

THE TOBACCO INSTITUTE
ANNUAL MEETING

Remarks by

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Thanks, Sam.

Gentlemen, Sam was certainly correct when he said 1987 has been a difficult year. It is also correct that 1988 could be as challenging.

As Sam has asked, for the next few minutes, I will focus on our issues and then comment briefly on our resources.

Let's look first at the excise tax situation.

TAXES

State governments increase taxes for a variety of reasons...some more logical than others. The reasons given or observed can generally be grouped under the three headings of **FINANCE, FISCAL STRUCTURE AND PHILOSOPHY.**

In the first group are states in which the tax system is basically sound...that is, broad-based with adequate funding for the services government must provide its citizens...under normal circumstances. These states are vulnerable to unexpected revenue drops due to

conditions such as unemployment. Examples would include Indiana and Michigan.

The second group consists of states in which -- for reasons of tradition or political expediency -- certain logical tax sources such as personal income taxes, are not utilized. This results in an unhealthy reliance on other sources of revenue such as excise taxes. Texas and Florida are prominent examples of this taxing system.

Finally -- and most troubling for us because they are the toughest to fight -- are tax proposals based on philosophy. The notion that tobacco as a "sin" product must be heavily taxed...or the idea that taxes should continue to rise in proportion to the price of the product. Minnesota, Utah, Washington, Rhode Island and Massachusetts are glaring examples of this type of state -- where at a minimum dedicated anti-tobacco lawmakers perennially push tobacco excise tax measures.

These states are, however, far from alone in this ever-troubling area of philosophical taxation. Currently we count about 8 states in this category, but more seem to be headed in this direction.

At this time, there is at least an even chance that 34 states will introduce tax increase proposals for cigarettes and other tobacco products.

As we speak, the Florida legislature is in yet another special session to deal with the repeal of the sales tax on services and advertising passed earlier this year.

With revision in the law considered likely -- combined with a fiscal structure that includes no personal income tax and a newly-projected shortfall of \$80 million for public education -- a 10-cent cigarette tax increase may be considered to partially solve the problem. I am pleased to advise it now appears other revenue will be sought.

Out West in Wyoming, (President Chilcote's home state) the state's 8 cent cigarette tax has become a target for Governor Sullivan, who recently proposed a 12-cent increase to provide aid for local governments.

Municipalities -- as well as the state -- are suffering severe financial problems in this severance tax-dependent state, which levies neither personal nor corporate income taxes. The Governor sees cigarette -- and beer tax hikes -- as easy targets for popular causes.

The most potentially damaging tax measure we will face in 1988 comes from California which has not increased tobacco excise taxes since 1967.

As you know, anti-tobacco forces were stymied in the legislature this year in attempts to pass a constitutional amendment to increase the cigarette tax a whopping 250 percent and do like damage to other tobacco products.

The sponsor of that failed measure is back with an initiative petition for the November 1988 ballot...this proposal would cover most of the same ground as his earlier measure.

Working closely with your government affairs staff, we have selected a campaign team to help us prevent passage of this initiative. This team, working through a committee named Californians Against Unfair Tax Increases, is now developing an action plan directed solely at doing everything within reason to prevent the initiative from qualifying.

Our industry committee is scheduled to meet with the California team on January 5 to review strategy and approve marching orders from that date through the end of May.

Proponents of the initiative have until early May to qualify 595,485 signatures.

Mr. Chairman, I want to give special thanks to Gene Ainsworth, Jim Cherry, Tom Humber, John Kochevar, Don Mott, Joe Taddeo and Stan Temko for their tremendous help on our California project to date. This important effort will require a considerable part of their time next year.

Although a final budget for this period will not be known until January 5, we anticipate that costs will be between \$1.5 - 2 million. I pray every day in 5 religions that this sucker will not qualify!

SMOKING RESTRICTIONS

As Sam said, one of our most important issues -- and often a frustrating one -- is smoking restrictions.

Tobacco tax legislation can be emotionally charged. Smoking restriction legislation is always emotionally laden. As you've heard, the anti-smokers have a large, well-financed army of paid consultants and volunteer diehards ready to pick up the restriction gauntlet in every state and hundreds of local jurisdictions.

Some of these people are -- I presume -- armed with the best of intentions. But most, I believe, keep the issue alive to keep their organizations alive...to keep the dollars flowing into the ALA...the ACS...and all other such groups. It's in their hip pocket interest to keep the emotional pitch feverish.

The 1986 reports from the Surgeon General and the National Academy of Sciences were gasoline on the fire as far as the states and localities are concerned. States continue to set up their own anti-tobacco task forces...and from such groups come the outlines of smoking restriction legislation.

In 1987 we faced restriction measures in 45 states...next year we again project that the issue will receive serious attention in more than 40 states.

Locally, the restrictions will be center stage in scores of communities of all sizes...and some may well be in tobaccoland's backyard in places like Charlotte, NC, Roanoke, VA, and Spartanburg, SC. Other local hotspots may be Philadelphia, Chicago, Denver, Fort Wayne and Baltimore.

And while we take great pride in the successful work against the New York Public Health Council's onerous restriction regulations, we realize full well that the New York state legislature -- and more than a dozen localities -- will redouble their efforts to restrict smoking legislatively.

In Florida, the court decision last week against GASP will certainly bring added pressure on the legislature to broaden the existing law there.

Next year in Oregon, we will face a statewide vote on severe smoking restrictions -- a virtual ban in all places outside the home. Proponents have until July to qualify the measure for the November 1988 ballot.

In preparation for this important challenge, we have retained the state's leading initiative firm to head up our efforts. On January 6 our industry committee will

meet with the campaign manager to review survey results and track programs on this important project. We will utilize every feasible industry resource to defeat this anti-tobacco measure.

