. That's no more than what any business has to do now to sell liquor -- and no more than what most states already require sellers of tobacco to do. The important thing is to work with Congress to devise a scheme that will facilitate the effort to prevent smuggling, while not burdening retailers. The Administration will work with Congress, and the retailers themselves, on this issue.

Q: Aren't you just trying to bankrupt the companies? Lots of Wall Street analysts say you will.

A: We don't want to put the tobacco companies out of business. We just want to put them out of the business of selling cigarettes to kids. A central feature of comprehensive tobacco legislation is to ensure that most of the payments made by the tobacco companies are passed on to price, in order to reduce youth smoking. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of RJR, Philip Morris, and Loews last year were *\$18 billion*. Even RJR, the most highly leveraged firm in this industry, had a \$1.5 billion operating profit for its domestic tobacco business, and has over \$4 billion in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Tobacco Q&As
(Combined 4/10 and 4/16)

I. IS THE TOBACCO DEAL DEAD?

Q: Isn't the tobacco deal dead now that the industry has walked away?

A: Actually, we are now closer than ever to getting comprehensive tobacco legislation which will dramatically reduce youth smoking. We are gaining powerful momentum across the nation and in Congress, evidenced by the 19-1 vote in favor of Senator McCain's bill in the Senate Commerce Committee. Ultimately, protecting the public health and reducing youth smoking is our bottom line. While we would prefer that the tobacco companies willingly participate in these discussions, we will forge ahead with our efforts to reduce youth smoking with or without them.

The President believes we have an historic opportunity to pass bipartisan legislation this year which both contains the elements necessary to reduce teen smoking in America and provides adequate protection for tobacco communities. And he's going to do everything he can to put politics aside and pass legislation that will achieve that objective.

Q: So you don't believe the industry has really walked away?

A: It is no surprise that the tobacco industry would protest the legislation moving through the Congress -- it is in their interest to object to the bill now to prevent it from getting even tougher. In the end, the companies will have a strong incentive to participate, and we're convinced that they'll recognize this.

We would prefer that the companies join, rather than fight, our efforts to reduce smoking. But make no mistake: The President will continue to work to reduce youth smoking no matter what the companies do. He has worked on this effort for two years; members of Congress from both parties are now joining him; and we will get strong legislation on youth smoking whether or not the companies join us.

Q: But don't you need industry cooperation to enact tobacco legislation?

A: We would like the tobacco industry to willingly join us in this effort to reduce youth smoking. And we still believe that the tobacco industry will have every incentive to agree to legislation in the end, so that they can end this chapter in their history. But if they refuse to join us, we will still make progress. We will continue our efforts to pass comprehensive legislation to dramatically reduce youth smoking. We're not trying to put the tobacco companies out of business; we want to put them out of the business of selling cigarettes to kids.

II. IS THIS BILL BIG TAX, BIG GOVERNMENT, AND BIG BROTHER?

Q: Are the companies correct in saying that the McCain bill will raise the per pack price of cigarettes to \$5?

A: Absolutely not. The Administration estimates the McCain bill itself will raise the per pack price of cigarettes by \$1.10. By 2003, under the McCain bill, the real price of cigarettes will rise to \$3.20. The price increase will not approach the level suggested by the industry.

Q: Aren't the fees imposed by the McCain bill are regressive and won't they increase the costs for smokers from \$300 to \$1700 per year?

A: Higher cigarette prices will mean more payments by all Americans who continue to smoke, including low-income Americans. The unfortunate reality is that smoking is a regressive habit and takes a regressive toll, in part because the industry has spent billions of dollars marketing to low-income and minority communities. The Administration is well aware of this, and this is why we would use funds raised from these payments to help smokers quit.

The Administration has taken many steps to make the tax system fairer for low- and middle-income working families, such as significantly expanding the earned income tax credit, providing the \$500 child tax credit and making it partially refundable for families with three or more children, and creating the President's HOPE and lifelong learning tax credits. The distributional effects of legislation should be thought of in the context of broader tax changes.

Q. The companies say that only 2 percent of smokers are children, yet you are penalizing the 98 percent of smokers who are adults.

A. They're wrong. Of all Americans who smoke, about 10 percent are under the age of 18. And that's the problem. Our children are getting hooked. Nearly 90 percent of adult smokers began before they were 18. The average age of smoking initiation is 14.5 years old. The average age when kids begin to smoke daily is 17.7 years old. And the adult smokers will tell you why the industry is wrong because 70 percent of adult smokers want to quit, and 80 percent of adults regret that they ever began.

Q: Will kids buy cigarettes from drug dealers as the result of the price increase?

A: With a price increase of this size, black market activity is worth watching. But we have proposed an enforcement regime that will minimize black market activity. The proposed system would regulate tobacco products in a manner similar to the way the Federal Government has regulated alcoholic beverages for over sixty years. In essence, the proposed system would create a "closed" distribution system for tobacco products, *i.e.*, a system in which each level of distribution from manufacturer to retailer is subject to regulation. We don't see children buying alcoholic beverages from drug dealers - and there is no reason that they would buy cigarettes from these dealers either.

Q: I understand there was an enormous smuggling problem in Canada when they raised their excise tax. Won't a similar problem arise with the McCain bill?

A: In the early 1990s, Canada did have a problem with cigarettes being legally exported to the U.S. and illegally smuggled back into Canada. There are five reasons why we believe that example does not apply to the U.S.:

- First and foremost, Canada did not have in place the type of effective licensing, registration, and enforcement system advocated by the Administration to crack down on smuggling.
- Second, Canada had smuggling problem in the early 1990s when its unemployment rate was at 11 percent. Before and since then, there was no significant smuggling between Canada and the U.S. despite the differences in cigarette prices.
- Third, 80 percent of the Canadian population lives within a two hour drive of the U.S. border. The U.S. population is more dispersed.
- Fourth, in the early 1990s, Canada's tax burden on tobacco was much higher than the levels we're now contemplating, making smuggling more profitable.
- Fifth, the current legislation envisions annual payments made by a few manufacturers, whose cost will be passed along to consumers, rather than an increase in the per pack excise tax. This makes enforcement much easier.

Q: Aren't you just trying to bankrupt the companies? Lots of Wall Street analysts say you will.

A: A central feature of the McCain legislation is a number of mechanisms designed to ensure that the payments made by the tobacco companies are passed on to the prices paid by consumers of tobacco products. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating

earnings of RJR, Philip Morris, and Loews last year were *\$18 billion*. Even RJR, the most highly leveraged firm in this industry, had a \$1.5 billion operating profit for its domestic tobacco business, and has over \$4 billion in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Q. Is it true that the bill would create 17 new federal bureaucracies?

A. No. This is a smokescreen. Our goal is to ensure that comprehensive tobacco legislation achieves its purpose of reducing youth smoking in this country with a minimum of bureaucratic overhead, and we will continue to work with Congress to achieve that goal. In terms of the industry's charge, let's look at the facts. All of these so-called "bureaucracies," excluding the international provisions, were in the June 1997 proposed settlement that the industry touts. These provisions are actually programs designed to promote education and public health, encourage smoking cessation, and ensure that cigarettes are not sold to minors. So it is disingenuous for them to criticize the bill on this point, now that the political tide has turned against them, when it previously posed no problem for them as part of the settlement they embraced.

Q. Will the bill result in the exporting of tobacco jobs overseas?

A. This legislation should not lead to the exporting of tobacco jobs. The legislation will raise the price of tobacco imports just as it raises the price of domestically produced tobacco products. Thus, there is no new advantage to be gained by tobacco producers from moving production off-shore, since the price of their product will rise equally in the U.S. no matter where it is produced. There is also no real profit motivation for producers to move production offshore.

Q. Is it true that the McCain bill would give the FDA unbridled authority to ban cigarettes?

A. The FDA provisions of the McCain bill were worked out on a truly bipartisan basis and enjoy broad support in both parties and the public health community. Current law and the McCain bill do not give FDA unbridled authority to ban cigarettes. FDA's authority over tobacco products is governed by the Federal Food, Drug, and Cosmetic Act as well as the Administrative Procedures Act. These laws require that FDA must have an adequate scientific basis for any decisions it makes regarding tobacco products. Furthermore, the McCain bill has an explicit provision that requires the President to notify Congress if FDA bans nicotine from tobacco products, or bans a class of tobacco products. Any such action cannot take effect for 2 years in order to allow Congress adequate time to consider legislation in this area.

III. WHAT DOES THE PRESIDENT WANT IN A TOBACCO BILL?

Q: What's wrong with the June 20th settlement that the industry favors? Didn't the President and Secretary Shalala praise it?

A: As the President made clear on September 17th, any legislation must meet five principles in order to gain his support. It must:

- ▶ Raise the price of cigarettes by up to \$1.50 a pack over the next ten years and impose tough penalties on companies that continue to sell to kids;
- ▶ Expressly confirm the FDA authority to regulate tobacco products;
- ▶ Get tobacco companies out of the business of marketing to children;
- ▶ Further public health research and goals;
- ▶ Protect tobacco farmers and their communities.

The proposed settlement between the industry and the state attorneys general:

- Did not raise the price of cigarettes enough to reduce youth smoking
- It weakened FDA's authority to regulate tobacco, and
- It did nothing to protect tobacco farmers and their communities.

The McCain bill is an enormous improvement over the proposed settlement.

	Attorneys General	McCain	President
Substantial Price Increase	No	Yes	Yes
Strong Industry and Company Penalties	No	No	Yes
Full FDA Authority	No	Yes	Yes
Strong Advertising and Access Provisions	Yes	Yes	Yes
Comprehensive Plan to Use Tobacco Revenue to Protect Public Health and Assist Children	Yes	No*	Yes
Strong Environmental Tobacco Smoke Provision	Yes	No	Yes
Protections of Tobacco Farmers	No	Yes	Yes

* Does not attempt to address most spending issues.

