

Box of Materials

DRAFT -- KLM REMARKS FOR THE BOARD OF DIRECTORS MEETING 12/12

THANK YOU, SAM.

EVEN THOUGH SIX STATES WILL NOT MEET IN REGULAR SESSION, A QUICK LOOK AT OUR 1992 STATE LEGISLATIVE FORECAST MAKES IT CLEAR THAT WE WILL HAVE LITTLE TIME TO SIT BACK AND RELISH OUR 1991 VICTORIES. GENTLEMEN, HERE IS A SNAPSHOT OF THE YEAR BEFORE US.

WE EXPECT CONSUMER EXCISE TAX BILLS IN AT LEAST 36 STATES. BATTLES IN MORE THAN 20 OF THOSE STATES -- INCLUDING, SOUTH CAROLINA, WISCONSIN, CALIFORNIA, NEW YORK AND MASSACHUSETTS -- COULD BE EXTREMELY DIFFICULT, AS STATES SCRAMBLE TO MEET BUDGET SHORTFALLS AND FUND PET PROJECTS.

SMOKING BANS AND RESTRICTIONS WILL SURFACE IN UP TO 40 STATES. WE EXPECT PITCHED BATTLES IN PERHAPS 15 STATES, INCLUDING CALIFORNIA, MINNESOTA, CONNECTICUT, MICHIGAN, OHIO AND WASHINGTON STATE.

BILLS CONCERNED WITH "YOUTH-RELATED" ISSUES WILL CROP UP IN MOST STATES. ADVERTISING RESTRICTIONS WILL BE INTRODUCED IN 20 STATES, WITH CALIFORNIA POSING THE GREATEST THREAT.

TOBACCO PRODUCT SAMPLING BAN BILLS ARE EXPECTED IN MORE THAN 20 STATES. HAWAII AND WASHINGTON STATE ARE AMONG OUR MOST SERIOUS CONCERNS.

CONFIDENTIAL:
MINNESOTA TOBACCO LITIGATION

TIMN 385073

VENDING BANS AND OTHER SALES RESTRICTION BILLS ARE LIKELY TO BE INTRODUCED OR CARRY OVER IN MORE THAN 20 STATES, INCLUDING DELAWARE, ALASKA, ILLINOIS, PENNSYLVANIA, NEW YORK AND NEW JERSEY.

AND BILLS THAT CALL FOR PUNITIVE LICENSING SCHEMES FOR TOBACCO RETAILERS ARE PROBABLE IN UP TO 20 STATES. SERIOUS THREATS ARE POSSIBLE IN SUCH STATES AS MICHIGAN, MINNESOTA, WASHINGTON, OHIO AND CONNECTICUT.

IN ADDITION, WE WILL CONTINUE THE BATTLE ON OTHER ISSUES SUCH AS TORT REFORM AND PROTECTIVE ORDERS, FIRE-SAFE CIGARETTE CONCERNS AND LISTING TOBACCO AS A "CAUSE OF DEATH" ON DEATH CERTIFICATES.

THE CHALLENGES ARE THERE ... WE KNOW IT AND WE ARE PREPARED TO MAINTAIN AND IMPROVE ON OUR TRADITIONAL 90% SUCCESS RATE IN THE STATES.

FURTHER, WE WILL EXPAND OUR PROACTIVE PROGRAM AND TAKE THE FIGHT DIRECTLY TO THE ANTI-TOBACCO CROWD, WITH A KEY GOAL OF KEEPING THE FOCUS IN THE STATE CAPITALS, RATHER THAN IN THE LOCALITIES.

IN THE FACE OF OSHA AND EPA ACTIVITY, -- AS WELL AS THE INEVITABLE PUSH FOR LOCAL ANTI-TOBACCO MEASURES THROUGH FEDERAL "ASSIST" FUNDING AS OUTLINED BY SECRETARY SULLIVAN -- WE WILL DO OUR BEST TO PRE-EMPT LOCALITIES FROM ACTION. IN ADDITION, OUR FIELD STAFF

AND LOBBYISTS ARE MAKING A CONCERTED EFFORT TO GET INSIDE THE WORKINGS OF KEY STATE ADMINISTRATIVE OFFICES TO ENSURE THAT EPA/OSHA-RELATED FIATS ARE NOT HANDED DOWN BY THE GOVERNORS OR THEIR STATE AGENCIES.

ALONG WITH OSHA, EPA AND ASSIST ACTIVITIES, SEVERAL STATES -- AS SAM NOTED -- WILL BE LOOKING TO FUND ANTI-TOBACCO MEDIA CAMPAIGNS, MODELED, PRESUMABLY, ON THE CALIFORNIA PROP 99 PROGRAM.

ANTI-TOBACCO MEDIA CAMPAIGNS ARE LIKELY TO BE INTRODUCED IN A DOZEN STATES. OUR PRIMARY AREAS OF CONCERN INCLUDE IOWA, FLORIDA, MINNESOTA AND WISCONSIN, AND WE WILL ALSO BE KEEPING AHEAD OF EVENTS IN HAWAII, MICHIGAN, OHIO, SOUTH DAKOTA AND WASHINGTON STATE.

MEDIA CAMPAIGNS CONTRIBUTE TO LOCAL PRESSURE TO ENACT ANTI-TOBACCO LAWS. TO THAT END, WE PLAN TO INTRODUCE PRE-EMPTION BILLS IN 20 STATES IN 1992. CHANCES FOR PASSAGE APPEAR REASONABLE IN NORTH CAROLINA AND MARYLAND, AND WE HAVE A GOOD SHOT AT PASSAGE IN SUCH STATES AS MASSACHUSETTS, WASHINGTON, MINNESOTA, OHIO, MICHIGAN, ILLINOIS AND MISSOURI.