TOBACCO SAMPLING BANS/AD BANS

Sampling ban and advertising restriction legislation will remain with us in 1988. The next Surgeon General's report on "addiction" will play a role in keeping this issue alive, as will continued allegations from our adversaries that tobacco sampling and advertising somehow encourage kids to use tobacco products. A special New Jersey commission, for example, has just outlined a litany of anti-tobacco programs supposedly aimed at discouraging teen use of tobacco.

For 1988, we expect up to 18 states to consider tobacco sampling legislation. Locally, the issue could become troublesome in Los Angeles, Chicago and New York City, among other places.

It is also likely that as many as 17 states could review tobacco advertising bans and limitations. Discussions in Congress have helped keep the issue alive in the states.

"SELF-EXTINGUISHING"

The release of the federal fire-safe cigarette study makes it probable that this long-dormant issue will heat up once again in the states. While most responsible state lawmakers are content to wait for federal action, it is clear that at least 10 states are likely to see "fire-safe" bills thrown in the hopper.

RESOURCES--GENERAL

This brief review confirms that 1988 will be a challenging year for the industry. In the interest of time I have kept my remarks on issues brief. In your folder you will find a report on our issues this year, and two reports on the challenges we expect next year. This information has already been shared with the State Activities Policy Committee and the Committee of Counsel.

Sam has outlined many of our resources and Bill Kloepfer will expand on those important tools we can bring to bear in some situations.

I will focus now on resources at our disposal in State Activities and how we plan to deploy them for 1988.

Lobbyists

First, our frontline defense -- and our number one resource -- is our corps of lobbyists. Our legislative counsel are expected to know the key players, know our issues and know which resources will have the most impact on given issues in their states. This year we initially contracted with 69 lobbying firms and individuals and added more as the year progressed. We begin 1988 with approximately 60.

We have made a few prudent changes in our lobbyist group, augmenting our forces where necessary and replacing counsel in some select locations where action was necessary.

We've recently completed formal planning and strategy meetings with our legislative counsel in our annual sessions this fall. We reviewed our key issues and exposed our counsel to resources with the intention of fully preparing them for next year's skirmishes.

It is fair to say, in addition to their state work, we received excellent assistance from our lobbyists on federal issues...this year and last our counsel went to bat with their old friends from statehouse days who now serve in the Congress.

Staff

Another vital resource is our staff, both headquarters and field. We will continue to operate with our present 9 region structure. One very important aspect of their job is to coordinate and communicate with representatives from all industry segments. In addition to our field staff we retained about 20 local lobbyists around the country.

Here in Washington -- among a myriad of other things -- our headquarters' staff delivers our resources and grassroots support materials to our state lobbyists, our field operations and local lobbyists.

Expert Witnesses

Outside experts from many disciplines will again prove vital in 1988...they include tax economists, sampling experts, ventilation and indoor air consultants and scientists who separate fact from fiction on the ETS science. Various expert witnesses appeared over 80 times on our behalf this year.

Witnesses appear to speak privately or at hearings with lawmakers or to address allied groups. In addition, we work directly with our Public Affairs media relations team, advising them on where we think their media witnesses and other experts could do the most good. It's a schedule we put together carefully...together...to avoid squandering resources.

Beyond expert witnesses and other resources we can provide at headquarters, we have had to employ a few public relations firms and others who can provide specialized communications techniques.

Labor

In 1988 we plan to strengthen our ties with labor in New England and the Northeast in general, as well as in Minnesota and other locations as possible. We will build on the work our field staff accomplished in Massachusetts this year where the state AFL-CIO adopted three resolutions favorable to the industry -- an anti-excise measure, a resolution in opposition to ad bans and one that suggests the big picture of indoor air pollution (not the inset of smoking restrictions) must be addressed.

Next month we will participate in a nine-state meeting of northeastern state AFL-CIO leadership to help them understand more fully that proper ventilation and control of all indoor contaminants is central to clean indoor air...not smoking restriction legislation. This is a longterm, complex, but important relationship we intend to foster to the best of our ability.

Other Allies

Labor is certainly not our only ally, and we have gone to great lengths in our continuing education program with traditional allies within and outside the tobacco family.

When it comes to grassroots support, your sales forces are second to none, but in some states, wholesalers -- and in a few cases, retailers -- are not far behind.

For 1988, we will make it an ongoing priority to coordinate with the Smokeless Tobacco Council, the Cigar Association, vending groups and other industry-related groups to ensure that all possible resources are brought to bear in a common sense, coordinated fashion. Consider for a moment, the manufacturing segment of the industry alone, based on my understanding, could have as many as 150 contract lobbyists and 32 staff employees working full time in the states. This represents more people resources than we have ever had before.

Working together and in harmony, we can be a potent force. Working at odds we will squander resources and accomplish little. I pledge to you that we will work to see that all our goals, and yours, are accomplished.

We also work with other allies to warm them to our issues and use their support to win...restaurateurs and business leaders are among our key allies in many battles, as you know.

CONCLUSION

There is no magic formula to winning at any level of government. Winning requires rock solid people resources, people armed with the best factual information and experts available to back up their political expertise.

We have the players to deflect the challenges and maintain a high batting average for 1988 and beyond. Further, we will strive in 1988 to improve our direct constituent/lawmaker contact programs -- our grassroots efforts -- to show a solid voter constituent base for our views. The Minnesota plan you've seen is an example of our work in this area.

I join with Sam and our State Activities staff in thanking you for your support. I assure you that we continuously strive to analyze which resources work and which do not...and we will not hesitate to explore new avenues or approaches in our efforts to provide our industry with the best possible results on every issue we face.

Thank you.