

So, what I want to do today is to give you a quick overview of the three priority issues our industry faces in 1994 -- marketing restrictions, smoking bans and -- most importantly, the proposed increase in the F.E.T, with a brief but important collateral look at potential state excise tax increases.

As I highlight each issue, I'll also give you an idea of what we're doing at Philip Morris U.S.A. to fight for the rights of our consumers, customers, suppliers and our own business.

[PAUSE]

Let me start with marketing restrictions.

Marketing restrictions can range from local vending machine bans, to state restrictions on self-service, all the way up to Senator Ted Kennedy's regularly introduced proposal to allow every state to impose its own warning labels and advertising restrictions.

There are three potent forces at work that are driving the increased number of marketing restriction proposals we're seeing in 1994.

First, there's the Synar Amendment, voted into law by Congress in 1992, aimed at preventing children from purchasing and using tobacco products. We, by the way, agree with the basic premise of the Synar Amendment.

To enforce the Synar Amendment, the federal department of Health and Human Services -- HHS -- has the authority to grant or withhold tens of millions of dollars in federal mental health and substance abuse funds depending on whether the agency thinks that a state is or is not in compliance with the Synar Amendment.

And, as you might expect, the anti-smokers have mounted a campaign aimed at HHS to assure that "compliance" is defined to include:

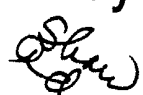
- bans on vending machines;
- sampling bans;
- worst of all, sting operations on retail locations by local health groups armed with underage teenagers and a video camera; and

- licensing requirements for retailers who sell cigarettes, with licensing fees earmarked to finance additional sting operations.

Project ASSIST is the second potent force at work driving marketing restrictions. Project ASSIST is a Federal program established in 1990 to reduce incidence of smoking in 17 targeted states.

[Overhead #1 Map of the U.S. with ASSIST states highlighted. Those states are CO, IN, MA, ME, MI, MN, MO, NM, NC, NJ, NY, RI, SC, VA, WA, WV, WI.]

These are the states receiving Project ASSIST funds. "ASSIST", by the way, stands for **A**merican **S**top **S**moking **I**ntervention **S**tudy.

The Project has provided local and state anti smoker groups with a pool of \$115 million over seven years, with an additional \$35 million being kicked in by the American Cancer Society. 

Project ASSIST programs in the works include marketing restriction legislation in all Project ASSIST states.

The third potent force in marketing restrictions is State earmarked tax laws.

Typically passed through ballot referendum or initiative, these laws increase the tax on cigarettes and earmark the revenues for further anti-smoking activities, including the development of legislation to restrict our marketing practices.

Essentially, the laws force smokers to pay for their own harassment.

At present, California in the West with "Proposition 99" passed in 1989, and Massachusetts in East with "Question 1" passed in 1992, are both funding multi-million dollar anti-smoking programs through state excise taxes on cigarettes.

These two states -- one on either coast -- are incubators for anti-marketing strategies that will be used in other states.

[PAUSE]

Our strategy in fighting these systematic attempts to restrict our ability to market a legal product to the over 50 million adult consumers who enjoy smoking, is to build coalitions with a broad range of groups to lobby against and defeat overly-restrictive measures wherever they are proposed.

Our plans also include supporting preemptive marketing legislation we can live with, and we are working to see such laws passed in every state possible.

By pre-emptive marketing legislation, I mean legislation passed at the state level that includes the provision that local legislation cannot exceed in severity the provisions of the state law.

Fortunately, we have good, strong allies we can depend upon when the going gets tough including wholesalers and retailers; the more than 100,000 employees of the various Philip Morris operating companies in the U.S. including Kraft General Foods and Miller Brewing; and you, our major suppliers.

We need your help in fighting marketing restrictions.

*we
also*

~~One of the ways you can help is to support public policy groups and advocacy groups that defend business's right -- including the tobacco business -- to market its products.~~

Obviously, those of you in the advertising, point of sale and related businesses have a strong stake in fighting proposals that restrict business's ability to market products.

I said earlier that there is a coming together on the major issues impacting our mutual interests. ~~Your trade~~ *Various* associations -- AAF, the Four A's, POPAI and similar groups -- provide an already-organized means of communication and action on marketing issues.

Similarly, on the wholesale and retail side, organizations such as the National Association of Convenience Stores (NACS), the Food Marketing Institute (FMI), and the National Wholesale Grocers Association (NAWGA) help carry the message in defense of business's right to market.

have access to any of these
~~If your organizations are already engaged in the fight in a general way, you can help by pointing out specific bans or restrictions that will hit you directly, and have your organizations take up the education and mobilization fight against the proposals.~~

*Have enlisted suppliers
from 20 communities & other
industries*

And you can fight on your own behalf. We are convinced that politicians at the local and state level listen very carefully when business people from their districts speak up.

