

09:02am EST 8-Nov-94 Dean Witter (LAWRENCE & DAVID ADELMAN) MO RN UST
DWR PREVIEWS KEY TOBACCO ELECTION DAY ISSUES

Tobacco Industry
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November 8, 1994

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*** INVEST OPINION: WE REMAIN NEUTRAL ON RN AND UST AND ACCUMULATE ON MO**
Over the last two years, the legislative, judicial, and regulatory environment confronting the domestic tobacco industry has become increasingly difficult and has led to our relatively cautious industry outlook. As tobacco issues have become more politicized, election outcomes -- and subsequent tobacco policy implications -- are likely to become increasingly important to the industry.

Since the election of President Clinton, there has been a significant negative shift in Washington's legislative/regulatory attitude towards the industry. This, combined with a well above normal level of tobacco-related issues currently outstanding (class-action lawsuits; state Medicare/Medicaid suits; EPA findings that second-hand smoke is a human carcinogen; OSHA's discussions of workplace smoking restrictions; FDA's investigations of alleged nicotine manipulation and addiction, excise taxes, health-care reform, and so on) makes the outcome of today's election particularly important. Overall, we believe that election developments could be positive for the tobacco industry; the magnitude of the victory for the industry is the uncertain issue. Below, we review the key election issues as related to the tobacco industry:

*** REPUBLICAN POWER IN THE HOUSE AND SENATE STANDS TO INCREASE**

It is extremely likely that the Republican party gains seats in both houses of Congress, as has been widely reported in the press. This should strengthen the legislative power of the Republican party, and likely make it more difficult for the President to pass health-care reform legislation (similar in scope to last year's proposal) during the second-half of his term. Insofar as excise taxes are likely to be an element of health-care reform legislation, anything that would potentially make the passage of a "Clinton"-styled health-care bill more difficult, is a net positive for the tobacco industry.

*** POTENTIAL REPUBLICAN MAJORITY CONTROL OF SENATE AND/OR HOUSE**

Political pundits generally believe that there is a 40-60% probability that the Republicans can gain control of the Senate (seven seat pick-up necessary), and a somewhat smaller likelihood that Republicans can gain control of the House (40 seat pick-up is necessary). The ruling party in each chamber determines the respective chairmanships of all Congressional committees and subcommittees. Therefore, for example, if the Republicans were to gain majority control of the House, Representative Waxman (D-Calif.), who is among the most visible anti-tobacco legislators, would no longer be Chairman of the House Energy and Commerce Committee's Subcommittee on Health and the Environment. If the Republicans were to gain control of the Senate, Sen. Moynihan (D-N.Y.), who has proposed significant increases in federal excise taxes, would lose the chairmanship of the powerful Senate Finance Committee.

*** AMONG GUBERNATORIAL ELECTIONS, FLORIDA RACE IS IMPORTANT**

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In Florida, Jeb Bush, the Republican candidate for governor, is running against Gov. Lawton Chiles. Gov. Chiles approved a bill that allows the state to sue the tobacco industry under extremely favorable conditions (this legislation has been appealed). Gov. Chiles has indicated that he wants to "snuff out the Marlboro man."

SEVERAL STATE TOBACCO EXCISE TAX INCREASES ARE ON THE BALLOT, INCLUDING

1) CALIFORNIA -- Proposition 186 would raise the state per-pack cigarette excise tax by \$1.00, to \$1.37 from \$0.37, effective January 1, 1996. The proposed excise tax increase is one element of an overall comprehensive health-care reform program. Also on the ballot in California is proposition 188, which has been supported by the tobacco, hotel and restaurant industries. Proposition 188 would set state-wide standards on smoking restrictions.

2) ARIZONA -- Proposition 200 would raise the per-pack cigarette tax by \$0.40, to \$0.58 from \$0.18. Funds are expected to be put toward health-care programs and tobacco-related education.

3) COLORADO -- Amendment 1 would raise the state per-pack cigarette excise tax by \$0.50 per pack, to \$0.70 from \$0.20.

Companies mentioned:

Philip Morris (MO, Accumulate, \$59 1/2, o)

R Nabisco (RN, Neutral, \$5 5/8, m,c)

UST Inc. (UST, Neutral, \$26 3/4, o)

(m) Dean Witter Reynolds Inc. makes a market in this security.

END OF NOTE

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