

INTEROFFICE MEMORANDUM

August 5, 1997

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of July External Relations activities and issues worldwide:

UNITED STATES

SETTLEMENT

- Continued to handle a variety of media calls concerning the settlement. Pace has slowed considerably.
- Continue to meet with key leaders of hospitality industry associations to encourage support of the tobacco industry settlement. As a group, these associations remain committed to maintaining the settlement as it was negotiated.
- At separate news conferences, Massachusetts Attorney General Scott Harshbarger and New York Attorney General Dennis Vacco strongly supported the Medicaid settlement they helped negotiate. Harshbarger warned critics that anti-tobacco infighting would scuttle the agreement.

INTERNAL COMMUNICATIONS

- Finalized contract agreement with TargetVision for the Windows-based upgrade for all areas of the company. Equipment to be ordered this month.
- Completing pre-production work on United Way video. Finalized logo and graphics for campaign, and final arrangements for solicitors' luncheon. Met with RJR company loaned executives to brief them on their duties.
- Met with Safe-day project manager in environmental affairs to discuss Safe-day communications, including video, TargetVision, other instructional materials and activities, for all operations associates.

BRAND ACTIVITIES

- National launch of new Camel ad campaign generally well-received, with focus on "death" of Joe Camel being the most widely covered aspect. Handled handful of media calls regarding a press conference held in Washington by the American Lung Association on whether the new Camel Lights ads appeal to youth.
- *Packaging Digest Magazine* has awarded Jumbos its gold medal award for design. Sedona packaging received the silver award. Magazine interviewed Melinda Simmons and official of Cornerstone, package designer for Moonlight brands.
- Arranged media training for Denny Potter to be prepared for ingredients issues that might arise as a result of Winston's No Bull proposition.
- Updated Eclipse materials to prepare for new test market locations Lincoln and Atlanta, and placing reformulated product in Chattanooga. Video and audio news releases are ready for Lincoln and Atlanta. VNR will include Iauco comments, animated cutaway of cigarette, smoke composition pie charts, pack beauty shots and manufacturing footage.

MEDIA RELATIONS

- Identified hospitality industry spokespersons for a *Washington Post* article dealing with the status of smokers in America.

ETS/ACCOMMODATION

- Made presentation to engineers and designers from Host-Marriott Corporation. Host-Marriott has requested our assistance in training their personnel regarding the best engineering and design practices for them to use in new and renovated construction.
- Meeting with Trion Corporation to continue exploring possibility of jointly developing air cleaning and filtration devices for use in hospitality locations. Discussions are also underway with brands to determine if there is potential to use these air cleaning devices in conjunction with brand-specific promotions.
- Met with representatives of a number of hospitality-oriented trade associations, including the National Restaurant Association, National Licensed Beverage Association, Nevada Resort Association, and the American Hotel & Motel Association. Each organization confirmed they would continue to oppose government-imposed smoking bans and pledged to continue to work with us in support of the accommodation of smokers and non-smokers.

- Participated in the summer meeting of the American Society of Heating, Refrigeration, and Air Conditioning Engineers (ASHRAE). A large amount of interest was expressed regarding ways to accommodate smokers in separately ventilated areas, restaurant sections, smoking lounges, and more. We have secured two time slots at seminars during the January/winter meeting to make presentations on how to accommodate smokers in these kinds of environments.
- RJR was a sponsor of the Restaurant Association of Washington annual awards dinner. Outgoing Chairman Bill Anton was honored for his service to the industry, and we presented the award for Restaurateur of the Year. Anton, an active and vocal supporter of the rights of smokers, is expanding his operations in a number of airport locations and reports an increasing number are requesting proposals to bring smoking locations back to their bars and restaurants.

ADVERTISING/MARKETING FREEDOMS

- A New York Assembly passed bill that mandates tobacco and alcohol outdoor advertising be restricted to 1,000 feet from a school is unlikely to be approved in the Senate.
- The Chicago Building and Codes Committee passed an ordinance that severely restricts or bans outdoor advertising of tobacco and alcohol products. The full City Council has deferred action until September.

