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To: Michael A. Miles

Date: April 26, 1994

From: Craig L. Fuller

Subject: March Monthly Report

**Health Care Reform/Federal Excise Tax**

- We continued our behind-the-scenes efforts with anti-tax groups, like Citizens For A Sound Economy, to oppose the Clinton plan and other health care proposals that require extensive new taxes. They are focusing on "swing" democrats on the House Energy and Commerce Committee and are targeting them with grassroots communications, public education efforts, and radio, TV, and print advertising.
- Worked with PM USA to organize the employees' rally in Washington. The WRO staff was responsible for Senators Ford, Robb, Warner and Reps. Sisisky, Hefner, Payne and Bliley speaking to the rally at the U.S. Capitol.
- Our Public Affairs group distributed a mat release to Hispanic papers with Dick Mayer's and John Bowlin's remarks made at MAGA in early March; distributed a US Hispanic Chamber of Commerce Board resolution opposing FET increases; made other efforts with the ethnic media; secured legal and National Newspaper Association approval for third-party ad placements in NNA member publications, and met with West Coast-based groups that are planning an anti-FET seminar in the San Francisco Bay area.
- Proactively leveraging contacts in the research and public policy arenas and the media to influence policymakers and public opinion, and working with prominent economists in the presentation of remarks at a variety of fora.
- During the mark-up of health care reform, the House Ways and Means Subcommittee on Health considered an amendment by Rep. Andrews (D-TX) to increase the federal excise taxes on cigarettes by \$2.00 per pack. The WRO met with tobacco state representatives, Ways and Means Committee Chairman Rostenkowski (D-IL), and other senior tax committee members to lobby against this proposal. The Health Subcommittee rejected the Andrews amendment by a vote of 6-5. Later in the mark-up, the Health Subcommittee did adopt an amendment to raise the federal excise tax on cigarettes by \$1.25 per pack. Chairman Rostenkowski has indicated publicly that the \$1.25 tax increase would not be part of the revenue provisions that he will propose to the full committee.

**Tobacco Regulation**

- Effective April 8, 1994, the Department of Defense implemented a revised smoking policy that bans smoking in all domestic and overseas military facilities by both uniformed and civilian defense personnel. Rep. Martin Lancaster (D-NC), a senior member of the House Armed Services Committee, has requested a Congressional Budget Office analysis of the costs of implementing the new DoD smoking directive as a hoped for justification for corrective action on this year's DoD authorization bill. While the new policy does not address tobacco sales, there are reports that the DoD is considering additional policy changes which could increase the surcharge on cigarette sales in commissaries. If Congress were to disallow that change, DoD is reported to be considering a ban on cigarette sales in commissaries.

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- The House Energy and Commerce's Subcommittee on Health received testimony from FDA Commissioner Kessler concerning the alleged "addictiveness" of nicotine. Kessler also sought Congress' "guidance" on whether FDA should regulate nicotine in tobacco products as a "drug". The WRO worked with PM's Legal Department in preparing Energy and Commerce Committee Members on this issue. The WRO and the Legal Department assisted Rep. Bliley (R-VA) in preparing a letter to Kessler demanding that the FDA provide Bliley with "evidence" regarding Kessler's claim that cigarette manufacturers add and/or manipulate nicotine in their products.
- At the request of the WRO, Senators Warner (R-VA) and Robb (D-VA) and Reps. Scott (D-VA) and Bliley (R-VA) sent a letter to the GAO inviting them to inspect our Richmond facility to determine for themselves whether PM-USA adds and/or manipulates nicotine levels in our products. This is in response to a request by Senator Kennedy (D-MA) for an expedited GAO investigation of such claims. Kennedy's Senate Labor and Human Resources Committee is expected to hold hearings shortly after receipt of the GAO report.
- Briefed key Members of Congress with respect to the \$10 billion lawsuit filed against ABC. Sent briefing materials and responded to inquiries from tobacco members and their staffs concerning the suit.

#### **Leaf Issues**

- On behalf of PM-USA, the WRO completed and filed comments on an advanced notice of proposed rule making requiring detailed tobacco export information to the USDA. This rule making was required by Section 1557 of the Food, Agriculture, Conservation and Trade Act of 1990. Our goal is to ensure that the final reporting requirements do not threaten the confidentiality of our blend formulations or create unnecessary compliance costs.
- Continues to advise Sen. Ford (D-KY), Rep. Rose (D-NC) and Rep. Payne (D-VA) on alternative GATT-legal strategies to limit leaf imports to ensure the viability of domestic tobacco production due to the probability of congressional repeal of "75/25" requirements. They have requested that the USTR invoke Article 28 of GATT which allows a country to raise a tariff to a trading partner as long as it simultaneously begins talks on compensating the trading partner through other trade-related activities. Under such an action, the US would announce a "tariff rate quota" for tobacco from major tobacco exporting countries requiring the imposition of prohibitively high tariff for shipments beyond a certain volume.
- The WRO participated in a joint meeting of the Virginia Farm Bureau and other Virginia tobacco organizations including the agri-business sector to coordinate grassroots effort to oppose excise tax increases and other tobacco issues.