IV. DON'T DEMOCRATS JUST WANT TO TAX AND SPEND?

Taxes

Q: Isn't this tobacco legislation just a way to raise taxes?

A: No. As the President said when he traveled to Kentucky, he's not just trying to raise a bunch of money to raise money, or to raise the price of cigarettes. The goal is to make America's children healthier. Experts agree: raising the price of cigarettes is one of the best ways to reduce youth smoking. The Treasury Department has found that \$1.10 price increase will, by itself, reduce youth smoking by 32 percent -- and, adding advertising and marketing restrictions, the bill will reduce youth smoking by 42 percent overall.

Q: But don't some experts say a price increase will have no effect on young people's behavior?

A: A new analysis by the Congressional Budget Office shows that this independent agency agrees with us: a substantial price increase will significantly reduce youth smoking. CBO reviewed the economic literature and found that the effects of \$1.10 increase in price will be very similar to Treasury's estimates.

Q: But there are some studies that disagree?

A: Some have cited a University of Maryland study as contrary evidence, but that study actually confirms our view, and the author of that study has sent a letter to Congress saying his study had been misquoted.

Q: Also, didn't youth smoking rise in other countries when prices increased?

A: Our economists tell me that the clear consensus of the U.S. literature, as confirmed by CBO, is that youths are very responsive to price in their decisions to smoke. Data from other countries are, in their view, don't tell us much about U.S. youth.

Q: But by raising the price of cigarettes, aren't you just taxing adults and disproportionately hurting low income families?

A: It is typical of the tobacco industry -- which for years has made billions of dollars on the backs of those very families -- to suggest that efforts to stop young people from taking up an expensive addiction are regressive. The unfortunate reality is that smoking is a regressive habit and takes a regressive toll, in part because the industry has spent billions of dollars marketing to low-income and minority communities. Ultimately, we need to make sure that we help all people who want to quit to do so successfully.

Spending

Q: Isn't your real objective here to raise money so you can spend it?

A: No. As the President said when he traveled to Kentucky, he's not just trying to raise a bunch of money to raise money, or to raise the price of cigarettes. The goal is to make America's children healthier. Experts agree: raising the price of cigarettes is one of the best ways to reduce youth smoking.

Q: Why does the Administration oppose using the tobacco-related funds to shore up Medicare, as the Republicans propose?

A: The President's investment priorities for the tobacco legislation are aimed at helping children and advancing the public health. His budget dedicates almost all of any tobacco revenues towards initiatives designed to reduce smoking, help find treatments and cures for diseases associated with tobacco, and invest in our children through health care coverage, needed child care, and education. We believe that these investments have a natural link to tobacco revenue and will make a major contribution toward preparing the nation for the 21st century. We are happy to debate the best use of tobacco revenue, but first let's all agree on the need to pass a comprehensive bill with a substantial price increase.

We certainly share concerns about the Medicare program. In fact, no President has done more to protect and strengthen this vital program. Just last year, working with the Congress, the President enacted a package of unprecedented savings -- \$450 billion over 10 years -- and structural reforms that extended the life of the Medicare Trust Fund until 2010. He recently appointed a distinguished group of individuals as his members of the Medicare Commission. The President is committed to working with the Commission to find ways for the program to meet the longer-term financing challenges that confront it.

Q: But didn't the President propose to use tobacco funds to fund new programs?

A: As the President has said many times, his goal is to dramatically reduce youth smoking. He believes the annual payments made by the industry -- which will reduce youth smoking by raising the price of cigarettes -- should be used to promote public health and assist children. His budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic expansion of health-related research to help us cure smoking-related disease.

Finally, in recognition of the states' role in bringing suit against tobacco companies, the President's budget provides for a substantial amount of money to revert to the states. Some of this money can be used for any purpose. Other funds should be used on state-administered programs to assist children (specifically, for child care, Medicaid child outreach, and class size reduction).

V. AREN'T DEMOCRATS JUST PRO-LAWYER AND PRO-DRUGS?

Q: Republicans leaders have asked if the President would agree to a \$150 per hour cap for these lawyers. What is the President's position?

A: The President's overriding priority is ensuring that tobacco legislation promotes the public health -- that's why his budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic expansion of health-related research to help us cure smoking-related disease. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

Q: Does the President believe that cigarettes pose a greater health threat than drugs or alcohol?

A: Absolutely not. Not only do cigarettes, alcohol and illegal drugs all pose serious threats to our youth -- they pose a common threat. Studies have shown that kids who make it to their 21st birthday without having smoked a cigarette, taken a drink or turned to drugs are almost certain to avoid chemical dependency throughout their lives. That is why our goal must be to keep teenagers from having that first drink, trying a cigarette or experimenting with illegal drugs before their old enough to know better and to realize the consequences of their decisions.

President Clinton has done much to get the message to teenagers on all of these fronts. In addition to pushing for tobacco legislation to cut teenage smoking, the primary goal of his national drug strategy is to cut teenage drug use in half. He has also pushed states to adopt zero tolerance policies for underage drinking and launched the first-ever paid media campaign to make sure that every time teenager turns on the TV, listens to the radio or surfs the 'net, they will learn about the dangers of drugs.

VI. OTHER IMPORTANT ISSUES

Liability

Q: Will the Administration accept the liability protections for the tobacco industry contained in Senator McCain's legislation?

A: As we have said on many occasions, we would prefer comprehensive tobacco legislation without liability limits, but in the context of legislation that meets all of the President's principles and dramatically reduces youth smoking, reasonable limits on liability will not be a dealbreaker. Right now, we're going to focus on the aspects of the McCain legislation that we think fall short of what the President has demanded: particularly, on the penalties in the bill to reduce youth smoking.

Farmers

Q. What is the President's position on programs for tobacco farmers?

A: The President made protecting farmers and their communities one of the five key principles that must be included in any comprehensive tobacco legislation. Senator Ford's bill, which maintains a production control system while compensating farmers for decrease consumption of tobacco products and was included in the McCain legislation, is a strong proposal to protect tobacco farmers, and the President believes it is a significant step forward. The President is encouraged that the interests of both flue-cured and burley farmers are included in the proposal, and hopes that all farmers will continue working together to ensure that legislation is passed this year.

Q. Aren't the goals of reducing youth smoking and protecting tobacco farmers contradictory?

A: No. The President does not want the tobacco companies to go out of business, only out of the business of selling to children. The tobacco farmers have played by the rules, and should be protected in any legislation that passes. The President believes that we can reduce youth smoking and protect rural communities if we all work together to urge Congress to pass bipartisan comprehensive tobacco legislation this year.

International Provisions

Q. There appears to be a growing controversy over the international provisions of the McCain bill. What is the Administration's position on this?

A. Comprehensive tobacco legislation needs significant funding to discourage youth smoking abroad through multilateral efforts designed to promote education and public health. This funding will enable us to provide technical assistance to other countries, and will support diplomatic, media and grass roots efforts designed to reduce youth smoking. As we move forward in this area, we need to ensure that our international tobacco control policies do not interfere with our diplomatic and trade priorities in other areas, or result in policies which are unenforceable abroad.

Q. But don't we have a successful example of exporting US laws overseas -- namely, the Foreign Corrupt Practices Act (designed to prevent bribery of foreign officials)?

A. Actually, the Foreign Corrupt Practices Act less than successful for many years precisely because it was a unilateral effort. It was only once we joined with other countries through treaties and encouraged other nations to adopt similar laws that it became effective. This is why we need to work through the World Health Organization and other entities to encourage other nations to adopt laws similar to ours designed to reduce advertising youth access to tobacco.

Tobacco Q&A
April 16, 1998 revised

Q: How do you respond to the charge of Wall Street Analysts who say that the McCain bill will make the tobacco companies go bankrupt?

A: A central feature of the McCain legislation is a number of mechanisms designed to ensure that the payments made by the tobacco companies are passed on to the prices paid by consumers of tobacco products. As a result, there will be at most a modest impact on the profitability of the tobacco companies. This is also an industry with significant cash flow and net assets that will allow it to easily absorb this modest profit decline. The operating earnings of RJR, Philip Morris, and Loews last year were *\$18 billion*. Even RJR, the most highly leveraged firm in this industry, had a \$1.5 billion operating profit for its domestic tobacco business, and has over \$4 billion in net assets from its Nabisco stock holdings. The only real risk of bankruptcy comes from losing a rash of lawsuits in court.

Q: How do you respond to the charge that the fees imposed by the McCain bill are regressive and will increase average costs for smokers from \$300 to \$1700 per year?

A: Higher cigarette prices will mean more payments by all Americans who continue to smoke, including low-income Americans. The unfortunate reality is that smoking is a regressive habit and takes a regressive toll, in part because the industry has spent billions of dollars marketing to low-income and minority communities. The Administration is well aware of this, and this is why we would use funds raised from these payments to help smokers quit.

The Administration has taken many steps to make the tax system fairer for low- and middle-income working families, such as significantly expanding the earned income tax credit, providing the \$500 child tax credit and making it partially refundable for families with three or more children, and creating the President's HOPE and lifelong learning tax credits. The distributional effects of legislation should be thought of in the context of broader tax changes.

Q: Will kids buy cigarettes from drug dealers as the result of the price increase?

A: With a price increase of this size, black market activity is worth watching. But we have proposed an enforcement regime that will minimize black market activity. The proposed system would regulate tobacco products in a manner similar to the way the Federal Government has regulated alcoholic beverages for over sixty years. In essence, the proposed system would create a "closed" distribution system for tobacco products, *i.e.*, a system in which each level of distribution from manufacturer to retailer is subject to regulation. We don't see children buying alcoholic beverages from drug dealers - and there is no reason that they would buy cigarettes from these dealers either.

Q: Are the companies correct in saying that the McCain bill will raise the per pack price of cigarettes to \$5?

