

ISSUES '94: A PM GLOBE SPECIAL EDITION

This Special Edition of The Globe provides employees in all of the Philip Morris operating companies worldwide with a situation analysis and action update on recent issues relating to the company's domestic tobacco business.

ISSUES TASK FORCE

Because of the recent, rapid-fire development of issues in the tobacco business, Philip Morris senior management asked Steve Parrish, Philip Morris U.S.A. General Counsel and Senior Vice President, External Affairs, to set up a task force that would provide quick, short-term response and longer-term, pro-active strategic planning on tobacco issues.

The task force, an inter-company group headed by Parrish, is now in place and operational. It meets every morning, and reports directly to Geoff Bible, PM Executive Vice President, Worldwide tobacco.

The ingredients issue is an example of the task force's quick response capability. The tobacco industry is required by law to file a confidential list with the government of all ingredients used in cigarette manufacturing. Some weeks ago, there was an unauthorized release of that list by a government source to a reporter, who began to run stories on National Public Radio on the so-called hazardous secret ingredients used in cigarette manufacturing.

In a one-day turn-around time, the task force developed and ran nationally a full-page newspaper information advertisement that described the rigorous approval process that cigarette ingredients are subject to by various government agencies.

The ad also provided readers with a toll free phone number they could call to receive more information, including a copy of the ingredients list. As a result of the ad, the whole issue was quickly defused, and the ingredients list is no longer a subject of anti-smoker attacks in the media.

The task force, by being actively involved on a daily basis, increases the speed, flexibility and long-range planning capability of the company in managing issues relating to tobacco manufacturing and tobacco science.

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CHALLENGE '94: AN OVERVIEW OF U.S. TOBACCO ISSUES

Following is a "round-up" of some of the most prominent issues being addressed by Philip Morris and the industry.

Issue: The Administration and Congress are both offering proposals to vastly increase the U.S. federal excise tax (FET) on tobacco products.

Response: Philip Morris is part of a broad coalition of business organizations and consumers that opposes any increase in the FET. In response to tens of thousands of letters from voters and strong messages from members of Congress opposing unfair tax increases, the White House has already reduced the size of the tax hike it was proposing from \$2.00 to 75 cents. Increases larger than 75 cents continue to be considered in Congress. Coalition actions will bring more pressure to bear as various tax proposals advance.

Issue: The U.S. Food and Drug Administration (FDA) is considering claiming jurisdiction over tobacco products.

Response: Philip Morris will cooperate fully with the FDA, but it is the company's position that cigarettes do not appropriately fall under FDA jurisdiction because cigarettes are neither a "food" nor a "drug." As part of its policy of cooperation, Philip Morris recently opened its operating facilities to the FDA, allowing the Agency to confirm that there is no basis to the charge that Philip Morris "manipulates" the nicotine content of its cigarettes.

Issue: The U.S. Occupational Safety and Health Administration (OSHA) has proposed a regulation which would ban smoking in all workplaces except those providing enclosed smoking rooms with special ventilation.

Response: The rational alternative to smoking bans is accommodation, and Philip Morris will continue to implement the Accommodation Program nationally (see p. ___), while proceeding with other efforts to ensure that the preferences of both smokers and non-smokers are addressed. In the meantime, Philip Morris has provided OSHA with information bearing on the issue of workplace smoking bans, and has encouraged all interested parties to file their concerns with OSHA during the public comment period on the regulations.

Issue: Mike Wallace, on CBS's popular weekly TV show "60 Minutes," charged that cigarette manufacturers are capable of producing a fire-safe cigarette, but have refused to do so because of possible product liability consequences.

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Response: These allegations are untrue. Philip Morris does not now have, nor has it ever had, the capability to manufacture a "fire-safe" cigarette. Philip Morris has conducted research and has worked with others in industry and government to develop a test and standards to define the characteristics of a "fire safe" cigarette. That effort is ongoing and the company remains committed to it. Should Philip Morris develop a "fire-safe" cigarette, the company would share that information with the rest of the industry.

Issue: The ABC news program "Day One", in addition to charging that the tobacco industry "spikes" its cigarettes with nicotine (see story, p. ___), has alleged that tobacco manufacturers add toxic ingredients to their products.