To paraphrase the late Tip O'Neil, all business is local. So you can be very effective by communicating your opposition to proposed marketing bans, and by describing how such a ban would hurt your business, your employees and the local economy.

[PAUSE]

Now let's move from marketing restrictions to smoking bans.

If smokers can't smoke on the way to work, at work, in stores, banks, restaurants, malls and other public places, they are going to smoke less.

A large percentage of them are going to quit. In short, cigarette purchases will be drastically reduced and volume declines will accelerate.

Smoking bans are being driven by the EPA report that was issued last January. A little later, Steve Parrish will give you an update on the EPA report and what's being done to deflate the report's impact and the junk science it represents.

*As you know we have filed
a lawsuit - pending*

[Overhead #2 Map highlighting states where bans are expected to be introduced in 1994]

These are the states where we expect state-wide smoking bans or severe restrictions to be introduced in 1994:

[Overhead #3 Map highlighting states with localities where we expect ban battles]

Additionally, we expect tough smoking ban or smoking restriction battles at the local level -- towns, cities and counties -- in these states.

[Overhead #4 Map highlighting states where there is a threat of local or state ballot].

Finally, there are possibilities for state or local ballot initiatives to ban or restrict smoking in these states.

To fight smoking bans, we are part of a coalition that is national in scope but that will be run at the state level.

The coalition -- TASSC, which stands for The Advancement of Sound Science Coalition -- is already involved in educating the media, the public and legislators on the dangers of "junk science."

TASSC will address the credibility of the government's scientific studies, risk assessment techniques, and misuse of tax dollars.

In terms of general strategy in dealing with environmental tobacco smoke, we want to encourage the accommodation of both non-smokers and smokers, and promote the adoption of ventilation standards necessary to ensure that both groups can be accommodated.

We are consulting with heating and air-conditioning engineers and other indoor air quality experts to accomplish this.

Together we are developing model indoor air quality legislation and targeting initial test states, including California, Arizona and Georgia, for implementation.

The legislation, which sets smoking policy in public areas, would, among other things, establish smoking and non-smoking areas, and is the best and fairest means to accommodate the interests of both non-smokers and smokers.

This legislation, like the marketing legislation we're developing that I mentioned earlier, is pre-emptive. Once standards are established at the state level, no increase in severity of those standards can be legislated at the local level.

[Overhead #5 Accommodation logo.]

We know that accommodation works because we created a very successful accommodation program in Pittsburgh in which hotels and restaurants posted this symbol to show that their policy was to respect the preferences of both groups.

Elements of the Accommodation program are now being implemented on a national basis in cities throughout the country.

The Program is officially named, and advertised, as "The Accommodation Program." It comprises more than 9,000 participants -- individual businesses and chain organizations -- located in all 50 states.

More than 15 state restaurant associations offer the program to their members.

In New York, the Palm and the 21 Club are members. In Chicago, the Pump Room is a member. Nationally, Ruth Chris's Steak House chain belongs, as does the DeBartolo chain of 37 mega-shopping malls.

We are also working to extend the concept of accommodation to other venues.

We have helped establish smoking lounges at two major international airports, one in Atlanta and the new Denver International Airport.

The Atlanta case is especially interesting, because we want to establish Atlanta -- with its strong tradition of hospitality -- as a model accommodation city.

Atlanta, as host of the upcoming Summer Olympics, will have the world spotlight turned on it.

International travelers are often smokers and are equally often surprised at the lack of tolerance they find in the U.S. on the part of anti-smokers.

We are working now to extend The Accommodation Program to every venue in Atlanta.

The state restaurant associations that belong to The Accommodation Program and use its materials represent a very strong coalition. We are involved in creating others -- beginning with other hospitality industries like the hotel industry. *Bowling Alley, Malls*

We attend hospitality industry trade shows where we feature an exhibit of our Accommodation Program and, we've been very successful in recruiting new members and expanding the membership and breadth of the coalition.

Ultimately, we will use the Accommodation Program as a tactical weapon to support the preemptive state accommodation/indoor air quality legislation that I mentioned earlier.

This legislation establishes smoking areas and , because it is preemptive, it means that those areas cannot be eliminated by local fiat.

These laws attempt to strike a balance by ensuring that reasonable steps are taken to accommodate both non-smokers and smokers in workplaces, restaurants and other public places.

Last year, we began promoting the adoption of this kind of preemptive legislation in selected states, and we will continue this effort on a broader scale in 1994.

[Overhead #6: The 14 states with pre-emptive laws and in a different color the 22 we are targeting for 1994]

At present, 14 states have pre-emptive legislation. We have targeted 22 more where we hope to see similar legislation introduced in 1994.

many
As ~~you~~ may know, we have a network of regional government affairs directors out in the field, and one of their priorities this year is to make the case for this kind of legislation with legislative leadership in those 22 target states. *As well as to protect the 14 where we have it*

[PAUSE]

*California
Louisiana
Initiative
Local legislation*

Now let's move on to the reason we ~~came together today~~ -- excise taxes.