A: Absolutely not. The Administration estimates the McCain bill itself will raise the per pack price of cigarettes by \$1.10. By 2003, under the McCain bill, the real price of cigarettes will rise to \$3.20. The price increase will not approach the level suggested by the industry.

Q: Will the bill result in the exporting of tobacco jobs overseas?

A: This legislation should not lead to the exporting of tobacco jobs. The legislation will raise the price of tobacco imports just as it raises the price of domestically produced tobacco products. Thus, there is no new advantage to be gained by tobacco producers from moving production off-shore, since the price of their product will rise equally in the U.S. no matter where it is produced. There is also no real profit motivation for producers to move production offshore. A central feature of the McCain legislation is a number of mechanisms designed to ensure that the payments made by the tobacco companies are passed on to the prices paid by consumers of tobacco products. To the extent that these payments are passed on to prices, there will not be at most a modest impact on the profitability of the tobacco companies. Moreover, this is an industry with significant cash flow and net assets which will allow it to easily absorb this modest profit decline.

Q. The companies say that only 2 percent of smokers are children, yet you are penalizing the 98 percent of smokers who are adults.

A. They're wrong. Of all Americans who smoke, about 10 percent are under the age of 18. And that's the problem. Our children are getting hooked. Nearly 90 percent of adult smokers began before they were 18. The average age of smoking initiation is 14.5 years old. The average age when kids begin to smoke daily is 17.7 years old. And the adult smokers will tell you why the industry is wrong because 70 percent of adult smokers want to quit, and 80 percent of adults regret that they ever began.

Q. Why does the Administration oppose using the tobacco-related funds to shore up Medicare, as some Republicans propose?

A. The President's investment priorities for the tobacco legislation are aimed at helping children and advancing the public health. His budget dedicates almost all of any tobacco revenues towards initiatives designed to reduce smoking, help find treatments and cures for diseases associated with tobacco, and invest in our children through health care coverage, needed child care, and education. We believe that these investments have a natural link to tobacco revenue and will make a major contribution toward preparing the nation for the 21st century. We are happy to debate the best use of tobacco revenue, but first let's all agree on the need to pass a comprehensive bill with a substantial price increase.

We certainly share concerns about the Medicare program. In fact, no President has done more to protect and strengthen this vital program. Just last year, working with the Congress, the President enacted a package of unprecedented savings -- \$450 billion over 10 years -- and structural reforms that extended the life of the Medicare Trust Fund until 2010. He recently appointed a distinguished group of individuals as his members of the Medicare Commission. The President is committed to working with the Commission to find ways for the program to meet the longer-term financing challenges that confront it.

Q. Is it true that the McCain bill would give the FDA unbridled authority to ban cigarettes?

A. The FDA provisions of the McCain bill were worked out on a truly bipartisan basis and enjoy broad support in both parties and the public health community. Current law and the McCain bill do not give FDA unbridled authority to ban cigarettes. FDA's authority over tobacco products is governed by the Federal Food, Drug, and Cosmetic Act as well as the Administrative Procedures Act. These laws require that FDA must have an adequate scientific basis for any decisions it makes regarding tobacco products. Furthermore, the McCain bill has an explicit provision that requires the President to notify Congress if FDA bans nicotine from tobacco products, or bans a class of tobacco products. Any such action cannot take effect for 2 years in order to allow Congress adequate time to consider legislation in this area.

Q. Can Congress impose advertising restrictions and look back surcharges without industry consent?

A. We'd rather the industry join us in helping to reduce youth smoking, rather than work against us. But we're going to proceed with or without them, and we're confident that we can achieve most of our goals one way or the other. We believe that the industry will swallow hard and go along in the end.

Q. Is it true that the bill would create 17 new federal bureaucracies?

A. No. This is a smokescreen. Our goal is to ensure that comprehensive tobacco legislation achieves its purpose of reducing youth smoking in this country with a minimum of bureaucratic overhead, and we will continue to work with Congress to achieve that goal. In terms of the industry's charge, let's look at the facts. All of these so-called "bureaucracies," excluding the international provisions, were in the June 1997 proposed settlement that the industry touts. These provisions are actually programs designed to promote education and public health, encourage smoking cessation, and ensure that cigarettes are not sold to minors. So it is disingenuous for them to criticize the bill on this point, now that the political tide has turned against them, when it previously posed no problem for them as part of the settlement they embraced.

Tobacco Q&A
April 10, 1998

I. IS THE TOBACCO DEAL DEAD?

Q: Isn't the tobacco deal dead now that the industry has walked away?

A: Actually, we are now closer than ever to getting comprehensive tobacco legislation which will dramatically reduce youth smoking. We are gaining powerful momentum across the nation and in Congress, evidenced by the 19-1 vote in favor of Senator McCain's bill in the Senate Commerce Committee. Ultimately, protecting the public health and reducing youth smoking is our bottom line. While we would prefer that the tobacco companies willingly participate in these discussions, we will forge ahead with our efforts to reduce youth smoking with or without them.

Q: So you don't believe RJR Nabisco CEO Steven Goldstone when he says he's through negotiating with Congress?

A: It is no surprise that the tobacco industry would protest the legislation moving through the Congress -- it is in their interest to object to the bill now to prevent it from getting even tougher. In the end, the companies will have a strong incentive to participate, and we're convinced that they'll recognize this.

We would prefer that the companies join, rather than fight, our efforts to reduce smoking. But make no mistake: The President will continue to work to reduce youth smoking no matter what the companies do. He has worked on this effort for two years; members of Congress from both parties are now joining him; and we will get strong legislation on youth smoking whether or not the companies join us.

Q: But don't you need industry cooperation to enact tobacco legislation?

A: We would like the tobacco industry to willingly join us in this effort to reduce youth smoking. And we still believe that the tobacco industry will have every incentive to agree to legislation in the end, so that they can end this chapter in their history. But if they refuse to join us, we will still make progress. We will continue our efforts to pass comprehensive legislation to dramatically reduce youth smoking.

Q: What's wrong with the June 20th settlement that the industry favors? Didn't the President and Secretary Shalala praise it?

A: As the President made clear on September 17th, any legislation must meet five principles in order to gain his support. It must:

- ▶ Raise the price of cigarettes by up to \$1.50 a pack over the next ten years and impose tough penalties on companies that continue to sell to kids;
- ▶ Expressly confirm the FDA authority to regulate tobacco products;
- ▶ Get tobacco companies out of the business of marketing to children;
- ▶ Further public health research and goals;
- ▶ Protect tobacco farmers and their communities.

The proposed settlement between the industry and the state attorneys general did not raise the price of cigarettes enough to reduce youth smoking, it weakened FDA's authority to regulate tobacco, and it did nothing to protect tobacco farmers and their communities.

Background: Comparison of Tobacco Proposals

	Attorneys General	McCain	President
Substantial Price Increase	No	Yes	Yes
Strong Industry and Company Penalties	No	No	Yes
Full FDA Authority	No	Yes	Yes
Strong Advertising and Access Provisions	Yes	Yes	Yes
Comprehensive Plan to Use Tobacco Revenue to Protect Public Health and Assist Children	Yes	No*	Yes
Strong Environmental Tobacco Smoke Provision	Yes	No	Yes
Protections of Tobacco Farmers	No	Yes	Yes

* Does not attempt to address most spending issues.

Q: Will the President continue to push for the McCain bill?

A: As the President said during his trip to Kentucky on Thursday, he believes we have an historic opportunity to pass bipartisan legislation this year which both contains the elements necessary to reduce teen smoking in America and provides adequate protection for tobacco communities. And he's going to do everything he can to put politics aside and pass legislation that will achieve that objective.

The President believes that the McCain bill represents a dramatic step forward. It would raise the price of cigarettes, give the FDA full authority to regulate tobacco products, ban advertising aimed at children, and protect tobacco farmers.

But he also believes we still have some work to do on this legislation. Above all, we need to put in place tough penalties that will cost the tobacco industry if it continues to sell cigarettes to young people. We're not trying to put the tobacco companies out of business; we want to put them out of the business of selling cigarettes to kids. We are gaining powerful momentum across the nation and in Congress, evidenced by the 19-1 vote in favor of Senator McCain's bill in the Senate Commerce Committee.

II. DON'T DEMOCRATS JUST WANT TO TAX AND SPEND?

Taxes

Q: Isn't this tobacco legislation just a way to raise taxes?

A: No. As the President said on Thursday in Kentucky, he's not just trying to raise a bunch of money to raise money, or to raise the price of cigarettes. The goal is to make America's children healthier. Experts agree: raising the price of cigarettes is one of the best ways to reduce youth smoking. The Treasury Department has found that \$1.10 price increase will, by itself, reduce youth smoking by 32 percent -- and, adding advertising and marketing restrictions, the bill will reduce youth smoking by 42 percent overall.

Q: But don't some experts say a price increase will have no effect on young people's behavior?

A: A new analysis by the Congressional Budget Office shows that this independent agency agrees with us: a substantial price increase will significantly reduce youth smoking. CBO reviewed the economic literature and found that the effects of \$1.10 increase in price will be very similar to Treasury's estimates.

Q: But there are some studies that disagree?

A: Some have cited a University of Maryland study as contrary evidence, but that study actually confirms our view, and the author of that study has sent a letter to Congress saying his study had been misquoted.

Q: Also, didn't youth smoking rise in other countries when prices increased?

A: Our economists tell me that the clear consensus of the U.S. literature, as confirmed by CBO, is that youths are very responsive to price in their decisions to smoke. Data from other countries are, in their view, don't tell us much about U.S. youth.

Q: But by raising the price of cigarettes, aren't you just taxing adults and disproportionately hurting low income families?

