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Issues Review
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[SLIDE: PM Crest]

Defeating the FET -- remains one of our key objectives for 1994. I'd like to fill you in on the grassroots campaign we've implemented on the state level to oppose the tax.

Then I'll quickly review the current state excise tax situation. Finally, I'll review a couple of the tools we're using to foster a more hospitable social environment for smokers.

[WORD SLIDE: FET Campaign steps]

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Because defeating the FET has taken on the proportions of a political campaign, we're treating it as one. Many of the people in this room played a key role in helping us formulate the strategy and tactics I am about to discuss.

Then, with the help of the Washington Relations office, we identified the 35 key committee members on the Senate Finance, House Ways and Means, and House Rules committees who will be vital to our success.

Then we hired a campaign manager and proceeded to build a field organization. We divided the U.S. into ten regions that cover the home districts of the Congressional Committee members identified as pivotal players.

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Each region is managed by an FET manager. A FET Field Operative has been assigned to each of the 35 Congressional committee members.

This structure of 10 field managers and 35 field operatives assures a virtual one-on-one relationship with each of the crucial Congressional committee members.

Finally, we've hired former GOP National Chairman Rich Bond and his company to coordinate our grassroots effort.

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Rich is, in effect, our Campaign Manager. The FET Managers and Field Operatives he is working with are local to their regions and each is tailoring an individual program to influence the vote of his or her congressional member. I'd like to point out that many of the field operatives are from the Sales Force and they are doing an absolutely fantastic job.

At the same time, Bond's company is using every contact and resource at its and our disposal to get hard, specific information to these legislators, beginning with very detailed information that we have provided on the economic impact of tobacco in each of the congressional districts on which we are focusing.

[SLIDE: Letterheads of constituency groups.]

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On other fronts, we are building coalitions with business and trade organizations, as well as with consumer, smoker and anti-tax groups to help generate opposition to the FET that is broad, deep and tightly-coordinated.

In addition, we have organized our own PM suppliers. Last January we held two FET conferences with hundreds of the companies that supply PM USA with goods and services, educating them to the threat to their businesses, should there be an FET increase, and enlisting their support and the support of their employees, customers and suppliers. To date, the response has far exceeded our expectations.

[SLIDE: PM Poster -- Beat FET Week]

Our own employees are also playing a crucial role. For the first time ever, all PM employees at every operating company are being mobilized to take a stand on this critical issue.

To that end, Mike Miles declared the week of March 21-25 Beat FET Week. PM USA Corporate Affairs personnel fanned out across the country, visiting a total of 62 major KGF and Miller facilities.

[SLIDE: Shot of employees at FET Week]

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We provided our colleagues in the other operating companies with FET information and urged them to register their opposition with their representatives by writing letters and signing petitions. The response was overwhelmingly positive, especially from some of the food people.

[SLIDE: March on Washington -- PM employees]

PM USA employees have been especially active. And we've joined forces on this issue with our colleagues at the other tobacco companies.

The March 9th Rally in Washington drew nearly 20,000 tobacco workers, the majority of them PM USA employees.

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[SLIDE: March on Washington, RJR employees]

In organizing the rally, we worked closely with the grower community in the tobacco belt, with suppliers and with RJR and other companies in the industry.

[SLIDE: Shot of MB hat & catalog, with issues insert on top, going into mailer]

We are also mobilizing support among consumers. Consumers who respond to any of our brand promotions receive an insert in their fulfillment packages asking them to join the fight against the FET.

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So far, more than 400,000 consumers have responded, and the program has generated some 100,000 letters to Capitol Hill -- over 10,000 letters a month.

[SLIDE: "It's The Law" materials]

To bring the issue home to our retailers, we are conducting seminars on youth and crime issues, and during these seminars we alert retailers to the fact that high excise taxes make their cigarette inventory more attractive to thieves.

We point to the sharp increase in crime in Canada as an example of the consequences of punitive taxation on tobacco products.

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Our grassroots efforts are putting consistent pressure on the Members of Congress. We don't intend to back off until the battle is won.

[WORD SLIDE State Excise Taxes: Environment -- Increasingly Hostile.]

Now let me move on to state excise taxes. At the state level, like the federal level, the socio-political environment is increasingly hostile.

For many states with budget shortfalls, tobacco taxes are seen as a no-pain, quick-fix solution to fiscal crises.

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In some states, there are proposals for new programs and projects -- everything from breast cancer research and state health care programs to education and youth violence programs -- all seeking funding by increasing taxes on tobacco.

Moreover, the proposed federal increase has prompted some states to attempt to rush through an increase of their own first.

