

THE TOBACCO INSTITUTE

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SAMUEL D. CHILCOTE, JR.
President

PERSONAL & CONFIDENTIAL

February 9, 1993

MEMORANDUM

TO: Buffy Linehan

FROM: Samuel D. Chilcote, Jr. *Sam*

I had wanted to talk to you last week about the following memorandum. I will be calling you to discuss these issues. In the meantime, I want to report the following new activities that we have undertaken on the federal tax issue since the report to the Executive Committee in January:

With regard to reports from within the Administration that excise taxes are on the table as part of a "balanced" revenue package:

CTJ's Bob McIntyre spoke out immediately in opposition to the Bentsen ideas, and has continued to oppose other regressive proposals as they are floated. He is commenting in the media, and continues his efforts to work with Members of Congress on revenue alternatives.

David Wilhelm told us Tuesday that he has told McIntyre to keep the heat on the White House through the media. It is having an effect, he said, and is helping the tax fairness folks stand up to the Bentsen/Panetta group.

Among the activities that we have under way:

- Late last week we commissioned a nationwide poll to test potential messages for our own campaigns. While we had originally believed that the 1990 CTA material would suffice, the early floating of tobacco excises, and the knowledge that the White House was doing its own polling prompted us to switch direction. This poll was discussed in last Monday's tax meeting, which was attended by representatives from both PM and RJR.

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That poll tells us that the same emotions that drove the tax issue in 1990 are still there, and we can't improve on our message from the last time. It also tells us that the energy tax is a total non-starter -- 85 percent oppose it when they are told that it will have a four times greater impact on the middle-income household than on rich ones. This is consistent with a CNN/USA Today poll released Tuesday, February 2.

On the excise tax question -- 58 percent say they support excise taxes on gasoline, alcohol and tobacco. This number is consistent with the numbers that we got three years ago in polls conducted prior to the running of the CTA ads and was not a surprise.

We are scheduled to meet with Wilhelm this week -- we are shooting for early in the week. All poll results except the excise tax question will be shared with him [he knows the answer to that one anyway].

At the same time, he has asked that a document be prepared for him that would explain if long-term deficit reduction could be achieved using the surplus in the Social Security trust fund, which is estimated to reach \$8 trillion by 2008. The idea would be to see if a credible deficit reduction program could be achieved over 8-12 years by using these funds as a main source of income with taxes on the wealthy and on corporations as fillers. Some of our allies -- including those in the senior community -- have suggested to us that this could be done, with the trust fund replenished after the year 2000 with an increase in the social security tax. Wilhelm has asked for a memorandum on it. That is being drafted by two of our consultants and will be vetted with Clinton's top supporters in the labor community, with McIntyre and among the seniors before it is shared with Wilhelm.

We have developed a series of scripts for new Consumer Tax Alliance ads. They are being edited internally now to account for the Wilhelm conversation and the new polling information that we received on Tuesday. We believe the most promising are targeted toward the 120 or so new Members, none of whom campaigned promising to raise taxes. Another promising ad urges viewers to help President Clinton "stand up to the special interests in Washington" who are trying to make him raise their excise taxes.

We are prepared to move forward on production of these ads with existing funds. However, as you know, media buys and the polling that would accompany would run between \$3-5 million and we have no funds for that. [We specifically told Management Committee at our fall 1992 budget review

meeting that there were no funds for airtime or polling for CTA in the 1993 budget.]

We have reached out to the unions whose members would be affected by an energy tax and are encouraging them to join the Consumer Tax Alliance. We also continue our efforts to identify individual members through contacts at the American Truckers Association and in the farm community.

The AFL-CIO is expected to release a series of statements on the economy and various tax proposals at its meeting February 14-18 in Florida. Right now we understand that the AFL will oppose an energy tax, taxation of health care benefits and regressive taxes such as excise taxes. We are working with them now as they draft this statement and will be on-site to ensure that we obtain the best possible result.

At our January 25 tax meeting, we raised the idea of commissioning economic consultants in targeted districts to begin work on op-eds for placement in local papers opposing all tax increases and supporting instead eliminating government waste. The company representatives did not appear enthusiastic about that idea and it is not being pursued now.

CART continues to be a problem. The coalition is completing work on an update of a Peat Marwick regressivity study that will be released in February. Several meetings have been devoted to discussion of a jobs impact study along the lines of the one done for the PM advertising coalition, and done in several states for the PM-supported state CARTS.