#### **FTC Reauthorization Bill**

- The WRO is working with House and Senate conferees to codify restrictions on the FTC's authority against commercial advertising. The WRO is working with a coalition of other national advertisers, the advertising trade associations, and the principal advertising agencies, utilized by PM Companies, to statutorily define the term "unfairness" in order to provide reasonable protections for national advertisers.

#### **China MFN Debate**

- It appears that the Clinton Administration continues to link progress in human rights to the extension of most-favored-nation tariff treatment for imports from the People's Republic of China. A Cabinet Meeting on the subject aired differences between Treasury Secretary Bentsen and Commerce Secretary Brown, who favor de-linking MFN, and Secretary of State Christopher who favors the continued linking of MFN and human rights. Administration's policy continues despite Christopher's acknowledgment that PRC has made the same progress in these areas that could qualify for lower duty rates than MFN grants to imports.

In GATT meetings in Geneva, the US gained approval from other countries that if the PRC should join GATT, the US would not be required to accord the PRC most-favored-nation treatment. This allows the US additional flexibility in addressing the human rights issue while removing the obstacle to the PRC's entry into GATT.

#### **ETS/Environmental Issues**

- Working with representatives of organized labor, the WRO was successful in amending Senator Lautenberg's "Pro-Kids" smoking ban legislation as part of a conference on the Education 2000 bill. Although smoking in federally funded schools and day care centers would be banned, the Conference Agreement deleted the EPA's regulatory authority over smoking in these facilities.
- Rep. Henry Waxman (D-CA) was forced twice to postpone mark-up of his Smoke Free Environment Act after he was unable to secure a majority of votes in favor of the proposal in his subcommittee. The WRO continues to work with and develop a coalition of the tobacco industry, the restaurants the hotel/motel industry, and labor unions representing tobacco, food and service workers against the Waxman proposal. On March 25, OSHA announced a new proposal on IAQ and ETS. If adopted, this proposal would be a defacto smoking ban. The WRO and its coalition has already begun efforts to modify the OSHA proposal.
- Working with Accuracy in Media (AIM) in the development of a show for presentation on the National Empowerment Television (NET) cable/satellite network concerning passive smoking, reflecting points of view consistent with our own.
- Initiated a strategy to use European based policy groups to address the importance of using sound science in guiding environmental regulations. The strategy will help generate the need for scientific rules to judge environmental hazards for policy makers. Application of the scientific rules to the available studies on ETS would demonstrate that ETS should not be classified as a human carcinogen.
- Initiated conservative media interest in proposed legislation on smoking bans as well as the Surgeon General's report on smoking. As a result, syndicated columns that were critical of the government's actions were published. Additionally, a new conservative TV network covered these recent issues including a show called Direct Line featuring Steve Parrish.

#### **Clean Water Act Reauthorization**

- The Senate Environment and Public Works Committee reported its version of the Clean Water Act Reauthorization. The Senate bill imposes new water quality standards, industrial process restrictions, and limitations on laboratory wastes. The full Senate is expected to consider this bill later this spring. Rep. Norman Mineta (D-CA) and Rep. Sherwood Boehlert (R-NY) have introduced a House version of the Clean Water Act Reauthorization. While more limited in scope than the Senate bill, the House bill proposes new standards for water effluents and treatment of toxic wastes. The WRO is working with other food industry groups in developing food safety amendments to both the House and Senate bills.

#### **Food Issues/Safety Reform**

- Rep. Waxman (D-CA) has introduced "The Pesticide Reform Act of 1994. Supported by the environmental community, it is intended to be a marker to the "left" of the Administration's proposal. The Waxman bill permits EPA to set separate tolerances for pesticide residues at the harvest, after food processing, and at the point of retail sale. The bill places greater emphasis on children's exposure to pesticides which would create more stringent residue standards. In a related development, House Agriculture Subcommittee On Department Operations and Nutrition Chairman Charlie Stenholm (D-TX) has announced his intention to mark-up the industry supported food safety bill as part of the reauthorization of the Federal Insecticide, Fungicide, Rodenticide Act.

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### **Meat and Poultry Inspection**

- At the request of consumer groups, the U.S. Department of Agriculture's Food Safety and Inspection Service conducted its Hazard Analysis Critical Control Points (HACCP) Roundtable on March 30-31. Industry groups -- producers and farmers, meat and poultry industry, consumers, scientists, professional scientific organizations, public health officials, and state and local governments -- were asked to discuss the potential of HACCP systems for improving the safety of the nation's meat and poultry supply. The public record established at the Roundtable will influence the USDA's efforts to develop a modern, more scientifically based meat and poultry inspection system. KGF is leading efforts to ensure coordinated participation in the Roundtable by food industry representatives.