[WORD SLIDE State Excise Taxes: Objective -- Defeat taxes / minimize increases]

Needless to say, defeating state excise taxes is one of our ongoing core objectives. If we can't defeat them outright, our goal is to minimize increases in any way that we can.

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[SLIDE: Map of states with tax threats]

This is the current state excise tax picture. Green indicates where we've defeated a proposed tax. Red signifies states where a tax increase has been enacted. Yellow shows those states where tax proposals are still pending.

We have already won 18 tax battles this year, ranging from defeating a 25¢ a pack proposal in Florida to 8¢ in Wyoming — and as you can see — many in between.

At present, we've sustained losses in Michigan and Idaho.

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In Michigan, the March 15 voter referendum authored by Governor Engler resulted in a 50 cent per pack increase, to fund education.

In Idaho, a ten-cent increase takes effect in July of this year, raising the tax from 18 to 28 cents per pack.

[SLIDE: 1994 State Tax Outlook]

There are 17 states where tax increases remain a possibility because legislatures are still in session and tax bills are still active, or where upcoming special sessions or voter referendums could lead to an increase.

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In the seven states highlighted in yellow, we are reasonably confident that we'll succeed in preventing any tax increases.

Arizona is no longer in session, but there is the possibility of a ballot initiative in that state to raise the tax by 40 cents per pack to pay for health care for the indigent and other programs.

In the three states shaded in orange -- California, Oklahoma and Colorado -- there is a threat of a tax increase, but it's a mild threat. We are closely monitoring Colorado, however, because petitions are being circulated to put a 50-cent tax increase on the November ballot.

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In the remaining seven states, highlighted in red, we face difficult uphill battles. They are:

- o Alaska, where we face a possible 14.5 cent per pack increase;
- o Washington, where a 7.5 cent per pack increase, to take effect in 1995, was actually passed and signed by the Governor, but still needs to be approved by the voters in November;
- o Minnesota, where there is a 5 cent proposal to fund health care;
- o New Jersey, a 12 cent proposed increase to alleviate that state's budget deficit;

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- o Pennsylvania, where a 9 cent increase is under review for the same purpose;
- o Rhode Island, 7 cents to fund education and property tax relief; and
- o Vermont, where the proposal is to raise the tax by 10 cents a year over four years to pay for health care reform.

In my remaining time I'd like to quickly list some of the tools we're using to defeat excise taxes and create a more favorable atmosphere for our consumers.

We are using these tools in our grassroots effort on the FET, and adapting them for use at the state level in specific state tax battles.

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[SLIDE: Massachusetts geo-political map]

Economic impact and Geo-political studies. We commission economic impact studies relating to the tobacco industry through outside organizations like Price-Waterhouse.

We then work with an organization called Policy Communications Inc., and have developed geo-political targeting information that allows us to deliver economic data in a very targeted and effective manner.

We are able to identify for state and federal legislators exactly how a tax or restriction could affect the voters in their home districts in terms of job loss, lost tax revenues, and resulting economic burden.

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[SLIDE: Boston area geo-political map]

Our data are so finely tuned that we can, and do, literally, list for a state legislator the individual businesses in his or her district -- often political supporters of the legislator -- and give an accurate assessment of just how many jobs will be lost, and the economic impact to that legislator's constituency.

We can go so far as naming the companies that will suffer. It puts a very human face on the issue for the legislator.

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Coalition Building We form coalitions around every issue. The allies we draw on include smokers, wholesalers, retailers, labor unions, farmers and trade associations.

[SLIDE: Shot of "Straight Talk" information folder from Vendor Meetings]

As I mentioned when discussing our grassroots FET efforts, we also involve the companies that supply Philip Morris with goods and services, as well as PM USA employees, the employees of other PM operating companies and, where we share mutual interests, RJR and others in the industry.

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The coalitions we form also draw on other third party sources including business organizations such as local and state Chambers of Commerce, newspaper publishers, advertising trade associations, think tanks and foundations, and special issues groups such as Citizens for Tax Justice.

[SLIDE: NSA advertisement]

National Smokers Alliance. If we are to be effective in inflicting political and economic pain on those who would ban smoking from society, smokers themselves must become organized and speak with a unified voice.

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The National Smokers Alliance, a new smokers rights organization which we funded to help get started, is intended to do just that. NSA is mobilizing members of our core constituency -- the 50 million adult Americans who choose to smoke.

NSA is potentially one of the most powerful tools we'll have available for fighting anti-smoking initiatives on all levels. This organization could provide smokers the kind of voice and clout that AARP does for retired people.

Rapid deployment on tax ballot initiatives and referendums. We are now convinced -- Michigan was a very tough and instructive example -- that once tax increase initiatives make it to the ballot, they are almost impossible to defeat.