The consultant who developed the methodology made a presentation to CART on Tuesday -- February 2. According to the report that we received back from the meeting, the ATA appeared supportive of the idea and is considering a separate study on gas impact. McGrath of the Beer Institute spoke in favor of a study on beer. Fred Panzer representing B&W said he saw no value to the study. Bob Reese at PM said -- once again -- that until CART is restructured (along lines that he has not yet defined, other than to say he wants a "labor component") he could not support funding for this project. RJR was not represented at the meeting. While TI has supported and continues to support the idea with the member companies, we have not taken a formal position at the CART meetings given the positions -- or lack thereof -- of our companies.

Federal Relations staff is making direct contact with Administration officials.

- By sponsoring Rep. Grams' letter to the President, we associated ourselves with the 46 Republican freshmen who oppose any taxes.

With regard to contacts with the Ways & Means Committee that were raised at Washington Working Group:

- We are reaching out to selected Democrats on the House Ways & Means Committee. Allies whom we have confirmed have close relationships with these members are contacting them with the following message, which tracks the one that Wilhelm is trying to deliver at the White House:

1. The middle class got screwed in the 80's. Bentsen and Panetta are doing cosmetics. You can't try to put forward a revenue package for 1993 that is balanced and claim that it's a shared sacrifice because you have done nothing to correct the imbalances that were created from 1981-1992. We (the allied groups) won't let you get away with it and, most importantly, McIntyre won't let you get away with it.

2. Because of the piecemeal way in which Bentsen and Panetta are trying to structure this, the middle class is going to get hit, and Congress is the one that's going to pay. The middle class is going to hate it -- the energy tax is even more unpopular with them than excise taxes -- and the new Members aren't going to vote for it.

3. There's plenty that you can do to raise revenue without hitting the middle class. The CBO has put together progressive options. McIntyre has published two articles in the last three months with more ideas. Taxes on the rich have to be on the table. Corporate taxes have to be on the table.

The Ways & Means members who are being contacted with this message are Rangel (NY), Matsui (CAL), Coyne (PA), Levin (MI), Cardin (MD), McDermott (WA), Kleczka (WI) and Hoagland (NEB). The primary contacts are Bill Holayter and the chief lobbyist for Citizen Action.

(We suggested at WWG that other allied groups could contact members via mail and forward various materials prior to the retreat. The targeted, one-on-one approach described above is in lieu of that, because we believe it is more likely to have an impact than mailings that may or may not be read.)

- Federal Relations staff is contacting supportive Members and new Members.

- . Last year we were able to work closely with the Democratic Study Group to promote our CTA results, along with other anti-excise tax materials. Mike Synar has taken over as chairman of the DSG and is likely to pose a problem with this group. We are going to talk with its executive director to see if there remains any opportunity for a cooperative working relationship.

With regard to the report that was given at the Executive Committee on January 14:

- . Final tallies on the "open seats" program to meet with and brief new members prior to their arrival in Washington, we reported the following results:
 1. Federal relations staff met with 50 members.
 2. Field staff and state lobbyists met with 16 other new members. All expressed a willingness to listen and work with us on our issues.
 3. Agriculture contacts in the southeast met with 15 additional new members. All members expressed support for our issues in general and taxes specifically.
 4. Labor consultants in the states met with another 20 new members. Here, the only message was taxes. All except one expressed general support for progressive tax policies, although few would make firm commitments. The exception was Mel Reynolds of Illinois, who, although acknowledging that his constituents would probably benefit from progressive taxes, said he was not likely to oppose excise taxes.
- . The labor component of the program is now being expanded to incorporate Members on key tax writing committees and, among contacts, to include local union representatives in the districts.
- . Projects and studies in the works include:
 1. On January 26 Citizen Action hosted a briefing for some 300 Members, their staffs, labor unions and interest groups. The focus was on health care reform, with a variety of speakers pushing for progressive financing to any system, and specifically opposing higher excise taxes. This was reported to the Executive Committee on February 2.

2. In late February, the Coalition on Human Needs, a coalition of low-income organizations nationwide, will put on a forum for its members on its priorities for the Clinton administration, including tax relief for the low- and middle-income. We are helping them draft their materials for this forum.

Also in February, the Coalition will bring in representatives from their key constituency groups from around the country for a lobbying day in Washington on economic policy issues.

3. Also in February -- after the AFL-CIO midwinter meeting in Bal Harbour -- the Labor Council for Latin American Advancement will host a forum for representatives of the Hispanic caucus to brief them on tax policy as it impacts Hispanic Americans. We have worked with them to prepare the economic study that details that impact and are helping them prepare additional materials.