A: It is typical of the tobacco industry -- which for years has made billions of dollars on the backs of those very families -- to suggest that efforts to stop young people from taking up an expensive addiction are regressive. The unfortunate reality is that smoking is a regressive habit and takes a regressive toll, in part because the industry has spent billions of dollars marketing to low-income and minority communities. Ultimately, we need to make sure that we help all people who want to quit to do so successfully.

Spending

Q: Isn't your real objective here to raise money so you can spend it?

A: No. As the President said on Thursday in Kentucky, he's not just trying to raise a bunch of money to raise money, or to raise the price of cigarettes. The goal is to make America's children healthier. Experts agree: raising the price of cigarettes is one of the best ways to reduce youth smoking.

Q: But didn't the President propose to use tobacco funds to fund new programs?

A: As the President has said many times, his goal is to dramatically reduce youth smoking. He believes the annual payments made by the industry -- which will reduce youth smoking by raising the price of cigarettes -- should be used to promote public health and assist children. His budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic expansion of health-related research to help us cure smoking-related disease.

Finally, in recognition of the states' role in bringing suit against tobacco companies, the President's budget provides for a substantial amount of money to revert to the states. Some of this money can be used for any purpose. Other funds should be used on state-administered programs to assist children (specifically, for child care, Medicaid child outreach, and class size reduction).

Q: How much money is there for states in the President's budget?

A: The states will receive as much money over five years as they would have received under the original settlement. A large part of this money will be unrestricted; states can use it for whatever purposes they choose. The rest of the money will go to states for state-administered programs to provide child care subsidies and reduce class size. This money represents the usual federal share of Medicaid recoveries, which we believe should go back to the states in recognition of the important role the states played in bringing about this legislation.

III. WON'T THIS LEGISLATION DRIVE COMPANIES INTO BANKRUPTCY AND CREATE A HUGE ILLEGAL BLACK MARKET?

Bankruptcy

Q: Won't this legislation drive tobacco companies into bankruptcy?

A: No. We're not trying to put the tobacco companies out of business; we simply want to put them out of the business of selling cigarettes to kids. We do not believe the McCain bill will drive companies into bankruptcy.

First, the legislation is designed to help companies pass through the cost of their annual payments to consumers in the form of price increases so that they will not bear these costs in the form of lower profits. Second, the industry has significant cash flow and net assets to absorb reduced sales volume. The operating earnings of RJR, Philip Morris, and Loews last year were \$18 billion. RJR's tobacco business had combined domestic and international operating profits of \$2.3 billion (\$1.5 billion domestic and \$800 million international) and it has over \$4 billion more in net assets from its Nabisco stock holdings (net of its debt obligations).

There's just no reason to think that this legislation would increase the companies' exposure to a financial loss of the kind that would send them into bankruptcy. Stopping companies from selling cigarettes to kids will not put them out of business.

Q: Do you think the companies are crying wolf?

A: It's impossible to tell if they're posturing or whether they mean it, but it's clearly in the tobacco industry's interest to dramatically overstating the risk of bankruptcy in an effort to hold down the price of legislation.

Black Market/Smuggling

Q: Do you believe smuggling will not be a problem with this type of price increase?

A: We believe that with an effective licensing and enforcement system in place, we can minimize the impact of smuggling at this price level.

Q: How do you propose to combat smuggling of tobacco products?

A: We would propose to regulate tobacco products in a manner similar to the way we have regulated alcohol for over sixty years. In essence, the proposed system would create a "closed" distribution system for tobacco products, i.e., a system in which each level of distribution from manufacturer to retailer is subject to oversight.

Q: I understand there was an enormous smuggling problem in Canada when they raised their excise tax. Won't a similar problem arise with the McCain bill?

A: In the early 1990s, Canada did have a problem with cigarettes being legally exported to the U.S. and illegally smuggled back into Canada. There are five reasons why we believe that example does not apply to the U.S.:

- First and foremost, Canada did not have in place the type of effective licensing, registration, and enforcement system advocated by the Administration to crack down on smuggling.
- Second, Canada had smuggling problem in the early 1990s when its unemployment rate was at 11 percent. Before and since then, there was no significant smuggling between Canada and the U.S. despite the differences in cigarette prices.
- Third, 80 percent of the Canadian population lives within a two hour drive of the U.S. border. The U.S. population is more dispersed.
- Fourth, in the early 1990s, Canada's tax burden on tobacco was much higher than the levels we're now contemplating, making smuggling more profitable.
- Fifth, the current legislation envisions annual payments made by a few manufacturers, whose cost will be passed along to consumers, rather than an increase in the per pack excise tax. This makes enforcement much easier.

IV. AREN'T DEMOCRATS JUST PRO-LAWYER AND PRO-DRUGS?

Q: On Thursday, the Republican National Committee Chairman Jim Nicholson released a statement asking the President how much of the money from the settlement should be taken away from children's health and given to trial lawyers, and whether the President would agree to a \$150 per hour cap for these lawyers. What is the President's position?

A: The President's overriding priority is ensuring that tobacco legislation promotes the public health -- that's why his budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic expansion of health-related research to help us cure smoking-related disease. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

Q: Mr. Nicholson also asked whether, in saying in State of the Union address that cigarette smoking is "the gravest health threat" facing American teenagers, did the President mean to say that cigarettes pose a greater health threat than drugs or alcohol?

A: Absolutely not. Not only do cigarettes, alcohol and illegal drugs all pose serious threats to our youth -- they pose a common threat. Studies have shown that kids who make it to their 21st birthday without having smoked a cigarette, taken a drink or turned to drugs are almost certain to avoid chemical dependency throughout their lives. That is why our goal must be to keep teenagers from having that first drink, trying a cigarette or experimenting with illegal drugs before their old enough to know better and to realize the consequences of their decisions.

President Clinton has done much to get the message to teenagers on all of these fronts. In addition to pushing for tobacco legislation to cut teenage smoking, the primary goal of his national drug strategy is to cut teenage drug use in half. He has also pushed states to adopt zero tolerance policies for underage drinking and launched the first-ever paid media campaign to make sure that every time teenager turns on the TV, listens to the radio or surfs the 'net, they will learn about the dangers of drugs.

V. OTHER IMPORTANT ISSUES

Farmers

Q: Wasn't the President's trip to Kentucky this week just an attempt to pander to farmers?

A: No. The President made clear to the people of Kentucky and other tobacco-producing states that he's serious about cutting teen smoking, but he thinks that that can be done in a way that protects farming communities.

Q: What is the President's position on programs for tobacco farmers?

A: The President made protecting farmers and their communities one of the five key principles that must be included in any comprehensive tobacco legislation. Senator Ford's bill, which maintains a production control system while compensating farmers for decrease consumption of tobacco products and was included in the McCain legislation, is a strong proposal to protect tobacco farmers, and the President believes it is a significant step forward. The President is encouraged that the interests of both flue-cured and burley farmers are included in the proposal, and hopes that all farmers will continue working together to ensure that legislation is passed this year.

Q: Aren't the goals of reducing youth smoking and protecting tobacco farmers contradictory?

A: No. The President does not want the tobacco companies to go out of business, only out of the business of selling to children. The tobacco farmers have played by the rules, and should be protected in any legislation that passes. The President believes that we can reduce youth smoking and protect rural communities if we all work together to urge Congress to pass bipartisan comprehensive tobacco legislation this year.

Cigars

Q: I understand that the National Cancer Institute has a new report on health effects of cigars. Does the Administration support regulating cigars? I understand the President likes to enjoy a cigar now and then.

A: The language that we and Senator Frist successfully fought for in the McCain bill provides the FDA with the authority to regulate cigars, and the NCI report on the health effects of cigar smoking reaffirms the need for this flexible authority. But before the FDA could actually regulate cigars, it would need to have scientific evidence that cigars are addictive, and that regulating cigars is necessary to protect the public health. The report released Friday did not address the issue of whether cigars are addictive, but did underscore that they can cause cancer.

Tobacco Q&As
March 30, 1998

Q: What is Erskine Bowles going to say in his speech today?

A: He will say that protecting our children from the threat of tobacco is at the top of the President's agenda, and this administration is fully committed to working with the bipartisan leadership in Congress to achieve this goal. He will praise Senator McCain's leadership in drafting a bipartisan tobacco bill, which is expected to be released today. While we need to review the bill in detail, Mr. Bowles will say that based on what we have heard, the McCain bill is a strong foundation for future action, but also has room for improvement. Perhaps most important, we want to impose stronger penalties on companies that continue to sell cigarettes to our children. Mr. Bowles will say that we look forward to working with Senator McCain and others to make his bill an even more effective instrument to reduce youth smoking.

Q: So is the Administration supporting or opposing the McCain bill?

A: We believe the McCain bill is a strong foundation for further action, but see room for significant improvement. We believe the bill will make significant inroads on youth smoking by increasing the price of a pack of cigarettes substantially -- by \$1.10 within five years. And we believe the bill will give the FDA the full authority it needs to regulate tobacco products, including youth access and advertising. In addition, the bill will protect farmers and farming communities. But we must continue to work with Senator McCain and others to strengthen this bill by imposing stronger penalties on companies that continue to sell cigarettes to our children.

Q: Does this mean that the Administration prefers the Conrad, Fazio, and Chafee-Harkin-Graham bills?

A: The President has indicated his support for the Conrad, Fazio, and Chafee-Harkin-Graham bills, because each meets the President's five principles. The McCain bill does not yet meet all of these principles, but we will continue to work hard with Senator McCain and others to strengthen the bill further.

Q: Why does the McCain bill does not meet the President's five principles?

A: By not including strong penalties, Senator McCain's bill does not fully meet

the President's key goal of reducing youth smoking to the maximum extent possible.

What is your view of the liability protections for the tobacco industry contained in Senator McCain's legislation?

As we have said on many occasions, we would prefer comprehensive tobacco legislation without liability limits, but in the context of legislation that meets all of the President's principles and dramatically reduces youth smoking, reasonable limits on liability will not be a dealbreaker. Right now, we're going to focus on the aspects of the McCain legislation that we think fall short of what the President has demanded: particularly, on the penalties in the bill to reduce youth smoking. Until we get those right, we won't address liability protections.

