



The Philip Morris **GLOBE**

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A PMGLOBE special edition

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Intercompany group

Tobacco issues task force formed for quick response and strategic planning

★ ISSUES '94 ★

This special edition of PMGLOBE 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 U.S. 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, proactive strategic planning on tobacco issues.

The task force, an intercompany group headed by Parrish, is now in place and operational. It consults with representatives from various functional groups—including PM USA corporate affairs, Philip Morris Companies Inc. corporate affairs, worldwide regulatory affairs, PM International, legal, and the Washington Relations Office—and reports directly to Geoff Bible, president and CEO, PM Companies Inc.

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 inaccurate and rushed release of part of that list 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 matter of days, 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 quick action, the whole issue was quickly put in a more balanced perspective.

The task force increases the speed, flexibility, and long-range planning capability of the company in managing issues relating to tobacco manufacturing and tobacco science.

CHALLENGE '94

An overview of U.S. tobacco issues

Following is a roundup of some of the most prominent issues being addressed by Philip Morris U.S.A. 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 U.S.A. is part of a broad coalition of business organizations and consumers that opposes any increase in the FET. Tens of thousands of letters from voters and strong messages from members of Congress opposing unfair tax increases have been delivered to the White House. Coalition actions will continue to oppose unfair tax increases, as various tax proposals advance.

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

RESPONSE: Philip Morris U.S.A. cooperated fully with the FDA, but it is PM USA's position that cigarettes do not appropriately fall under FDA jurisdiction because cigarettes are neither a "food" nor a "drug." 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 U.S.A. "manipulates" the nicotine content of its cigarettes.

ISSUE: The U.S. Occupational Safety and Health Administration (OSHA) is considering a regulation that would restrict

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smoking in all workplaces except those providing enclosed smoking rooms with special ventilation.

RESPONSE: The rational alternative to severe smoking restrictions is accommodation, and Philip Morris U.S.A. will continue to implement **The Accommodation Program** nationally (see below), while proceeding with other efforts to ensure that the preferences of both smokers and nonsmokers are addressed. In the meantime, PM USA has provided OSHA with information bearing on the issue of workplace smoking restrictions, and has encouraged all interested parties to file their concerns with OSHA during the public comment period on the regulations, which continues until August 13 of this year.

ISSUE: Mike Wallace, on CBS-TV's popular weekly 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.

RESPONSE: These allegations are untrue. Philip Morris U.S.A. does not now have, nor has it ever had, the capability to manufacture a "fire-safe" cigarette. PM USA 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.

ISSUE: The ABC-TV news program Day One, in addition to charging that the tobacco industry "spikes" its cigarettes with nicotine (also see p. 3), 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," class-action lawsuits have been filed against Philip Morris U.S.A. and other cigarette manufacturers.

RESPONSE: Addiction claims have been made and rejected in previous product liability suits brought against Philip Morris U.S.A. 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, nicotine in cigarettes has gone down dramatically over the past four decades, driven by 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 U.S.A. and the U.S. tobacco industry. PM USA is confident of its ability to address these issues and to participate proudly and profitably in the U.S. tobacco business for many years to come.

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 nonsmokers 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% of the respondents favored accommodation in restaurants, 67% supported accommodation in workplaces, and 78% called for smokers and nonsmokers 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 Accommodation Program** is 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 nonsmokers is the standard throughout the country."

ISSUE: Antismoking extremism in government and the media

RESPONSE: *In the past several months, Philip Morris U.S.A. has been a party to lawsuits initiated against the Environmental Protection Agency (EPA), the City of San Francisco, and the ABC-TV news program Day One. Following is a brief summary and status report on each action.*

The EPA suit

PM USA 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 USA 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 PM USA, 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 plaintiffs due process. After the initial filing, several new plaintiffs asked to be 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 Companies Inc. and Philip Morris U.S.A. initiated a libel suit against ABC-TV. The complaint charges that

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: Calif.), and were sharply questioned by anti-smoking members of the panel. The following excerpts are from letters received by Bill Campbell, PM USA president and CEO, 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.

—C.H., Kentucky

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

—V.B., Illinois

I am a nonsmoker, 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.

—C.Y., 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.

—E.S., 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 antismoking members of the committee has given rebirth to the term "McCarthyism." The arrogance shown by you and the other anti-smoking members of the committee is repugnant.

—R.S., New Jersey

Each of you are to be commended for the very professional way you handled the scrutiny of those across from you during last week's hearings. I watched the replay on C-span and could not believe the animosity with which your questioners sought answers.

—T.F., 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 hardworking tobacco farmers and your firm continues in that fine tradition.

—J.E., Connecticut

ABC knowingly made a number of false allegations 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 PM USA have been damaged by the false and defamatory statements made by ABC. The plaintiffs are 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 lawsuit. ABC has not yet filed a response.

RESPONDING TO ISSUES

When PM talks to the press

PM spokespersons answer questions from the press regularly, and the number of interviews has increased in recent months with so many issues about the tobacco industry being discussed in the media. But employees still want to know why apparent opportunities are turned down, and what criteria are used for accepting or rejecting press interviews about the company's tobacco operations.

These questions were asked of those who serve as PM spokespersons—Steve Parrish, general counsel and senior vice president, external affairs, and Ellen Merlo, vice president, corporate affairs, both PM USA; and Barry Holt, vice president, corporate communications, PM Companies Inc.

Parrish: I guess it's a matter of calling our shots. I've appeared on major TV news shows and have done print interviews when news was breaking on high-profile issues like the EPA's report on ETS, our filing a lawsuit against ABC, and so on.

Holt: But we've chosen not to appear on shows like *60 Minutes* for some very compelling reasons. These kinds of shows thrive on controversy and "exposés." A correspondent might tape hours of interviews with us. But that material can be edited down to a few seconds, and what we've said can be grossly distorted. We prefer not to participate in shows that create distortions about the tobacco business in order to increase the controversies and the size

of their viewing audience. Whether or not to do an interview comes down to a matter of judgment, based on your knowledge of the interviewer and the organization he or she represents.

Merlo: We'll consider an interview if we think there's at least some chance that we will be dealt with fairly. Recently, we decided to go ahead and provide access for a writer to interview PM USA executives for a cover story in the *New York Times Magazine*. We knew there was a risk involved, but the risk we took was calculated. We had spoken to the writer ahead of time, and we were somewhat confident that his treatment would be balanced. And, in fact, most people who read the final piece agreed that it was more balanced than most of the stories that have been done on tobacco executives in the past.

Parrish: We will continue to be proactive with the press, to seek opportunities to get our messages across, knowing that we take a risk every time we accept an interview. In dealing with the press, the important thing is to stick to the message points that we want to deliver, while never forgetting that everything is on the record. So, to go back to what I said at the beginning, we call our shots. We're accessible, but we're also selective about the media we approach with our side of the issues. We choose not to appear on shows where we expect to get sandbagged or where the currency is emotion, zealotry, and confrontation. We welcome opportunities where we can discuss the issues rationally and calmly.

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 poli-

cy, 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 USA's contention, in its lawsuit against the EPA, that the agency's branding of ETS as a serious health risk was not supported by the data.

CONCLUSION

It is clear that the organized antismoking movement has intensified its efforts in 1994, resulting in increased activity by government and greater exposure in the media. In this special edition of PMGLOBE, we have outlined some of the elements of PM USA's response. These include proactive strategies 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. The industry has prevailed in the past, and Philip Morris management is confident of the short-term and long-term prospects both for the industry and for Philip Morris in the years ahead.

THE PHILIP MORRIS GLOBE EXTRA is a special publication of THE PHILIP MORRIS GLOBE.

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