

Public Law 26-003

Bill No. 33 (LS)

As amended on the Floor.

Introduced by:

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AN ACT TO REPEAL §14 OF P.L. NO. 25-150, TO AMEND §3 OF P.L. NO. 24-174; AND TO AMEND §§221201, 221202, 221203 AND 221108 OF TITLE 5 OF THE GUAM CODE ANNOTATED, RELATIVE TO ADOPTING A MODEL STATUTE UNDER THE MASTER SETTLEMENT AGREEMENT.

BE IT ENACTED BY THE PEOPLE OF GUAM:

Section 1. Section 14 of Public Law Number 25-150 is hereby *repealed*.

Section 2. Section 221201 of Article 12, Chapter 22, Division 2 of Title 5 of the Guam Code Annotated, as added by Public Law Number 25-150, is hereby *amended* to read as follows:

“Section 221201. Findings and Purpose.

- (a) Cigarette smoking presents serious public health concerns to the State and to the citizens of the State. The Surgeon General has determined that smoking causes lung cancer, heart disease and other serious diseases, and that there are hundreds of thousands of tobacco-related deaths in the United States each year. These diseases most often do *not* appear until many years after the person in question begins smoking.
- (b) Cigarette smoking also presents serious financial concerns for the State. Under certain health-care programs, the State may have a legal obligation to provide medical assistance to eligible persons for health conditions associated with cigarette smoking, and those persons may have a legal entitlement to receive such medical assistance.
- (c) Under these programs, the State pays millions of dollars each year to provide medical assistance for these persons for health conditions associated with cigarette smoking.
- (d) It is the policy of the State that financial burdens imposed on the State by cigarette smoking be borne by tobacco product manufacturers rather than by the State to the extent that such manufacturers either determine to enter into a settlement with the State, or are found culpable by the courts.
- (e) On November 23, 1998, leading United States tobacco product manufacturers entered into a settlement agreement, entitled the ‘*Master Settlement Agreement*,’ with the State.

The Master Settlement Agreement obligates these manufacturers, in return for a release of past, present and certain future claims against them, as described therein, to pay substantial sums to the State, (tied in part to their volume of sales); to fund a national foundation devoted to the interests of public health; and to make substantial changes in their advertising and marketing practices and corporate culture, with the intention of reducing underage smoking.

- (f) It would be contrary to the policy of the State if tobacco product manufacturers who determine *not* to enter into such a settlement could use a resulting cost advantage to derive large, short-term profits in the years before liability may arise without ensuring that the State will have an eventual source of recovery from them *if* they are proven to have acted culpably. It is thus in the interest of the State to require that such manufacturers establish a reserve fund to guarantee a source of compensation, and to prevent such manufacturers from deriving large, short-term profits and then becoming judgment-proof before liability may arise.”

Section 3. Section 221202 of Article 12, Chapter 22, Division 2 of Title 5 of the Guam Code Annotated, as added by Public Law Number 25-150, is hereby *amended* to read as follows:

“Section 221202. Definitions.

- (a) ‘*Adjusted for inflation*’ means increased in accordance with the formula for inflation adjustment set forth in ‘Exhibit C’ to the Master Settlement Agreement.
- (b) ‘*Affiliate*’ means a person who directly or indirectly owns or controls, is owned or controlled by, or is under common ownership or control with, another person. Solely for purposes of this definition, the terms ‘*owns*, ‘*is owned*’ and ‘*ownership*’ mean ownership of an equity interest, or the equivalent thereof, of ten percent (10%) or more, and the term ‘*person*’ means an individual, partnership, committee, association, corporation, or any other organization or group of persons.
- (c) ‘*Allocable share*’ means ‘allocable share’ as that term is defined in the Master Settlement Agreement.
- (d) ‘*Cigarette*’ means any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains:
 - (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco;
 - (2) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette; or
 - (3) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in Clause (1) of this definition. The term ‘*cigarette*’ includes ‘*roll-your-own*’ (i.e. any tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes). For purposes of this definition of ‘*cigarette*, ‘0.09 ounces of ‘*roll-your-own*’ tobacco shall constitute one (1) individual ‘*cigarette*.’
- (e) ‘*Master Settlement Agreement*’ means the settlement agreement, and related documents, entered into on November 23, 1998 by the State and leading United States tobacco product manufacturers.

- (f) *'Qualified escrow fund'* means an escrow arrangement with a Federally or State chartered financial institution having no affiliation with any tobacco product manufacturer, and having assets of *at least* One Billion Dollars (\$1,000,000,000), where such arrangement requires that such financial institution hold the escrowed funds' principal for the benefit of releasing parties, and prohibits the tobacco product manufacturer placing the funds into escrow from using, accessing or directing the use of the funds' principal, *except* as consistent with §221203(b).
- (g) *'Released claims'* means 'released claims' as that term is defined in the Master Settlement Agreement.
- (h) *'Releasing parties'* means 'releasing parties' as that term is defined in the Master Settlement Agreement.
- (i) *'Tobacco Product Manufacturer'* means an entity that after the date of enactment of this Article directly, (and *not* exclusively through any affiliate):
 - (1) manufactures cigarettes anywhere that such manufacturer intends to be sold in the United States, including cigarettes intended to be sold in the United States through an importer, *except* where such importer is an original participating manufacturer, as that term is defined in the Master Settlement Agreement, that will be responsible for the payments under the Master Settlement Agreement with respect to such cigarettes as a result of the provisions of Subsections II(mm) of the Master Settlement Agreement, and that pays the taxes specified in Subsection II(z) of the Master Settlement Agreement, and provided that the manufacturer of such cigarettes does *not* market or advertise such cigarettes in the United States;
 - (2) is the first purchaser anywhere for resale in the United States of cigarettes manufactured anywhere that the manufacturer does *not* intend to be sold in the United States; *or*
 - (3) becomes a successor of an entity described in Paragraph (1) or (2).
 The term *'Tobacco Product Manufacturer'* shall *not* include an affiliate of a tobacco product manufacturer, *unless* such affiliate itself falls within any of Paragraphs (1) through (3) above.
- (j) *'Units sold'* means the number of individual cigarettes sold in the State by the applicable tobacco product manufacturer, (whether directly or through a distributor, retailer or similar intermediary or intermediaries) during the year in question, as measured by excise taxes collected by the State on packs, or 'roll-your-own' tobacco containers, bearing the excise tax stamp of the State. The Department of Revenue and Taxation shall promulgate such regulations as are necessary to ascertain the amount of State excise tax paid on the cigarettes of such tobacco product manufacturer for each year.
- (k) *'State'* means Guam, or the government of Guam, as the case may be."