TO DATE, WE HAVE ENACTED BILLS TO BAN DISCRIMINATION AGAINST SMOKERS IN ALMOST HALF THE STATES. FOR 1992, WE WILL PUSH FOR BILLS IN THE OTHER 20-ODD STATES. WE FEEL OUR CHANCES FOR

SUCCESS ARE EXCELLENT, ESPECIALLY IN ALABAMA, GEORGIA, MARYLAND, NORTH CAROLINA, PENNSYLVANIA, WEST VIRGINIA AND WISCONSIN.

IN ADDITION, WE HOPE TO INTRODUCE PROACTIVE/YOUTH-RELATED MEASURES -- BILLS TO THWART ATTEMPTS TO BAN VENDING SALES, ADVERTISING AND SAMPLING -- IN MORE THAN HALF THE STATES. WHILE WE BELIEVE OUR CHANCES FOR SUCCESS ARE GREATEST IN DELAWARE, MASSACHUSETTS AND NORTH CAROLINA, WE WILL BE PUSHING HARD IN A NUMBER OF OTHER STATES, INCLUDING ARIZONA, CONNECTICUT, ILLINOIS, INDIANA, MICHIGAN, MINNESOTA, NEW JERSEY, NEW YORK, OHIO, PENNSYLVANIA AND WISCONSIN.

APART FROM OUR WORK WITH STATE AND LOCAL LAWMAKERS, GOVERNORS AND KEY STATE ADMINISTRATORS, WE MUST ALSO DEAL DIRECTLY WITH THE VOTERS IN SEVERAL STATES.

AS YOU KNOW, PROP 99 SPINOFFS -- ^SBALLOT MEASURES CALLING FOR TOBACCO TAX INCREASES IN THE RANGE OF 25-CENTS PER PACK -- ARE QUITE LIKELY IN SEVERAL STATES, COLORADO, OREGON AND [[MASSACHUSETTS?]] BEING AMONG THE MOST NOTABLE.

OUR INITIATIVE STAFF IS IN PLACE, PLANS ARE BEING DEVELOPED, ALLIES ARE BEING LINED UP AND CONSULTANTS RETAINED TO HELP US DEAL WITH THE CHALLENGES BEFORE US. OBVIOUSLY, OUR PLANS WILL BE MODIFIED TO MEET CHANGING CIRCUMSTANCES, BUT WE HAVE THE TOOLS IN PLACE TO TACKLE THE CHALLENGES AHEAD.

FINALLY, OUR ACHILLES HEEL HAS ALWAYS BEEN -- AND REMAINS -- OUR DIFFICULTY IN ADDRESSING ANTI-TOBACCO MEASURES AT THE LOCAL LEVEL, WHERE WE WIN ONLY ABOUT 50% OF THE BATTLES WE JOIN.

NOWHERE IS THIS CHALLENGE MORE EVIDENT OR THREATENING THAN IN THE STATE OF CALIFORNIA, WHERE MORE THAN 60 LOCALITIES PROMOTED ANTI-TOBACCO ORDINANCES DURING 1991. WE SEE NO LET UP FOR 1992 AND PROPOSE A PLAN TO DEAL WITH THE SITUATION AS EFFECTIVELY AS POSSIBLE. [[[THE MANAGEMENT COMMITTEE HAS SIGNED OFF ON THE PROGRAM.]]] WE HOPE YOU AGREE.

IN SUM, WE PLAN TO USE A LOCAL SWAT TEAM IN CALIFORNIA TO DEAL EXCLUSIVELY WITH THE CHALLENGES IN THAT STATE. RUN BY TI STAFF IN CONJUNCTION WITH YOUR STATE GOVERNMENT AFFAIRS REPRESENTATIVES, THIS TEAM WILL HIT THE HOTSPOTS THROUGH OUR BUSINESS AND LABOR COALITIONS AND OTHER ALLIES, FOCUSING ON THE NEGATIVE ECONOMIC IMPACT OF ANTI-TOBACCO ORDINANCES. WHEN WE LOSE IN A GIVEN LOCALITY AND WHEN IT MAKES SENSE, WE WILL FORCE LOCAL MEASURES TO THE BALLOT -- A COSTLY PROPOSAL FOR THE INDUSTRY, BUT ALSO FOR THE MUNICIPALITIES INVOLVED.

IN A MORE GENERAL SENSE, WE HAVE ALSO DEVELOPED A NATIONAL SWAT TEAM TO TACKLE TOUGH AND IMPORTANT LOCAL BATTLES IN THE OTHER 49 STATES. THIS TEAM, MADE UP OF VETERANS OF MANY LOCAL WARS, IS PREPARED TO KEEP THE BRUSHFIRES TO A MINIMUM, IN CONJUNCTION WITH OUR ON-THE-SCENE REGIONAL STAFF; AND AGAIN THROUGH THE

DEVELOPMENT OF ALLIES AND SENSIBLE USE OF TI AND MEMBER-COMPANY
RESOURCES.

WE IN STATE ACTIVITIES DIDN'T SIGN UP FOR EASY JOBS. WE KNOW
THAT 1992 WILL BE TOUGH, BUT IT PRESENTS A CHALLENGE THAT EACH
AND EVERY ONE OF OUR STAFF AND TEAM RELISHES.