4. On February 12, a TI representative will address the annual meeting of the American Farm Bureau Federation's tobacco advisory committee in Tampa. This presentation will cover taxes, as well as the EPA situation and other key congressional issues.

5. In late February and early March, tobacco grower organizations and farm bureau representatives from the tobacco states will be in Washington for a series of meetings. We are working with them to include visits to their Members on the tax issue as part of their agenda.

6. On March 2, the American Agriculture Movement will release its updated study on the impact of excise taxes on rural Americans. Representatives from the Rural Caucus will be invited to join AAM at the news conference, along with a variety of other farm groups. They will personally deliver copies to their members as part of their own "lobby week" activity. We are asking representatives from the TGIC to attend to ensure specific comments on tobacco excises.

7. The National Council of Senior Citizens will release in March its research on the impact of regressive tax policies on senior citizens.

8. Citizens for Tax Justice will sponsor a federal tax policy conference. Timing will depend on when McIntyre has a firm enough grasp on the Administration's real economic package to be able to react to it.

9. Toward the end of the first quarter, the Economic Policy Institute will cosponsor with Leadership for the New Century a conference on federal tax policy, economic and health care issues for freshmen representatives.

10. EPI also is expected to release in March or April its analysis of the regressivity of the current health care system. Preliminary numbers were released at Citizen Action's January 26 conference.

With regard to labor involvement, we raised a concern about our allies being able or willing to attack publicly a Clinton package that might be progressive overall. To date, that problem has not occurred, nor have we seen any desire to give him a "honeymoon" on this issue. Wilhelm, in fact, has encouraged McIntyre to keep the heat on, and has said that to do otherwise would destroy McIntyre's credibility.

We said we would aggregate any Administration trial balloons and would prioritize them in terms of regressivity. That is being done as reported above.

We suggested that Republicans could be called upon to throw out proposals that would allow us to split off and hold some of our allies. As an example, we suggested that Sen. Gramm force a vote on a proposal that would require all new revenues to go toward debt reduction. This would peel off building trades and others who want revenues for jobs programs. I do not know the status of that suggestion, since the PAD coalition efforts are focusing on Democrats and their constituencies.

Finally, we discussed our thoughts with regard to the future of the Consumer Tax Alliance:

1. The middle class is still our target. The gas tax is the key target. Everyone hates it. Our new polling reconfirms that.

2. We are pulling out the old media markets where the ads ran in 1990 and are running the list of the new Members in those markets. This is time consuming because of redistricting but should be completed by early next week.

3. We said we wanted to look at the Clinton numbers and focus on the industrial states that were important to him in his election. In the new polling that we conducted late last week, we oversampled in Illinois, Michigan and Ohio and broke those out. The numbers were the same or slightly better for us in all three states.

4. We said we were developing possible new ads. We have received new scripts and are editing them internally right now to account for some of the information that we have just received from Wilhelm and from our new poll. They should be ready to share with the companies this week.

5. We said we were collecting Clinton campaign promises on middle-class taxes. We have done so and distributed the document to the company representatives who attended the tax meeting last week. The New York Times on January 26 made that case for us.

We told that same tax group that we would look for opportunities to use the talk show circuit and other popular media to raise the middle-class tax issue. One of our folks volunteered to talk to a Jay Leno joke writer. That night (January 25), Leno used two jokes about Clinton's middle-class tax promises. And the next day Rush Limbaugh devoted his program to the New York Times piece on Clinton's campaign promises on taxes.

6. We said we were reaching out to the old CTA members and trying to add new ones. Progress in that area is reported above.

We also suggested five possible categories of targets for any new advertising campaign. They are, in order of priority as you listed them:

1. Districts where the incumbents' margin of victory went down. We have compiled that list -- after reviewing it, our political campaign consultants tell us that they do not believe that in most cases it is a promising approach, although we are continuing to examine the list.

2. Heavy labor districts.

3. Districts with Black/Hispanic populations. Among the Black Caucus, the districts are largely urban and media markets are very expensive. We also have some concern about "targeting" these districts.

4. New Members of Congress. We believe that this is the most promising category and should be explored further. We can cross reference this list with heavy labor districts and Black/Hispanic constituencies to get a reasonable number of markets.

5. Districts with high unemployment.

I think that covers the waterfront, although new projects and programs and strategies seem to be coming up almost hourly at this point. I'll be glad to answer any questions or if you have any comments or suggestions, please let me know.

SDC:sms