RESTRICTIONS

- The Ohio Senate, during debate on the floor, killed a proposal to ban smoking in state prisons.

YOUTH NON-SMOKING

- Media training has been completed for 19 Jaycees' national and state vice presidents, tied to our efforts through JAYS program to reduce youth smoking.
- Legislation in the Ohio Senate has been introduced to prohibit minors from purchasing, possessing or using tobacco products. It also imposes severe penalties on retailers who sell tobacco to minors.

ENVIRONMENTAL

- Have begun two solicitation mailings to golf course operators and beach communities offering environmental program materials - bumper stickers, tent cards and Smokers For A Clean America disposable ashtrays.

COMMUNITY AND CORPORATE AFFAIRS

- Held initial meeting of RJR Corporate Volunteer Program steering committee. Bob Gordon articulated senior management's commitment to the committee representing all parts of the company. Prepared bullet points for Andy Schindler, and will begin creating logo and name for new program.
- Completed plans for RJR sponsorship of the National Black Theatre Festival Gala to be held Monday, August 4th. Drafted remarks for Andy Schindler.

LITIGATION

- Two Connecticut construction unions sued the tobacco industry to recover Medicaid costs attributable to "smoking-related illness."
- Continued to provide Broin status updates to inquiring reporters. National reporters left Miami after LeBow's testimony and are now calling for periodic updates on the trial.
- Responded to several calls about the District Court of Appeals upholding the trial court ruling that eight Liggett joint-privileged documents are not privileged and show a prima facie case for crime/fraud. Worked with Jones, Day and PM on how we'll respond if documents released to the public.
- A reporter from the *Legal Times* called on what is purportedly the first of 150 individual suits an attorney in Washington, D.C. plans to file against the industry. The first is against RJR and Safeway.
- Dan Donahue explained the inefficiencies of pursuing social policy through litigation like the Attorney General suits for a Cox news reporter based in Jerusalem. A similar lawsuit is being discussed there by the health minister and a plaintiff's lawyer who had attended a Richard Daynard session in Europe recently. Made tentative plans for Tobacco International staff to have a briefing and media training for handling future offshore media inquiries of this type.

REGULATORY ISSUES

- Worked with other companies on arrangements for handling media for the August 11 oral arguments in the FDA appeal.
- Advised several reporters that RJR will continue to prepare for litigation by and against the Federal Trade Commission.

CIGARETTE EXCISE TAXES

- The Wisconsin Senate Democratic Caucus budget proposal calls for a 19 cents per pack increase in the cigarette tax rather than the original recommendation of 26 cents. The House is supporting a 15 cent increase.

The Wisconsin General Assembly recessed without taking any formal action on the Joint Finance Committee's budget bill, which includes a 16-cent increase in the cigarette tax.

- The Ohio Senate passed the Education Funding resolution and the House Revenue Committee has reported it to the House floor. It does not include the proposed cigarette tax increase of 12 cents per pack.
- Rhode Island Governor Almond signed a budget bill that includes a 10-cent cigarette tax increase (61 cents - 71 cents/pack). The tax became effective July 1.
- The Michigan House voted down an amendment to the supplemental appropriations budget bill that would give the Department of Treasury funds to implement their cigarette tax stamp program. The Department is attempting to bypass legislative action in order to force the wholesalers to affix the stamp on each pack of cigarettes.
- California Assembly Member Tom Torlakson announced a proposal to increase the state's tobacco tax by 80 cents. The increase would fund health care programs such as Medi-Cal, insurance for children, school nurses, and breast cancer treatment.

LEGISLATIVE SESSIONS

- Louisiana, Delaware, Oregon and Nevada adjourned 1997 legislative sessions. No legislation having an adverse impact on RJRT or the tobacco industry was adopted.
- The Pennsylvania and Michigan legislatures have recessed until late September. The New Jersey legislature has recessed until fall.
- The Massachusetts House has recessed for the summer and will return September 15 for a fall session. The Senate will meet one day this week and will have the same reconvening date as the House.