We do understand that that the McCain bill has an interesting idea about turning liability protections into a public health tool. As we understand the McCain bill would in some respects make liability protections contingent on a company's efforts to reduce youth smoking. That proposal needs to be looked at in much greater detail: we have to ensure that the threat of losing liability protections is real, and not just a pretense. But it's worth thinking about how to draft a strong proposal of this kind.

...the Administration needs stronger penalties on companies that sue to sell to our children. What do you mean by that?

The McCain bill's penalty provisions are deficient for two reasons. First, the bill has a cap of \$3.5 billion per year on industry-wide penalties, no matter how much the industry misses youth targets by. Second, the McCain bill has no penalties on individual companies for failing to meet youth smoking targets. Reducing youth smoking is our bottom line, and we must make it each and every company's bottom line.

Administration support the farmers component to the McCain bill?

As we said, we have not yet been able to review the bill in detail, but we have said that Senators Ford, Robb, Hollings, and Frist have agreed to package to provide broad-based protection for farmers and farming communities. This proposal is clearly a strong effort to craft a bipartisan bill to protect farmers and their communities.

Address concerns about Senator McCain's bill not directing tobacco industry efforts to improve the public health and help children.

What's missing from the McCain bill?

- A:** We understand that Senator McCain's bill does not contain a comprehensive plan for public health spending. The President strongly believes that tobacco revenues should go toward protecting public health and assisting children. His budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic expansion of health-related research to help us cure smoking-related disease. Finally, in recognition of the states' role in bringing suit against tobacco companies, the President's budget provides for a substantial amount of money to revert to the states. Some of this money can be used for any purpose. Other funds must be used on state-administered programs to assist children (specifically, for child care, Medicaid child outreach, and class size reduction).

Question and Answer on Tobacco
March 26, 1998

Q: Does the President support Senator McCain's tobacco legislation?

A: It is premature to say whether the President will be able to support Senator McCain's tobacco legislation. Many issues -- including such important ones as FDA jurisdiction -- have yet to be resolved; in addition, no one in the Administration has seen any actual legislative language. But we are pleased with the direction Senator McCain appears to be taking, and we look forward to continuing to work with him as his legislation moves forward.

Questions and Answers on Tobacco
March 26, 1998

- Q: The industry has said that it will not agree to national tobacco legislation that increases the price of a pack of cigarettes by \$1.10 over five years, as the President's budget calls for. Does that doom the President's proposal?**
- A:** No. We have always expected the tobacco companies to fight hard for their economic interests, but needless to say we will not always agree, nor we think will the U.S. Congress. The price increase called for in the President's budget is necessary to meet his youth smoking targets, and he will continue to demand it. What the companies do is up to them, but we will not back off such necessary measures to reduce youth smoking.
- Q: But won't the whole tobacco deal crater if the companies walk away?**
- A:** Congress can act to reduce youth smoking with or without the companies' consent, and the President expects it to do so. It is true that some aspects of the proposed June 20 settlement can be accomplished most effectively if the industry agrees, but even as to these aspects we have no reason to think that the industry has revealed its bottom line. We certainly will not retreat from the proposals necessary to dramatically reduce youth smoking because the companies threaten to continue their misconduct.
- Q: What is your response to the industry's charge that the White House has changes its positions and engaged in double-dealing?**
- A:** The President has been clear and consistent in stating what he believed necessary to dramatically reduce youth smoking. The numbers the companies are complaining about today are the exact numbers found in the Administration's budget. And they are perfectly consistent with the numbers the president laid out in his statement of principles for tobacco legislation. Of course, as the tobacco companies say, those numbers are not consistent with those in the proposed June 20 settlement. That's because the June 20 proposal, although creating a historic opportunity for action, did not increase the price of cigarettes sufficiently to dramatically reduce youth smoking.
- Q: But is it true that the Administration promised to support certain limits on liability during the negotiations between the companies and the attorneys general?**
- A:** No. Our position on liability limits has also been clear and consistent: that we would prefer legislation without them, but that in the context of legislation that meets the President's principles and advances the public health, reasonable limits would not be a dealbreaker. What we told the attorneys general regarding punitive damages was exactly

that: that we would not oppose the proposed settlement just because there was a limit on punitives, but instead would review the entire package.

Q: What about the industry's claim that you committed to issue a public statement on the subject of punitive damage limitations?

A: That is the exact reverse of the truth. The industry and attorneys general asked the Administration to issue such a statement, and the Administration declined to do so.

DRAFT 3/25 noon
Q&A
March 25, 1998

Martin Feldman testified before the Commerce Committee yesterday that the President's proposal would cost \$644 billion over 25 years. What is your response to this?

The President's budget includes \$65 billion in spending over five years from tobacco legislation. We have not done, and never do, budget projections beyond five years. We propose industry payments at a level that would result in a \$1.10 per pack price increase in order to cut youth smoking nearly in half and prevent a million deaths over the next five years. This means that over the next five years, 3 million fewer underage teens would be kept from smoking. The \$1.10 figure is based on its projected impact on youth smoking, not on its ability to generate revenue.

What are the new figures that Larry Summers is releasing today?

Larry Summers is releasing a new Treasury Department analysis that shows that smoking costs this nation's economy \$130 billion a year in terms of lost productivity and higher medical costs. By reducing youth smoking by 60 percent, as proposed by the President, we would save an estimated \$78 billion in costs.

DRAFT 3/24 1:00pm
Tobacco Q&A
March 25, 1998

- Q: So much of your agenda relies on tobacco money. You are not going to get an agreement without a compromise on liability. Are you willing to step forward with a compromise? If so, when?**
- A: I would prefer legislation without liability limits and do not plan to offer a liability proposal. As I have said before, in the context of a comprehensive bill that meets my five principles and advances the public health, reasonable limits on liability will not be a dealbreaker. What's important is achieving comprehensive legislation that includes a large per-pack price increase, strong penalties for marketing to children, and affirmation of FDA's authority to restrict advertising aimed at children and prevent children's access to tobacco products.**
- Q: Senator Lott this past week said you were not engaged on the tobacco issue and ruled out the \$1.50 tax. What is your reaction?**
- A: Enacting comprehensive tobacco legislation this year is one of my highest priorities. As I said in my radio address to the nation on March 7th and in my speech to the state attorneys general on March 12th, raising the price of a pack of cigarettes significantly is a critical step to reducing youth smoking. A new Treasury Department analysis announced by the Vice President this week shows that my proposal for comprehensive tobacco legislation -- a real price increase of \$1.10 per pack over five years coupled with sales and advertising restrictions -- will reduce youth smoking by nearly half and will prevent premature deaths in every state. My budget assumes that the money will come from annual industry payments pursuant to a settlement -- something the industry agreed to in the proposed settlement last summer -- it would not come from a tax.**

Q&A on Tobacco
March 11, 1998

Q: Does the President support the legislation proposed by Senators Chafee, Harkin, and Graham?

A: The Senators haven't announced their plan yet, so we haven't seen all the details and we're still having conversations with their staffs, particularly about their spending proposals. But we can say now that we are very encouraged by this bipartisan effort. It appears to meet the President's five principles of: raising the price of cigarettes by \$1.50 a pack and imposing penalties on companies that continue to target young people; confirming the FDA's authority to regulate tobacco products; getting tobacco companies out of the business of marketing to children; furthering public health research; and protecting tobacco farmers. This bill is a significant step forward in the President's goal of enacting comprehensive, bipartisan legislation to reduce teen smoking this year.

Q: Does the President support Congressman Fazio's legislation, which was announced today?

A: Yes, we support the Fazio bill, which is the House counterpart to the Conrad bill which we praised last month. The Administration looks forward to working with Rep. Fazio, and other Democrats and Republicans alike, in enacting comprehensive, bipartisan tobacco legislation this year.

Background

Key differences between the Fazio and Conrad bills:

- 1) Fazio spends more money on child care and education;
- 2) Fazio strengthens penalties against companies that fail to reduce teen smoking; and
- 3) Fazio includes additional provisions for minority communities (the bill instructs HHS to monitor smoking reduction for ethnic groups; applies look-back penalties if smoking reduction targets are not met among minority groups even if they are met overall; targets research money to historically black colleges and Hispanic institutions; directs HHS to overcome language barriers by developing standard warning symbols, (similar to those on prescription drugs).

Q: What are the President's views on how the legislation should deal with legal fees? Does he support Republican proposals to cap legal fees?

A: The President's overriding priority is ensuring that tobacco legislation promote the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

Q: Many legislators and public health officials have said that tobacco legislation must not include limits on liability. What is the President's position?

A: The President would prefer legislation without liability limits, but will evaluate tobacco legislation as a whole to determine whether it protects public health. In the context of a comprehensive bill that meets the President's five principles and advances the public health, reasonable limits on liability will not be a dealbreaker. What's important is achieving comprehensive legislation that includes a large per-pack price increase, strong penalties for marketing to children, and affirmation of FDA's authority to restrict advertising aimed at children and prevent children's access to tobacco products.

Tobacco Q&A
March 16, 1998

Q: What was the announcement today by tobacco farmers and public health groups?

A: A coalition of public health groups and tobacco farmers announced a set of core principles for national tobacco legislation. Among the organizations agreeing to the principles are the Burley Tobacco Growers Cooperative, the Flue-Cured Tobacco Stabilization Corporation, the American Heart Association, the American Cancer Society, and the Campaign for Tobacco Free Kids. The principles are geared toward reducing disease caused by tobacco products while simultaneously ensuring the future prosperity of tobacco farmers and their communities. The principles discuss subjects such as FDA authority, limits on tobacco advertising to children, and providing fair and equitable compensation for tobacco farmers and their communities.