Response: There is no basis to this charge. Cigarette manufacturers have been supplying the Department of Health and Human Services with a list of ingredients for more than a decade. The items on the list have been subject to intensive scrutiny by government agencies and independent researchers. HHS has given no indication that there is any cause for concern about any item on the cigarette ingredients list.

Issue: Based on the claim that smoking is "addictive", three class-action lawsuits have been filed against Philip Morris and/or the major cigarette manufacturers.

Response: Addiction claims have been made and rejected in previous product liability suits brought against Philip Morris and other tobacco companies. Tobacco does not fit the profile of an addictive "drug." It does not alter mood nor impair perception, and more than 40 million Americans have quit smoking without professional help or treatment. Moreover, the amount of nicotine delivered in cigarettes has gone down dramatically over the past four decades, as a result of consumer demand for lower tar and nicotine products. This trend also does not fit the profile of addictive behavior.

Outlook '94

Tobacco will remain a controversial product, but controversy is nothing new to Philip Morris and the U.S. tobacco industry. PM USA is confident of its ability to manage these issues and to participate proudly and profitably in the U.S. tobacco business for many years to come.

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ISSUE: SMOKING BANS
RESPONSE: ACCOMMODATION

Spurred by the U.S. Environmental Protection Agency's report on environmental tobacco smoke, a number of towns and cities have attempted to enact bans or severe restrictions on smoking in public places. One of the tools PM USA is using to combat this trend is the "Accommodation Program" which encourages a policy of accommodation of both non-smokers and smokers throughout the U.S.

"The American public has spoken on this issue, and the results overwhelmingly support accommodation over outright bans," says Ellen Merlo, PM USA Vice President, Corporate Affairs.

"In a recent USA Today/CNN survey," Merlo notes, "61 percent of the respondents favored accommodation in restaurants, 67 percent supported accommodation in workplaces and 78 percent called for smokers and non-smokers to be accommodated in hotels and motels. The public wants to see accommodation as the everyday rule of conduct, and it's our job to establish the Accommodation Program with as wide and deep a reach as possible."

So far more than 10,000 businesses are participating in the Accommodation Program, including more than 9,000 restaurants, 550 bowling centers and 355 hotels and motels. Participating businesses receive complimentary materials that guide them in designating seating areas, enhancing indoor air quality and improving overall customer service. To show participation in the program, businesses display the distinctive red and green Accommodation Symbol.

In May, PM USA launched a consumer component of the program in conjunction with a print advertising campaign for Benson & Hedges cigarettes. A number of Benson & Hedges ads now display the Accommodation Symbol and provide consumers with a toll-free phone number. Consumers who call receive an Accommodation information kit through the mail, including a fact book and a supply of stickers for delivering a message to businesses -- both those that accommodate smokers and those that do not. By July, all Benson & Hedges ads will carry the toll-free number.

"The importance of the Accommodation Program is recognized by senior management and it's a priority program at PM USA", says Merlo. "Our goal," she summarizes, "is to turn those survey numbers -- people favoring the idea of accommodation -- into a political and social reality so that accommodation of smokers and non-smokers is the actual standard throughout the country."

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ISSUE: THE WAXMAN HEARINGS --
THE AMERICAN PUBLIC RESPONDS

On April 14, senior executives from seven major U.S. tobacco companies gave testimony before a Congressional subcommittee, headed by Rep. Henry Waxman (D-CA), and were sharply questioned by anti-smoking members of the panel. The following excerpts are from letters received by PM USA President and CEO Bill Campbell after his appearance before the subcommittee.

"It was a disgrace to see law-abiding citizens of our country, top executives who have worked long and hard to achieve their positions in a legal business, treated in such a rude fashion by publicity-seeking members of Congress."

-- Mrs. CH, Kentucky

"The recent inquisition hearing of the seven tobacco executives was a disgrace and I was amazed that you were so courteous in replying."

-- Mr. VB, Illinois

"I am a non-smoker, yet I found the hearing to be a total farce ... a witch hunt if I ever saw one! You and your colleagues conducted yourselves with the utmost patience and decorum, while the self-righteous Congressmen made complete asses of themselves. I'm embarrassed that the Chair of this subcommittee, Mr. Waxman, represents my Congressional district."

-- Mr. CY, California

"I did watch some of the hearings held yesterday and that august body of self appointed, pontificating, pompous, elected officials. However, I did stop watching at a certain point, since it was considerably less expensive to turn off the television than to throw a shoe through it."