DIVESTMENT

- Massachusetts House anti-tobacco activists failed to suspend the rules to force a floor vote on tobacco divestment legislation. The legislation probably will not be considered until after Labor Day.

- The Pennsylvania Teachers Union pension fund directors voted to not purchase tobacco stocks in the future. However, they also voted not to divest their current holdings.

INTERNATIONAL

U.S. SETTLEMENT

- The Iceland Surgeon General stated that Iceland should follow the U.S. example to cover alleged smoking-related health care costs, i.e. either obtain an agreement or sue the industry. Together with the anti-tobacco movement, he also pleaded for the classification of tobacco as a drug, the imposition of a maximum nicotine yield of 0.5 mg, a massive increase of tobacco excise, and retail licensing.
- The Norwegian National Council on Smoking and Health is studying the U.S. agreement to see whether any elements could be implemented in Norway.
- The Tobacco Institute of Japan is reviewing current TIOJ youth no-smoking programs and defining what additional actions should be taken in light of the U.S. settlement, though the Ministry of Finance is prepared to observe the U.S. development with no urgent desire to respond.
- Anti-smoking lawyers group in Japan met on "Preparation of how to file tobacco lawsuits" following the U.S. settlement. They plan to sue as early as next spring.

BRAND ACTIVITIES

- Salem Body Board World Cup event advertising was criticized by anti-smoking activists who complained to Tobacco Institute of Japan, the Japan Advertising Association and the Ministry of Finance. While the ads are in line with TIOJ's advertising code, MOF officials demanded immediate cessation due to extreme sensitivity to criticism in the current environment. RJR Japan received inquiries from three newspapers and we sent out company statement.

RJR Japan distributed 2,000 portable ashtrays to smokers at the Salem Body Board World Cup '97 July 12-13.

- In Malaysia, Salem's sponsorship of the nationwide premiere "Con-Air" movie proved to be another successful consumer promotion. Tickets were fully redeemed within an hour of the opening of the redemption counters. Salem will continue this promotion by screening "The Making of Con-Air" over television.

- State Authorities in Malaysia who previously banned the KRU concert (sponsored by Peter Stuyvesant) have announced that they will adhere to the Cabinet decision to allow the rap group to hold its concerts, but with some restrictions, including: no smoking and consumption of alcoholic beverages at the venue, no children below 18 without their parents, and no signs or ads involving cigarette companies.

MEDIA RELATIONS

- Following press contacts by the Ukrainian country manager during his June trip to Kremenchuk, local press carried throughout July a number of articles highlighting activities and role of the company in the area as well as the charitable giving of the company (\$20,000) for the social needs of the city.
- Expansion (leading business journal in Spain) published an extensive, positive article on the tobacco sector stressing burden of the strong increase of excise taxes. RJR brands received several positive mentions.
- The agreement between RJR and Tabacalera to process leaf in the TSA factory in Cadiz (Spain) was widely covered in a long article published by "Cinco Dias"; the tone was very positive.

ETS/ACCOMMODATION

- Hotel Association of Canada sponsored ETS presentation by John Luik of Niagara Institute. Surprised health officials that anybody would dispute science. Very well-received. Media neutral-positive.
- RJR Japan hand delivered 4,000 "Smoking Manners Book" to smokers.
- Merger of two existing international hospitality organizations, International Hotel & Restaurant Association (IH&RA) and HORECA, will be announced later this year.
- Decided jointly with other companies not to continue PR activities around publication of exposure studies due to unsatisfactory media coverage.
- The planned introduction of mandatory non-smoking sections in restaurants, bars, pubs, etc. was not accepted by the parliament in the Canton Lucern (Switzerland).
- "El Fumador" (key tobacco magazine in Spain) published a brief article on ETS based on the RJR brochure, "Something in the Air." The brochure was presented to the Board of Tobacconists Association in RJR offices. They asked for a large number of brochures to give out to affiliates.