### **Edible Oils**

- The Oil Pollution Act of 1990 requires the development of oil spill response plans. Last fall, the Department of Transportation's Research and Special Programs Administration (RSPA) established different oil spill planning requirements for edible oils. The U.S. Coast Guard and the EPA are pressuring RSPA to revise its earlier decision which differentiates edible oil from other oils. If RSPA is forced to reverse its position, the shipping of vegetable and other edible oils would face significant new compliance requirements. KGF and other food interests are working to retain the RSPA position.

### **Commodities**

- Participating in KGF Commodities Working Group with representatives from WRO, KGF Corporate, KUSA, GF USA, KGF Canada, OM and MBC. The goal is the identification of those key agricultural commodities, in the context of NAFTA, GATT and the 1995 Farm Bill that could be affected by legislation/regulation/treaties, and how we might best be able to influence policy. Leveraging policy groups and media contacts in this effort.

### **Beer Issues**

- The WRO and Miller responded to a letter received from Rep. Dick Durbin (D-IL) which raised a number of questions regarding the marketing of ice beers and the display of alcohol strength on promotional materials and packaging. In order to allay concerns in this area, Miller has decided not to feature alcohol content on our advertising or secondary packaging.

### **Constituency Building/Sponsorships**

We sponsored or supported: National Newspaper Association annual legislative conference; National League of Cities annual Congressional conference; New York Chamber of Commerce & Industry, Women's Business Council, annual Women's History Month award reception; Joint Center for Political and Economic Studies, "President's Reception"; National Association of Black Owned Broadcasters annual dinner; Annual Legislative Weekend, *Somos el Futuro*, Albany, NY; Congressional Recognition Dinner, U.S. Hispanic Chamber of Commerce; Mexican American Grocers Association (MAGA) annual Hispanic marketing conference; Corporate Advisory Board, Caribbean American Chamber of Commerce and Industry, breakfast meeting at PM headquarters; Publication and distribution of proceedings of Congressional Hispanic Caucus Institute Issues Conference; Hispanic Association on Corporate Responsibility seminars on corporate America's relations with Hispanics.

### **Cultural Affairs**

- Working on PM events at the Kennedy Center in conjunction with the Dance Theatre of Harlem; received Cine Golden Eagle Award for the film, *Diverse Roots/Diverse Forms*; sponsored a reception around the opening of Contemporary Crafts and the Saxe Collection exhibition at the Newport Harbor Art Museum.

### **Corporate Contributions**

- Made joint PM/Miller grants totaling \$100,000 to four Wisconsin anti-hunger organizations which were announced by Governor Thompson at a press conference in Milwaukee.

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### Political Action Committee

- Secured approval of the solicitation letters from W. Campbell, J. MacDonough and you. Board of Directors were solicited at the March Board meeting. Received approval of KGF solicitation letter from Dick Mayer's office; so KGF employees will be solicited in early May. It will be preceded by a KGF PAC mailing from Cal Collier announcing the combined solicitation under PHIL-PAC. Contacted First Chicago to make arrangements for the shareholder solicitation.

### Communications Issues

- ABC/Day One Law Suit -- Assisted in strategy development and implementation of press activities surrounding this event. Alerted key New York media of satellite event in our offices and assisted in providing information for stories.
- Wall Street Journal -- Miller story still in the works. Slowed down considerably by events surrounding tobacco business that reporter is writing about almost daily.
- Shapiro interviews W. Campbell, et al for what initially appeared to be a tobacco turnaround piece. Events changed that to a story on issues facing the industry in Washington and how lobbying activities have changed and might not be as effective as under prior administrations.
- New York Times -- Numerous discussion held regarding possible story about nicotine research and relationship to former researcher A. Malik. Conveyed that this research was not killed but was on going. Reporter will check sources again but still wants to do story. Convinced him that we were all busy (before hearings) and were not available for interviews. (We did not want a story before the hearings). He agreed to put it off for a couple of weeks.
- Talked to D. Dangoor and G. Bible about participating in story about tobacco in E. Europe and former Soviet Union. Urged cooperation. Bible agrees and we arrange for A. Gembler to talk to reporter. Story generally positive for us.
- CBS -- 48 Hours -- Talked to producer. She says Miller/ Fulton plant show tentatively to air on April 27. She will call me when it is locked into the schedule.
- NY Times Magazine -- Story appears on March 20. Almost all of our daily media contacts think it is quite good for us. Get calls from suppliers, consultants, etc. who all feel the same.
- Quarterly Earnings Release -- Circulating drafted release.
- Proxy Statement -- Handled press calls on statement from WSJ, Bloomberg, Reuters (mainly on compensation for senior executives).
- CBS --60 Minutes -- Assisted U.S. in strategy development on show about "Fire Safe" and handling of press calls after show.
- Annual Meeting -- Press and presentation logistics continue. Rehearsal sessions underway. Preparing video for opening session.
- INFACT -- Confirmation that they will be present at Annual Meeting by presenting one of the shareholder proposals. We draw up contingency plan and share with management. So far we received over 8,000 postcards.
- Tokyo Analyst Presentation -- Assist H. Storr in presentation preparation and media interviews.