Q: Does the President support this effort?

A: The President strongly supports the effort to build a coalition between farmers and public health groups, and in his statement today the President congratulated the coalition for its work thus far. The President has made protecting farmers and their communities one of the five key elements that must be part of any comprehensive tobacco legislation he will sign. The coalition's effort and principles are an approach that is consistent with the President's policy on comprehensive tobacco legislation and he looks forward to working with these groups in the future.

Q: What is the significance of this announcement for the future of tobacco legislation?

A: The agreement between tobacco farmers and public health groups demonstrates the potential to craft bipartisan comprehensive solutions that meet the goals of both the public health and tobacco farming communities. The Administration believes that it will be possible to form a similar consensus in Congress, and that the announcement today is another important step in enacting comprehensive legislation this year.

Q&As on Tobacco
March 12, 1998

Q: What did the President say to the state attorneys' general today?

A: The President announced his support for the new comprehensive bipartisan tobacco proposal unveiled today by Senators John Chafee, Tom Harkin, and Bob Graham. He urged Congress to act now to cut teen smoking in half and prevent a million deaths over the next five years. And he praised the attorneys' general for their courage and leadership in fighting the tobacco industry's efforts to target our children.

Q: Don't the President and the Attorneys General strongly disagree about how to spend tobacco revenues?

A: The Administration does have some disagreement with the States on how to allocate revenues from comprehensive tobacco legislation. But they are perfectly united in what is most important: getting Congress to pass legislation that will dramatically reduce youth smoking. And we are confident that we will be able to work out the spending issues with the states and Congress.

Q: So is the President endorsing the Chafee-Harkin-Graham bill?

A: The President said last September that he would support any comprehensive, bipartisan tobacco legislation that meets five principles: 1) it must raise the price of cigarettes by up to \$1.50 a pack over the next decade to discourage teen smoking and impose tough penalties on companies that continue to sell to kids; 2) it must reaffirm the FDA's authority to regulate tobacco products; 3) it must get tobacco companies out of the business of marketing to children; 4) it must further our other public health goals; and 5) it must protect tobacco farmers and their communities.

The Chafee-Harkin bill is the first bipartisan bill that meets these principles, and the President strongly supports this effort.

Q: Doesn't the Chafee-Harkin bill limit the tobacco companies' liability, something the President opposes?

A: The President has said he would prefer legislation without liability limits, but that if a bill meets his principles for comprehensive legislation, reasonable limits on liability will not be a dealbreaker. What's most important is achieving comprehensive legislation that includes a large per-pack price increase, strong penalties for marketing to children, and affirmation of FDA's authority to restrict advertising aimed at children and prevent children's access to tobacco products. The Chafee-Harkin bill does these things while including only a limited liability cap on annual damage payments.

Q: How can the President support Chafee-Harkin when it does not set aside funds for the child care and education initiatives he proposed in his budget?

A: The President looks forward to working with Senators Chafee and Harkin and other members of Congress to ensure that the final tobacco legislation includes spending for his child care, education, and health proposals. The Chafee-Harkin bill provides funds for states to use to improve early education and increase child care -- but at state discretion. We strongly believe that this should be changed. But we are confident that we will resolve any budget or spending issues as the process moves forward.

Q: Does the President favor the Chafee-Harkin bill over the Conrad and Fazio bills? After all, he is personally praised the Chafee-Harkin bill today, while he sent the Vice President and Secretary Shalala to talk about the Conrad and Fazio bills.

A: All three efforts meet the President's five principles, and the President supports all of them. The Conrad and Fazio bills better match the Administration's budget priorities. But he is heartened by the bipartisan nature of the Chafee-Harkin bill, because he knows that bipartisan support is critical to enacting legislation this year. The Administration is also eager to work with other members of Congress interested in fashioning bipartisan legislation.

Q: Is the Administration working with Senator McCain on a bill?

A: We have had very constructive meetings with Senator McCain and his staff. We used these meetings to tell McCain in greater detail about what the President needs to see in a comprehensive tobacco bill.

Q: What does the Administration think of the Jeffords bill, which was the subject of a Senate Labor Committee markup on Wednesday?

A: We have serious concerns about the Jeffords bill, because it does not reaffirm the full extent of FDA's current authority. Now is not the time to weaken the FDA's authority to keep tobacco away from our kids. We understand the Committee will not begin voting on these issues until next week, and we hope in the meantime to persuade Senator Jeffords and others of our views.

Q: Does the President support Republican proposals to cap legal fees?

A: The President's overriding priority is ensuring that tobacco legislation promote the public health. He does not view the issue of legal fees as central to this effort, and he has not made a specific proposal on how legislation should handle legal fees. In general, he believes that the lawyers who brought the tobacco suits should be fairly compensated, but that they should not be paid out of proportion to the work they actually did and the risks they actually undertook.

Tobacco Q&A
3/9/98

Q: Does the release of the tobacco documents in Minnesota today decrease the chance of Congress passing comprehensive tobacco legislation?

A: It certainly shouldn't. New documents showing how the tobacco industry targetted children should serve as still further impetus for comprehensive legislation. We need a substantial price increase, express confirmation of FDA jurisdiction, and access and advertising restrictions to reduce youth smoking. Disclosures of past industry misconduct make it all the more clear why we need such a comprehensive national solution, and why we must get it done soon.

Questions and Answers on Tobacco and Passing Comprehensive Legislation
Radio Address
March 7, 1998

Q: What was the message of the President's radio address today?

A: The President urged Congress to act now to pass comprehensive tobacco legislation. There are as few as 60 working days left before this Congress adjourns. On every one of those days, 1,000 adults will die from smoking, and 3,000 children will become regular smokers. On every one of those days, the Congress has the opportunity to stop them passing comprehensive, bipartisan legislation which raises the price of cigarettes by up to \$1.50 a pack over the next ten years, expressly confirms the FDA authority to regulate tobacco products, gets tobacco companies out of the business of marketing to children, furthers public health research and goals, and protects tobacco farmers and their communities.

Q: How did the President reach the conclusion that one million children can be saved?

A: Last month, the President announced a Treasury department analysis which found that the Administration's proposal -- a price increase of \$1.10 per pack over five years coupled with sales and advertising restrictions -- will save a million lives over the next five years. This report concludes that underage smoking would be reduced by nearly half. This means that cumulatively over the next five years, between 2.4 to 2.8 million fewer underage teens would be kept from smoking. Because the number of premature deaths from smoking is about one-third of actual smokers, the President's proposal will prevent almost a million premature deaths over the next five years.

Q: What progress has been made in getting comprehensive tobacco legislation enacted?

A: Administration officials are meeting regularly with members of Congress on both sides of the aisle to urge them to move forward on bipartisan legislation that meets the President's principles.

We are encouraged by our discussions so far, but Congress must act now. This is a unique opportunity to save almost a million American children, and we should get it done this year. Any time delay means lives. Everyday 3,000 kids become regular smokers, and 1,000 of them will die prematurely from this addiction. There are as few as 60 days left in this Congress -- so every day is critical in passing this legislation and protecting the lives of our nation's young people.

[Background: In the House of Representatives, there are 84 legislative days remaining on the official voting calendar, but excluding Mondays and Fridays, when the House rarely meets, the number drops to 60.]

Q: Many legislators and public health officials have said that tobacco legislation must not include limits on liability. What is the President's position on liability limits?

A: The President would prefer legislation without liability limits. The President will, however, evaluate tobacco legislation as a whole to determine whether it protects public health. In that context of a larger bill that meets the President's five principles and advances the public health, reasonable limits on liability will not be a dealbreaker. What's important is achieving comprehensive legislation that includes a large per-pack price increase, penalties for marketing to children, and affirmation of FDA's authority to restrict advertising aimed at children and prevent children's access to tobacco products.

Q: The President said that smoking kills more people every year than AIDS, alcohol, car accidents, murders, suicides, drugs, and fires combined. How is that?

A: According to the Centers for Disease Control, 430,000 people die each year from smoking-related causes. According to the 1996 Statistical Abstract, about 203,000 people die each year from AIDS, alcohol, car accidents, murders, suicides, drugs, and fires combined.

Tobacco Q&A
March 2, 1998

Q: What are the most important aspects of the letter that Bruce Reed sent to Senator McCain?

A: The letter is an example of how the Administration is reaching across party lines to help Congress enact comprehensive legislation to dramatically reduce teen smoking. The letter provides detailed responses to 74 questions posed by Senator McCain, and reiterates the President's strong view that a piecemeal approach will not meet our overriding goal of dramatically reducing teen smoking. As you know, the President has called upon Congress to enact comprehensive, bipartisan legislation which raises the price of cigarettes by up to \$1.50 a pack over the next ten years, expressly confirms the FDA authority to regulate tobacco products, gets tobacco companies out of the business of marketing to children, furthers public health research and goals, and protects tobacco farmers and their communities. Because of the particular questions posed by Senator McCain, the letter focuses to a great extent on the importance of restricting the advertising and marketing of tobacco products to young people.

Q: I understand that in your response to Senator McCain, you said that there are constitutional concerns with imposing certain advertising restrictions on the tobacco industry. Does that mean you need the consent of the industry to impose advertising restrictions?

A: It is absolutely clear that certain advertising restrictions can be imposed on the industry through legislation. For example, we strongly believe, as the Department of Justice has explained in the FDA litigation, that the advertising restrictions contained in the FDA rule are consistent with the First Amendment. As our response to Senator McCain notes, more far-reaching provisions raise significant constitutional issues. We have offered to work with Senator McCain and others to minimize these constitutional difficulties. Perhaps more important, we will seek such tough financial penalties against the industry for failing to meet youth smoking targets as to ensure that the industry restricts its advertising to minors. We will not seek -- and do not need -- the industry's permission to enact a strong bill that addresses youth smoking through a substantial price increase, youth smoking penalties, limits on access, and certain advertising restrictions.