SMOKING & HEALTH

- Canadian Broadcast Company planning to produce documentary based on "Should tobacco companies pay for tobacco-related medical costs?" Each CEO solicited for interview, along with British Columbia Health Minister MacPhail and health groups. Due to management changes at RJR-Macdonald, we will decline and leave response up to CTMC. Other companies also expected to decline.
- The Alberta (Canada) Tobacco Reduction Plan (ATRP) is being supported by the ATRP Alliance, a coalition of health groups. Industry continues in efforts to form a coalition of wholesalers, retailers and hospitality industry to counter Alliance efforts. ATRP plans are modeled after California and Massachusetts, which claim tobacco use declines that are twice the U.S. national average.
- The Netherlands Health Minister stated that it would be unethical to claim damages from the tobacco industry as long as it is legal to sell that "poison."

YOUTH ISSUES

- RJR-Macdonald is developing a new approach based on discussions with teacher panels recommended by British Columbia and Ontario Ministries of Education. Pilot test planned for November.
- Retail programs: Preparations for October launch in Netherlands underway; the industry is now jointly committed to implementing a program in France; joint industry program in Italy to be presented at tobacco fair in Milan in September; expanded program in Spain; agreed on strategy and budget with NMA and JC for Hong Kong program to be launched later this year; agreement in principle with PM to jointly initiate a youth program in Russia and possibly Azerbaijan.

ADVERTISING/MARKETING FREEDOMS

- The Health Minister of Spain has circulated a draft on cigarette advertising to the rest of the government. Based on contact made by the Spanish Tobacco Association (AET), the Health Minister intends to assess what the Spanish position should be, and not to pass a national law. *Cinco Dias*, one of the leading business journals, inaccurately reported that the government is close to passing a law banning all cigarette advertising. But the Health Minister has formally stated that the Spanish government will follow the European Union legislation on cigarette advertising.
- The Fortuna sunglasses (Tabacalera's BD program) TV advertising campaign continues to receive negative media coverage, since Autocontrol S.L. (Association to control the advertising practices) has come out against it. The formal opinion of the Jury of Autocontrol is expected soon. Meanwhile, negative references to other BD

programs are also being reflected in the press.

- The Luxembourg Health Minister (Lahure) has taken over the Presidency of the Health Council of the EU. Tobacco issues will be on the council's December agenda, and the Presidency seems confident that consensus can be achieved on an EU ad ban during 1997. The blocking minority of member states that have opposed an ad ban is endangered, with the UK supporting a ban and indications that the Dutch position is switching to that position. Efforts to garner support for the industry's position continue in Spain and Portugal.
- In the EU Parliament, an intergroup formed in July had a record number of supporters for Duty-Free in Europe. The group has publicly asked the Commission to study the serious negative consequences of the proposed abolition of Duty Free. A consumer campaign has been launched in major airports and on ferries.
- The Catalonian Parliament is debating a new law to impose all legal texts on packaging of goods traded in Catalonia, to be in Catalan. It would force the industry to produce packaging with double health warning for Catalonia. Since all industries are opposing the initiative, it was decided to (1) create an industry committee to prepare a document analyzing of the negative impact on the economy; and (2) establish close coordination with other industries (food, etc.).
- In Belgium, the draft royal decrees banning OOH advertising and packs with less than 20 sticks are on the agenda of the September meeting of the Consultative Committee for food products.
- The (non-binding) opinion of the "Conseil d'Etat" on the ad ban bill in Belgium has been sent to the president of the Senate. The content is not known yet. If the opinion says the Federal Parliament cannot ban sponsorship, this might have an important impact on the further course of the bill.
- The president of the socialist fraction in the Netherlands Parliament pleaded for a ban on event sponsorship by tobacco and alcohol companies. Event organizations could be compensated by an excise increase. The antis (Stivoro) published an article accusing the industry of massive product placement in TV programs.
- R. Branson, CEO of Virgin, suggested to set up an alternative car racing organization if Formula One would leave the EU because of the expected sponsorship ban.