-- Ms. ES, California

"The enclosed letter to Rep. Waxman expresses my feelings."
(Enclosure)

Sir,

I would like you to know that the hostility displayed by you and the other anti-smoking members of the committee has given re-birth to the term "McCarthyism." The arrogance shown by you and the other anti-smoking members of the committee is repugnant."

-- Mr. RS, New Jersey

"Each of you are to be commended for the very professional way you handled the scrutiny of those across from you during

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last week's hearings. I watched the replay on C-span and could not believe the animosity with which your questioners sought answers."

-- Mr. TF, Tennessee

"I feel that you and your industry colleagues have been very badly treated by these congressmen. I find this beyond unfair; I find it appalling. I am not and have never been a smoker. Personally, I have asthma and am on medication. But I firmly believe the citizenry has the right to smoke. This country was founded by hard-working tobacco farmers and your firm continues in that fine tradition.

-- Mr. JE, Connecticut

ISSUE: ANTI-SMOKING EXTREMISM
IN GOVERNMENT AND THE MEDIA
RESPONSE: PROACTIVE LEGAL ACTIONS

In the past several months, Philip Morris has been a party to law suits initiated against the Environmental Protection Agency (EPA), the City of San Francisco, and the ABC Television news program "Day One." Following is a brief summary and status report on each action.

- The EPA Suit. Philip Morris has joined with several other tobacco industry plaintiffs to file suit against the EPA in federal court. The suit seeks an injunction to compel the agency to withdraw its classification of environmental tobacco smoke (ETS) as a "carcinogen." The claim is based on the flawed science and inappropriate manipulation of data employed by the EPA in preparing its risk assessment on ETS. Currently, PM and the other plaintiffs are awaiting a ruling by the court on the EPA's motion to dismiss the lawsuit based on a number of technical arguments that do not address the merits of the case. The action cannot proceed further until these issues are resolved.
- The San Francisco Suit. A group of businesses, including Philip Morris, has filed suit against the City and County of San Francisco, asking that the recently enacted San Francisco smoking ordinance be declared invalid. The ordinance bans smoking in enclosed workplaces and the ban will be extended to restaurants in January 1995. The lawsuit charges that the San Francisco ordinance is preempted by state and federal occupational safety and health laws, and that the ordinance violates provisions of the California constitution by exceeding local authority and denying

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plaintiffs due process. After the initial filing, several new plaintiffs asked to be and were added to the suit. A response has been filed, and the suit is moving forward.

• The "Day One" Suit. On March 24, 1994 Philip Morris initiated a libel suit against ABC Television. In the complaint Philip Morris charges that ABC knowingly made a number of false allegations against Philip Morris on the ABC news program "Day One" and on some of the network's other news programs, and that both Philip Morris Companies Inc. and Philip Morris U.S.A. have been damaged by the false and defamatory statements made by ABC. Philip Morris is seeking \$5 billion in compensatory damages and \$5 billion in punitive damages from ABC. ABC has asked for an extension to answer the allegations of the law suit. ABC has not yet filed a response.

ISSUES BULLETIN: EPA REPORT
BLASTED BY CONGRESSIONAL RESEARCHERS

The Congressional Research Service (CRS), an independent research arm of Congress, has sharply criticized the U.S. Environmental Protection Agency's (EPA's) report on environmental tobacco smoke.

In testimony before Congress on May 11, Dr. Jane G. Gravelle, senior specialist in economic policy, said, "The statistical evidence does not appear to support a conclusion that there are substantial health effects from passive smoking."

Gravelle's comments were reported by several members of the national news media, including USA Today, the Washington Times and Reuters. This conclusion by CRS gives direct support to PM's contention, in its law suit against the EPA, that the agency's branding of ETS as a serious health risk was not supported by the data

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ISSUES '94: CONCLUSION

It is clear that the organized anti-smoking movement has intensified its efforts in 1994, resulting in increased activity by government and greater exposure in the media. In

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this special edition of the Globe, we have outlined some of the elements of PM USA's response. These include strategies to neutralize the efforts of the anti-smokers and pro-active programs to advance the interests of our company and the 50 million Americans who choose to smoke.

Tobacco has been a controversial product throughout its long history. Philip Morris has prevailed in the past and the company is confident of the short-term and long-term prospects for Philip Morris's tobacco operations in the years ahead.

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