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Therefore, we are taking a new approach by investing our resources at the petition stage and thus preventing the initiative from ever making it to the ballot.

[WORD SLIDE -- Strategy: Defeat Referendums and Initiatives Before They Get On The Ballot]

We were successful with this strategy in Oregon this year where petitions were circulated by the Oregon Medical Association for a ballot initiative to increase the tax on cigarettes by 25 cents per pack to pay for the Oregon Health plan, anti-smoking education and fund the state General Fund.

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When they met stiff resistance from a coalition of which we were a part, the medical groups circulating the petitions withdrew them, saying publicly that it wasn't worth the fight, and the tax threat evaporated.

We're employing that same strategy in Arizona now, where a few petitions are being circulated for the ballot initiative I mentioned earlier.

As this battle heats up, we are ready and able to put representatives in the field who will shadow petition signature gatherers for the initiative, and hand out anti-tax pamphlets, saying, "Read this before you sign the petition."

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And we're extending the technique to the other states where initiative petition drives threaten to develop.

Communications. As important as these tools are in defending our business, they would not be effective if we didn't communicate our messages to our core audiences -- consumers, employees, legislators, the business community, the media and the general public.

[SLIDE: Array of newspaper headlines]

We have several programs that get the right message to the right audience.

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For example, when we deliver our messages through the media, we enhance our efforts with a list we've compiled of more than 200 well-known conservative and moderate journalists we can usually count on to present our issues in a fair and balanced manner. Further, we are building a database of other qualified spokespeople that can add credibility to our side of the story.

When a very fast response is called for we use video news releases and electronic media tours. Satellite links allow us to transmit messages to media all over the country instantaneously.

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For example, when Canada announced it was rolling back its tax on cigarettes because of the increase in smuggling and other crime that the tax had created, we got a video news release out immediately.

We distributed the VNR via satellite the same morning that Canada announced it was lowering the tax. Our story got play in major media markets across the country.

Obviously, we've done the same most recently when we released our ingredients list, after the Waxman hearings, when we sued ABC, etc.

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We've also created a regionalized public relations system through which we can conduct communications campaigns at the local, state or regional levels,

[SLIDE: PM USA newsletters]

And, through a series of regularly issued publications, we communicate with employees and activist smokers.

In summary, we have a grassroots FET plan in place, up and operating. And we're applying many of the same tools we're using at the federal level to state excise tax battles.

The outlook on the tax front may be harsh this year, but on balance, we expect to win far more battles than we lose.

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Finally, I would like very briefly to touch upon two of our initiatives: the Accommodation Program; and the pre-emptive anti-smoking legislation we are sponsoring in California.

[SLIDE - Accommodation Logo]

The Accommodation Program promotes Accommodation in restaurants, hotels, airports, and other public venues. Participants in the program display a green and red accommodation symbol to announce that they accommodate both their smoking and non-smoking patrons.

Today, more than 10,000 establishments and chains participate in the program nationwide, and the list continues to grow. More importantly, the program creates the underpinning for

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preemption legislation by giving us a platform and a way to communicate the economic and political benefits of Accommodation.

As many of you know, we have added a consumer and an employee component to the program.

Our new Benson & Hedges ad campaign features the Accommodation Program 800 number. And all PM USA employees have received Accommodation Program fact books and materials for promoting the Program at the establishments they frequent.

— PAUSE —

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In California, in order to avoid even more onerous restrictions, we are attempting to pass state-wide smoking legislation that would pre-empt local laws and allow smoking in restaurants, workplaces and other public venues, either in the legislature or through ballot initiative.

We are currently working with hotels, restaurants and other industries to gather signatures for a November ballot initiative. This initiative would give voters the chance to pass a strict but reasonable state-wide smoking restriction in California.

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Although the initiative would give California the toughest state-wide smoking law in the country, it would allow for accommodation, and it would pre-empt the growing hodge-podge of local restrictions in the state, many of which are outright smoking bans in restaurants or the workplace.

[Slide -- Map of pre-emption states]

The California initiative is part of our ongoing effort to enact pre-emptive state smoking regulations which bar localities from enacting restrictions that are more burdensome than the state law.

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This map shows what we've accomplished so far. There are now 18 states with pre-emptive smoking regulations. Those in green enacted pre-emption prior to this year. The states in yellow passed pre-emption laws in 1994.

We're pleased to be able highlight Tennessee as our newest pre-emption state. Governor Ned Ray McWherter signed the law last week, putting into effect both pre-emptive smoking and marketing legislation.

[TURN OFF PROJECTOR]

Thank you. I'll now turn things over to [name].

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