LITIGATION

- The UK Health Minister stated that she would keep a tight rein on local health authorities seeking to sue the tobacco industry and that if any such actions would be considered, they should be part of a national strategy.

- The UK High Court ruled that the class action against Imperial and Gallaher can proceed.

REGULATORY ISSUES

- RJR Ukraine participated in discussions around amendments to the Law on State Regulation of Alcohol and Tobacco. As related to tobacco, the amendments streamline procedure of production licensing and unify/simplify pack mentions requirements. In general the position of the company was reflected in the bill. The amendments were approved by parliament, however they were not signed by the president who voiced reservations concerning the alcohol part of the document. Parliament is expected to readdress this issue when it convenes in September.
- The Ukrainian Ministry of Health finalized its proposal to bring tar ceilings to 15 mg (imports and domestic filters) and 22 mg (domestic non-filters) and nicotine to 1.3 mg and 1.5 mg respectively.
- Government of British Columbia introduced legislation allowing the government to sue the tobacco companies to recover medical costs attributed to tobacco use. Also proposed were licensing fees for manufacturers to raise money for an anti-smoking educational campaign. Passage is expected during summer session.

Prior to introducing legislation, British Columbia Minister of Health Joy MacPhail wrote to the CEO of each tobacco company and demanded that the industry stop targeting children and start funding public education to prevent children and teens from smoking, that the industry disclose all knowledge of health dangers of tobacco and all ingredients used in tobacco products and admit to nicotine manipulation, and that the industry provide just compensation to B.C.'s health care system. Prepared CEO's response, responded to media calls, and briefed editorial boards of major daily newspapers.

- The French health secretary is evaluating enlargement of current health warnings in context of the EU directive. Based on information from Seita (the French tobacco monopoly), he may suggest an 6 to 8% increase in size, versus his original proposal of 25%.

TOBACCO CONSUMPTION

- The Federal Statistical Office announced that German citizens in the months of April until June 1997 spent 6.9% more money for tobacco products than in the same period of the previous year, including a 3.6% increase in cigarette sales.

RESTRICTIONS

- UK anti-smoking seminar, organized by the Labour government, took place July 14. British and international health authorities, anti-tobacco groups, industrial organizations and event organizers discussed how to reduce consumption in the UK. Issues included increasing the minimum age to 18, tax increases, smoking restrictions and banning all forms of commercial communications. The Government will table its White Paper, which will contain proposals for concrete measures, in the autumn.

LEGISLATION

- Meeting held in Toronto with industry representatives and government relations consultants to set up monitoring of tobacco issues in every Canadian province, to generate more pro-active government relations activities. Similar meeting held in Montreal to elaborate strategy and plan of action regarding proposed anti-tobacco legislation expected in Quebec in the fall.
- Original bill banned cigarette vending machines everywhere minors had access in Puerto Rico. Through a joint effort with vending machine operators we changed the language of the bill to allow owners to locate vending machines where minors could not access cigarettes unsupervised. The Governor has not approved this bill. The bill becomes effective six months after the Governor's signature.

TRADE ISSUES

- The newly-appointed Prime Minister Valery Pustovoytenko has begun to form the Government of Ukraine. First appointments - Minister of Economy and Minister of Industrial Policy, as well as stated priorities, testify to strengthened social orientation of new Cabinet and its strong intent to protect domestic manufacturers.
- We started drafting necessary agreements to transfer production of German license brands to smaller manufacturers on or about October 1, 1997.
- Malaysian NMA held its AGM on June 25. A priority agenda item was Asean Free Trade Area (AFTA). Achieved unanimous agreement to move forward with restructuring of the local leaf growing industry to make it competitive (in terms of quality and price) within an ASEAN context. This will require total industry funding estimated at US\$60mm to \$80mm (including infrastructure and agronomy resources) spread over at least six to eight years, starting in 1998. Next step is developing a master plan in conjunction with the Government starting 1997.
- The Spanish Competition Board has opened an investigation against the state controlled company Tabacalera for dumping practices related to its cigar brand Farias. The board accuses the company of selling cigars below cost in order to protect market

share.