Section 4. Section 221203 of Article 12, Chapter 22, Division 2 of Title 5 of the Guam Code Annotated, as added by Public Law Number 25-150, is hereby *amended* to read as follows:

“Section 221203. Requirements. Any tobacco product manufacturer selling cigarettes to consumers within the State, whether directly or through a distributor, retailer or similar intermediary or intermediaries, after the date of enactment of this Article shall do one of the following:

(a) become a participating manufacturer, as that term is defined in §II(jj) of the Master Settlement Agreement, and generally perform its financial obligations under the Master Settlement Agreement; *or*

(b)

(1) place into a qualified escrow fund by April 15 of the year following the year in question the following amounts, as such amounts are adjusted for inflation:

2000: \$.0104712 per unit sold
after the date of enactment of this Article;

For each of 2001 and 2002: \$.0136125 per unit sold;
For each of 2003 Through 2006: \$.0167539 per unit sold;

For each of 2007 and each year thereafter: \$.0188482 per unit sold.

(2) A tobacco product manufacturer that places funds into escrow pursuant to Paragraph (1) shall receive the interest or other appreciation on such funds as earned. Such funds themselves shall be released from escrow *only* under the following circumstances:

(i) to pay a judgment or settlement on any released claim brought against such tobacco product manufacturer by the State or any releasing party located or residing in the State. Funds shall be released from escrow under this Subparagraph: (1) in the order in which they were placed into escrow, *and* (2) *only* to the extent and at the time necessary to make payments required under such judgment or settlement;

(ii) to the extent that a tobacco product manufacturer establishes that the amount it was required to place into escrow in a particular year was greater than the State's allocable share of the total payments that such manufacturer would have been required to make in that year under the Master Settlement Agreement, as determined pursuant to §IX(i)(2) of the Master Settlement Agreement, and before any of the adjustments or offsets described in §IX(i)(3) of that Agreement other than the Inflation Adjustment, had it been a participating manufacturer, the excess shall be released from escrow and revert back to such tobacco product manufacturer; *or*

(iii) to the extent *not* released from escrow under Subparagraphs (i) or (ii), funds shall be released from escrow and revert back to such tobacco product manufacturer twenty-five (25) years after the date on which they were placed into escrow.

(3) Each tobacco product manufacturer that elects to place funds into escrow pursuant to this Subsection shall annually certify to the Attorney General that it is in compliance with this Subsection. The Attorney General may bring a civil action on behalf of the State against any tobacco product manufacturer that fails to place into escrow the funds required under this Section. Any tobacco product

manufacturer that fails in any year to place into escrow the funds required under this Section shall:

- (i) be required within fifteen (15) days to place such funds into escrow as shall bring it into compliance with this Section. The Court, upon a finding of a violation of this Subsection, may impose a civil penalty to be paid to the General Fund in an amount *not to exceed* five percent (5%) of the amount improperly withheld from escrow per day of the violation and in a total amount *not to exceed* one hundred percent (100%) of the original amount improperly withheld from escrow;
 - (ii) in the case of a knowing violation, be required within fifteen (15) days to place such funds into escrow as shall bring it into compliance with this Section. The Court, upon a finding of a knowing violation of this Subsection, may impose a civil penalty to be paid to the General Fund in an amount *not to exceed* fifteen percent (15%) of the amount improperly withheld from escrow per day of the violation, and in a total amount *not to exceed* three hundred percent (300%) of the original amount improperly withheld from escrow;
 - (iii) in the case of a second knowing violation, be prohibited from selling cigarettes to consumers within the State, whether directly or through a distributor, retailer or similar intermediary, for a period *not to exceed* two (2) years; *and*
 - (iv) be required to pay the State's costs and attorney's fees incurred during a successful prosecution of any action brought under this Paragraph (3).
- (4) Each failure to make an annual deposit required under this Section shall constitute a separate violation."

Section 5. Section 3 of Public Law Number 24-174 is hereby *amended* to read as follows:

“Section 3. Tobacco Litigation Settlement. Any and all funds which Guam shall receive from the State Attorneys General Tobacco Litigation Settlement shall be deposited into the Health and Human Service Fund.”

Section 6. Section 221108 of Article 11, Chapter 22, Division 2 of Title 5 of the Guam Code Annotated, as repealed and reenacted in Public Law Number 25-150, is hereby *amended* to read as follows:

“Section 221108. Deposit. All proceeds entitled to Guam from the tobacco litigation settlement shall be deposited into the HAHS Fund established by this Act. All monies deposited into the HAHS Fund shall be expended exclusively for the purposes enumerated in §221003 and the general intent of this Act.”