Q: Why aren't you more specific in your answers about the constitutionality of certain provisions?

A: We addressed each of the speech restrictions that Senator McCain asked us about, and informed him whether or not it raised serious constitutional issues. For proposed restrictions that raise significant constitutional issues, we offered the full assistance of the Administration in working with his staff to review and draft specific legislative provisions. The precise degree to which a provision would raise constitutional issues -- and the precise way to minimize such difficulties -- is related to specific legislative language, and such detailed drafting issues couldn't be addressed in a letter like this.

Q: What does the letter say about the Administration's views of anti-trust exemptions?

A: The letter makes clear that we are extremely skeptical of including antitrust exemptions for tobacco manufacturers in comprehensive legislation. In particular, we would strongly oppose any exemptions that would allow price fixing agreements. The letter does leave open the possibility, depending on other provisions in the legislation and any settlements, of allowing a very limited anti-trust exemption to facilitate efforts to restrict advertising to minors.

International Provisions

- Q. There appears to be a growing controversy over the international provisions of the McCain bill. What is the Administration's position on this?**
- A.** Comprehensive tobacco legislation needs significant funding to discourage youth smoking abroad through multilateral efforts designed to promote education and public health. This funding will enable us to provide technical assistance to other countries, and will support diplomatic, media and grass roots efforts designed to reduce youth smoking. As we move forward in this area, we need to ensure that our international tobacco control policies do not interfere with our diplomatic and trade priorities in other areas, or result in policies which are unenforceable abroad.
- Q. But don't we have a successful example of exporting US laws overseas -- namely, the Foreign Corrupt Practices Act (designed to prevent bribery of foreign officials)?**
- A.** Actually, the Foreign Corrupt Practices Act less than successful for many years precisely because it was a unilateral effort. It was only once we joined with other countries through treaties and encouraged other nations to adopt similar laws that it became effective. This is why we need to work through the World Health Organization and other entities to encourage other nations to adopt laws similar to ours designed to reduce advertising youth access to tobacco.

Liability

- Q: Will the Administration accept the liability protections for the tobacco industry contained in Senator McCain's legislation?**
- A:** As we have said on many occasions, we would prefer comprehensive tobacco legislation without liability limits, but in the context of legislation that meets all of the President's principles and dramatically reduces youth smoking, reasonable limits on liability will not be a dealbreaker. Right now, we're going to focus on the aspects of the McCain legislation that we think fall short of what the President has demanded: particularly, on the penalties in the bill to reduce youth smoking.

TOBACCO Q&A
PRESIDENT'S KENTUCKY TRIP
April 9, 1998

I. ADMINISTRATION POSITIONS ON TOBACCO FARMER ISSUES

Q. Why is the President going to Kentucky?

A. The President is going to Kentucky, the heart of burley tobacco country, to discuss the need for comprehensive tobacco legislation that reduces youth smoking but provides for the future of family farming and rural communities. In his statement last September, the President said that protecting farmers and their communities was one of the key five principles that must be included in any comprehensive tobacco legislation he would be willing to sign. The President is going to Kentucky to discuss the impact of tobacco legislation directly with farmers and affected communities, and urge passage of legislation that meets the needs of reducing teen smoking and protects farmers and their communities. The President also will say that he is pleased that Senator Ford has worked so hard to produce consensus among tobacco producers and their representatives in Congress on a strong proposal to protect tobacco farmers.

Q. What is the President's position on programs for tobacco farmers?

A: The President made protecting farmers and their communities one of the five key principles that must be included in any comprehensive tobacco legislation. Senator Ford's bill, which maintains a production control system while compensating farmers for decrease consumption of tobacco products, is a strong proposal to protect tobacco farmers, and the President believes it is a significant step forward.. The President is encouraged that the interests of both flue-cured and burley farmers are included in the proposal, and hopes that all farmers will continue working together to ensure that legislation is passed this year.

Q. Aren't the goals of reducing youth smoking and protecting tobacco farmers contradictory?

A: No. The President does not want the tobacco companies to go out of business, only out of the business of selling to children. The tobacco farmers have played by the rules, and should be protected in any legislation that passes. The President believes that we can reduce youth smoking and protect rural communities if we all work together to urge Congress to pass bipartisan comprehensive tobacco legislation this year.

Q. Senator Lugar recently suggested in an op-ed that the tobacco program should be phased out. Does the Administration agree?

A. The Administration feels that any legislation has to be evaluated in terms of how well it

meets the President's five principles -- including reducing youth smoking and protecting farmers and their communities. Advocates of a free market for tobacco growers will need to demonstrate that it is consistent with these principles. Many health groups have argued that simply ending the tobacco program may actually increase the amount of tobacco that is grown, decrease the cost of tobacco, and provide a windfall for cigarette companies. In addition, representatives of family farms have suggested that ending the tobacco program would have extremely negative economic effects on them and their communities. The President went to Kentucky, in part, to discuss the various legislative options with those directly effected by tobacco legislation and hear their opinions first-hand

II. BACKGROUND QUESTIONS RE: TOBACCO FARMERS

Q. How important is tobacco to Kentucky producers and the overall economy?

A. 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.

Q. Who will be affected by a settlement?

A. 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 quotas, about 66 percent are considered small farm operations. Five percent of all quotas are owned by minorities, the majority of which are small producers.

Q. Why is tobacco so important to small farmers?

A. Tobacco is a high value crop that generates gross receipts of \$4,000 to \$5,000 per acre. Profits from 1 acre of tobacco are equivalent to between 15 and 20 acres of corn or soybeans. On small farms in Kentucky, with an average of 22 acres of harvested cropland in 1992, tobacco is vital to the economic survival of farmers.

Q. How much tobacco is grown in the United States?

A. In 1997, tobacco production totaled 1.7 billion pounds with a value of over \$3 billion.

Q. How does the tobacco program work?

A. Since the 1930s, in order to grow tobacco, a farmer must have a quota. The quota allows the farmer to grow a certain amount of tobacco for that year. Thus, the amount of tobacco grown in the United States is controlled by law. In addition, the price of tobacco is set statutorily. If a private company chooses not to purchase tobacco at or above the statutory minimum price, the regional cooperative of tobacco farmers will purchase the

tobacco and store it, putting the tobacco back on the market when the price is more favorable.

Q: What are the provisions of the Ford bill which is included in the McCain legislation?

A: 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 buy-out 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.

II. GENERAL BACKGROUND ON TOBACCO LEGISLATION

Q: What's your reaction to RJR Nabisco CEO Steven Goldstone's remarks today at the National Press Club?

A: It is no surprise that the tobacco industry would protest the legislation moving through the Congress --it is in their interest to object to the bill now to prevent it from getting even tougher. In the end, the companies will have a strong incentive to participate, and we're convinced that they'll recognize this.

So we don't think the companies will walk away --and we hope they do not do so. We would prefer that the companies join, rather than fight, our efforts to reduce smoking.

But make no mistake: The President will continue to work to reduce youth smoking no matter what the companies do. He has worked on this effort for two years; members of Congress from both parties are now joining him; and we will get strong legislation on

youth smoking whether or not the companies join us.

Q: Will this deal drive RJR and/or other tobacco companies into bankruptcy?

A: No. We're not trying to put the tobacco companies out of business; we want to put them out of the business of selling cigarettes to kids. We've done some careful financial analysis of the McCain bill, and we do not believe that it will drive companies into bankruptcy. There's just no reason to think that this legislation would increase the companies' exposure to a financial loss of the kind that would send them into bankruptcy. Stopping companies from selling cigarettes to kids will not put them out of business.

Q: But don't you need industry cooperation to enact tobacco legislation?

A: We would like the tobacco industry to willingly join us in this effort to reduce youth smoking. And we still believe that the tobacco industry will have every incentive to agree to legislation in the end, so that they can end this chapter in their history. But if they refuse to join us, we will still make progress. We will continue our efforts to pass comprehensive legislation to dramatically reduce youth smoking.

Q: Has the President endorsed the McCain bill?

A: The President believes that this bill represents a dramatic step forward. It would raise the price of cigarettes, give the FDA full authority to regulate tobacco products, ban advertising aimed at children, and protect tobacco farmers.

But he also said we still have some work to do on this legislation. Above all, we need to put in place tough penalties that will cost the tobacco industry if it continues to sell cigarettes to young people. We're not trying to put the tobacco companies out of business; we want to put them out of the business of selling cigarettes to kids. Last week's progress in the Senate shows we have real momentum in both parties to do just that. The President looks forward to working with John McCain and others to move this legislation forward.

Tobacco Q&As
April 8, 1998

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(4/7 DRAFT-- NonFarm Issues)
Tobacco Q&A
President's Kentucky Trip
April 9, 1998

Q: Has the President endorsed the McCain bill?

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But he also said we still have work to do on this legislation. Above all, we need to put in place tough penalties that will cost the tobacco industry if it continues to sell cigarettes to young people. We're not trying to put the tobacco companies out of business; we want to put them out of the business of selling cigarettes to kids. This week's progress in the Senate shows we have real momentum in both parties to do just that.

Q: The President says we need stronger penalties on companies that continue to sell to our children. What does he mean by that?

A: The McCain bill's penalty provisions are deficient for two reasons. First, the bill has a cap of \$3.5 billion per year on industry-wide penalties, no matter how much the industry misses youth targets by. Second, the McCain bill contains no penalties on individual companies for failing to meet youth smoking targets. Reducing youth smoking is our bottom line, and we must make it each and every company's bottom line.

Q: Does the Administration have concerns about provisions of the McCain bill besides the penalties?