Tabacalera has bought the US cigar company Max Rohr for \$53 million. This is in line with the Spanish company's strategy to increase its market share in cigars, both in Spain and in foreign markets.

- A very critical article on Tabacalera was published stating that the company was given a "gift" by recently buying 20% of the duty free distribution company Aldeasa. This deal was done three weeks ago, prior to the privatization of Aldeasa. Journalists are questioning why the government let a state company buy into another prior to putting it on the market.
- Reorganization of the tobacco sector was discussed at the last meeting of the Spanish Tobacco Association (AET). A new law should be approved before year end. The Director informed that the document with the "basic principles" of the industry was presented to the Delegate of the Government and to the Minister of Finance.
- The abolition of the visa requirement between Finland and Lithuania/Latvia as of July 1 is expected to result in a massive increase in cross-border shopping. Traveling between Finland and Estonia has increased by 30% since May 1997, when the visa requirement was also abolished.

TAXATION

- The Ukrainian parliament for the third time rejected President's proposals to restore profit tax exemptions for joint ventures that were formed prior to 1995. These benefits were canceled by deliberate omission in the new Law on Corporate Profit Tax, as was initiated by the Cabinet of Ministers. RJR continues to work with other organizations to reinstate this benefit.
- To implement the most favorable tax structure of RJR's international tobacco business, as far as Germany is concerned, we are starting to change majority shareholding in RJRT GmbH.
- RJR presented its views concerning tax burden at a meeting with the Delegate of the Spanish Government and the General Director of Excise Taxes. As a result, RJR was invited to present a document to the government proposing alternative possibilities of tax structures that could improve revenues for the government while alleviating the industry burden.
- On Monday, July 7th, the AET (Spanish Tobacco Association) met with the Minister of Finance to present industry's concerns about tax increases. The Minister indicated that the Government is not considering significant excise tax increases since there is still room for an increase of revenues from tobacco, via price increases and contraband reduction. He committed to discussing with the industry any initiative on

the matter before taking any decision. RJR is developing arguments against a proposed increase.

- Tax proposals we supported in Romania were accepted. Importers are quite upset.
- New tax decisions in Tanzania contain several favorable provisions to TCC, including a cigarette import duty of 40%, which is higher than the maximum 30% rate for other products. Cigarettes sold on the Tanzanian mainland (rather than the island of Zanzibar) will carry tax stamps from the 1st November 1997.
- The Luxembourg Health Minister has proposed to the national Council of Ministers to increase tobacco excise unless the manufacturers stop their price war.
- A Netherlands TV program reported on a study, commissioned by the anti-tobacco group Stivoro, regarding the allegedly excessive tobacco tax credit period (average 3.5 months). This led to a parliamentary question to the Finance Minister, who replied that he would examine the issue and report back to Parliament.
- UK cigarette taxes will be increased by 19p/20 pack as of December 1, 1997 and annually by at least 5% in real terms. No increase on RYO tax.

CONTRABAND

- Syracuse (NY) Post-Standard published an article which alleged that RJR-Macdonald is the subject of a police investigation in connection with smuggling activities of Larry Miller of Massena, NY. Released statement denying investigation after consulting with RJRI Legal.

COMMUNITY RELATIONS

- Participated in the closing ceremonies of the Summer Leadership Program for Cantera's Youth. A plaque was awarded to RJR Puerto Rico for its continuous support to this community.

INDUSTRY RELATIONSHIPS

- The Spanish Tobacco Association (AET) has decided to join the CEOE (Spanish Confederation of Employers Organizations) next September, with seven committee members and one position in the Board of Directors. The total annual cost will be \$49.6M, split into equal parts among the companies.

Tom C. Griscom

cc: David Fishel Jaap Uittenbogaard
 Roger Mozingo Peter Van Every

Tommy Payne

Jason Wright