A: We have serious concerns about this bill's provision which would allow individual States to "opt out" of the national smoke-free environment policy. This provision creates a patchwork system in which states could decide to adopt weaker laws or decide against taking any action at all, leaving people with little or no protection from the hazards of environmental tobacco smoke. In addition, there is no need to exempt the tobacco industry from antitrust rules in order to reduce youth smoking. We strongly oppose any exemptions that would allow price fixing agreements. Third, we believe it is critical that tobacco legislation fund efforts to promote public health and assist children.

Q: What does the President want the tobacco funds to be spent on?

A: The President strongly believes that tobacco revenues should go toward protecting public health and assisting children. His budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic

expansion of health-related research to help us cure smoking-related disease. Finally, in recognition of the states' role in bringing suit against tobacco companies, the President's budget provides for a substantial amount of money to revert to the states. Some of this money can be used for any purpose. Other funds must be used on state-administered programs to assist children (specifically, for child care, Medicaid child outreach, and class size reduction).

Q: What is your view of the liability protections for the tobacco industry contained in Senator McCain's legislation?

A: As we have said on many occasions, we would prefer comprehensive tobacco legislation without liability limits, but in the context of legislation that meets all of the President's principles and dramatically reduces youth smoking, reasonable limits on liability will not be a dealbreaker. Right now, we're going to focus on the aspects of the McCain legislation that we think fall short of what the President has demanded: particularly, on the penalties in the bill to reduce youth smoking. Until we get those right, we won't address liability protections.

Q: The tobacco industry has said that it will not agree to national tobacco legislation that increases the price of a pack of cigarettes by \$1.10 over five years, as proposed by the President's budget and the McCain bill. Does that doom the President's proposal?

A: No. We have always expected the tobacco companies to fight hard for their economic interests, but needless to say we will not always agree, nor we think will the US Congress. This price increase called for in the President's budget is necessary to meet his youth smoking targets, and he will continue to demand it. What the companies do is up to them, but we will not back off such necessary measures to reduce youth smoking.

Q: What are the five principles that the President has said tobacco legislation must meet?

A: President Clinton has said he will only support tobacco legislation that:

- Raises the price of cigarettes by up to \$1.10 a pack over 5 years and \$1.50 a pack over the next ten years, and imposes tough penalties on companies that continue to sell to kids;
- Affirms the FDA's full authority to regulate tobacco products;
- Gets companies out of the business of marketing and selling tobacco to minors;
- Promotes public health research and public health goals; and
- Protects our tobacco farmers and their communities.

Q: How does the McCain bill compare to the Attorneys General proposed settlement and the President's proposal?

A: See chart below.

Comparison of Tobacco Proposals
April 7, 1998

	Attorneys General	McCain	President
Substantial Price Increase	No	Yes	Yes
Strong Industry and Company Penalties	No	No	Yes
Full FDA Authority	No	Yes	Yes

Strong Advertising and Access Provisions	Yes	Yes	Yes
Protections of Tobacco Farmers	No	Yes	Yes
Comprehensive Plan to Use Tobacco Revenue to Protect Public Health and Assist Children	Yes	No*	Yes
Strong Environmental Tobacco Smoke Provision	Yes	No	Yes
Liability Protections for Industry: 1. Liability Cap 2. Bar on Class Actions 3. Bar on Punitive Damages	Yes Yes Yes	Yes No No	Only if bill meets President's public health principles. Only if bill meets President's public health principles. Only if bill meets President's public health principles.

* Does not attempt to address most spending issues.

Q: Is teen smoking going up or down? What's the rate in Kentucky?

A: On April 2, the Centers for Disease Control in Atlanta released a new study ("Tobacco Use Among High School Students -- United States, 1997") which found that cigarette smoking rates among high school students rose by nearly a third between 1991 and 1997, from 27.5 percent to 36.4 percent, with the sharpest increase among African American students. Cigarette smoking was highest among white students (40 percent), rising by 28 percent from 1991 (31 percent). While the level of cigarette smoking among African-American students was lower than for white students, the rate increased by 80 percent between 1991 and 1997 (from 12.6 percent to 22.7 percent). Overall, the study found that nearly half of male students and more than a third of female students used cigarettes, cigars, or smokeless tobacco during the previous month. This 1997 data was derived from a survey of over 16,000 students in grades 9-12.

[Add Kentucky numbers]

(DRAFT -- April 3)

**Tobacco Q&A
President's Radio Address
April 4, 1998**

Q: The President mentioned a new CDC study on teen smoking. What does it say?

On April 2, in conjunction with Kick Butts Day, the Centers for Disease Control released a new study ("Tobacco Use Among High School Students -- United States, 1997") which found that cigarette smoking rates among high school students rose by nearly a third between 1991 and 1997, from 27.5 percent to 36.4 percent. The study found that, overall, nearly half of male students and more than a third of female students reported using tobacco products in the previous month. Among white students, slightly over 50 percent of males and 40 percent of females used tobacco products within the previous month. Cigarette smoking was highest among white students (40 percent), rising by 28 percent from 1991 (31 percent). While the level of cigarette smoking among African-American students was lower than for white students, the rate increased by 80 percent between 1991 and 1997 for African-American students (from 12.6 percent to 22.7 percent). This 1997 data was derived from a survey of over 16,000 students in grades 9-12.

Q: Did the President endorse the McCain bill today?

A: The President said that this bill represents a dramatic step forward. It would raise the price of cigarettes, give the FDA full authority to regulate tobacco products, ban advertising aimed at children, and protect tobacco farmers.

But he also said we still have work to do on this legislation. Above all, we need to put in place tough penalties that will cost the tobacco industry if it continues to sell cigarettes to young people. We're not trying to put the tobacco companies out of business; we want to put them out of the business of selling cigarettes to kids. This week's progress in the Senate shows we have real momentum in both parties to do just that.

Q: The President says we need stronger penalties on companies that continue to sell to our children. What does he mean by that?

A: The McCain bill's penalty provisions are deficient for two reasons. First, the bill has a cap of \$3.5 billion per year on industry-wide penalties, no matter how much the industry misses youth targets by. Second, the McCain bill contains no penalties on individual companies for failing to meet youth smoking targets. Reducing youth smoking is our bottom line, and we must make it each and every company's bottom line.

- Q: Does the Administration have concerns about provisions of the McCain bill besides the penalties?**
- A:** We have serious concerns about this bill's provision which would allow individual States to "opt out" of the national smoke-free environment policy. This provision creates a patchwork system in which states could decide to adopt weaker laws or decide against taking any action at all, leaving people with little or no protection from the hazards of environmental tobacco smoke. In addition, there is no need to exempt the tobacco industry from antitrust rules in order to reduce youth smoking. We strongly oppose any exemptions that would allow price fixing agreements. Third, we believe it is critical that tobacco legislation fund efforts to promote public health and assist children.
- Q: What does the President want the tobacco funds to be spent on?**
- A:** The President strongly believes that tobacco revenues should go toward protecting public health and assisting children. His budget provides for funds for anti-smoking programs that will help us meet the goals of reducing youth smoking rates and for a dramatic expansion of health-related research to help us cure smoking-related disease. Finally, in recognition of the states' role in bringing suit against tobacco companies, the President's budget provides for a substantial amount of money to revert to the states. Some of this money can be used for any purpose. Other funds must be used on state-administered programs to assist children (specifically, for child care, Medicaid child outreach, and class size reduction).
- Q: Does the Administration support the farmers component to the McCain bill?**
- A:** We are pleased that Senators Ford, Hollings, and Frist agreed upon a package to provide broad-based protection for farmers and farming communities. This proposal is clearly a strong effort to craft a bipartisan consensus to protect farmers and their communities.
- Q: What is your view of the liability protections for the tobacco industry contained in Senator McCain's legislation?**
- A:** As we have said on many occasions, we would prefer comprehensive tobacco legislation without liability limits, but in the context of legislation that meets all of the President's principles and dramatically reduces youth smoking, reasonable limits on liability will not be a dealbreaker. Right now, we're going to focus on the aspects of the McCain legislation that we think fall short of what the President has demanded: particularly, on the penalties in the bill to reduce youth smoking. Until we get those right, we won't address liability protections.

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- Affirms the FDA's full authority to regulate tobacco products;
- Gets companies out of the business of marketing and selling tobacco to minors;
- Promotes public health research and public health goals; and
- Protects our tobacco farmers and their communities.

**Tobacco Q&A
McCain Bill**

- Q. How do you feel about the McCain tobacco bill passing out of the Senate Commerce Committee?**
- A.** We're very pleased with the Senate Commerce Committee's bipartisan step forward yesterday on tobacco. We congratulate Senator McCain and Senator Hollings for putting together a bill that represents a very good start on the road to passing comprehensive tobacco legislation this year. We still have work to do. Above all, we need to put in place tough financial penalties that make reducing teen smoking the tobacco industry's bottom line. But real momentum for strong tobacco legislation is building in both parties, and Congress will have a hard time going home for the year without getting this done.

DRAFT -- March 31, 1998

**Q&A for the April 1 Testimony on
Environmental Tobacco Smoke**

Q. What is the Administration's position on applying Environmental Tobacco Smoke rules to the hospitality industry?

A. When the President announced his five principles for comprehensive tobacco legislation, he said progress toward other public health goals should include limiting exposure to environmental tobacco smoke in work sites and public places. We believe that given the significant health risks associated with exposure to environmental tobacco smoke, protections should be extended to all hospitality workers, but that we should implement this gradually over time. This phase-in period will ensure that hospitality facilities, such as restaurants and bars, that wish to establish specially designated smoking areas have the time to do so. However, we believe that establishments which serve large numbers of children, such as fast food restaurants or children's restaurants, should adopt smoke-free policies immediately.

Q. What is your view on the ETS provisions in the McCain bill?

A. The bill should not allow individual States to "opt out" of the national smoke-free environment policy. This undermines and significantly weakens the national ETS standard by creating a patchwork system where states could decide to adopt weaker laws or decide against taking any action, leaving people with little or no protections from the hazards of environmental tobacco smoke.