While all the issues I've cited this morning can ultimately hurt our business more or less equally, excise taxes are at the top of the list because they represent the most immediate threat.

First, let me take a moment to outline the excise tax threat at the state level. I'll then return to the federal excise tax and ~~discuss how we can work together to~~ defeat it.

[Overhead #7: Map of U.S. with 1994 tax threats shaded. Map also shows more brightly shaded States where proposals pushed by Governors.]

Take out NY altogether

These are the states where we face the potential for tax increases next year. There are about 32 such states where an excise tax increase might be proposed.

In the states shaded in blue -- Florida, Iowa, Indiana, Maryland, Montana, New Jersey, ~~New York~~, Ohio, South Dakota, Utah, Vermont, Washington and Wyoming -- the tax increase proposals are being driven by the governors of those states.

This means the bills will come before their respective legislatures with a great deal of support already in place and will be particularly hard to defeat.

*[Overhead #8 -- States with potential
1994 ballot initiatives]*

Ballot referendums and initiatives are also tools used by the antis and legislators to raise taxes.

In the case of ballot referendums, the most immediate threat is in Michigan, where a proposal is already on the ballot for March of this year to increase the state tax on cigarettes by 50 cents in order to fund education.

If this tax were to pass, and the federal tax increase of 75 cents were to follow, the price of a pack of cigarettes in Michigan would effectively double.

In Oregon, a ballot initiative to hike the state cigarette excise tax by 25-cents a pack and use the revenue for health care and anti-tobacco programs has been filed for the 1994 fall election.

Ballot initiatives to increase state excise taxes are also on the fast track in Colorado and Indiana.

We also see a potential for state excise tax increases via ballot initiatives in Arizona, Montana and Nebraska.

Ballot initiatives and referendums are particularly hard to defeat, because the majority of non-smoking voters usually support excise tax increases.

We're fighting these state excise tax increases everywhere they arise.

We are teaming with local coalitions -- including local or regional business organizations like Bobcat in Ohio, where local merchants are tired of watching retail dollars pour over the state line into Kentucky where the cigarette tax is lower.

or in Michigan w/ Labor & NEA who are opposed to Governor's referendum

We're also working with national retailers on the one hand and mom and pop operations on the other.

We can document how states with high tobacco taxes lose substantial business to lower-taxed border states. Lost sales are not confined to cigarettes, but include purchases of other goods and services while the consumer is there.

We have good, effective arguments against high state taxes on cigarettes, and we often prevail at the state level as a result.

*Developed the Political Studies Support Unit - Tax Groups
Build Coalitions*

Last year, 38 state excise tax increases were proposed, and only 7 actually passed. This year, because the states are rushing to "get theirs" before a federal tax increase, we may not be so lucky.

**[PAUSE -- TURN OFF
OVERHEAD PROJECTOR]**

I've been talking in some detail about ~~the state legislative process and~~ where we see tax trouble spots in the states. Now I'd like to address the threat of the federal excise tax increase again, ~~in a few broad strokes.~~

In terms of employment, or more to the point, unemployment, a 75 cents-per-pack increase would lead to the loss of more than 275,000 jobs in tobacco and related industries nationwide.

The job fall-out would be the last domino in a series of economic losses that would begin with a loss in sales volume.

Excessive federal excise taxes on cigarettes exacerbate an already price-sensitive situation. ^{Business} Bill discussed our business initiatives a little while ago. Obviously all the positive gains we've seen would be undone by a large tax increase.

If the tax goes up sharply, we will lose volume and profitability, which will force us to make cuts in the products and services we buy. That in turn will have an effect on the many other companies that we do business with..

Sharp increases in state excise taxes would drive additional volume losses at the regional level. You begin to see the urgency then, with which we view these kinds of tax increases.

In addition to the economic cost a large FET would exact, the obvious fact is that the tax just won't work. The reduced sales volume it would produce would result in a shrinking revenue base , so it won't bring in the amount projected.

[PAUSE]

Philip Morris USA's legislative strategy to combat a sharp federal increase is three-pronged, with activities involving government, business and the public.

First, we are encouraging the governors from tobacco growing states and friendly legislators in Congress to discuss the issue with the Clinton administration.

Every tobacco-state governor has called President Clinton personally to explain the unfair economic burden their states will suffer as a direct result of a steep federal increase, and all are continuing to send that message loud and clear to Washington and the Administration.

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

In the past two weeks we've had 2 Suppliers
 This conference with you, our most important suppliers, is one part of that effort. *Meeting of the Trade Council Meeting*

2044336099

Advocacy

Organizations such as the National Association of Manufacturers, Citizens for Tax Justice ^{CSO} and others are also joining with us to keep heat on Congress.

Working with our allies, we are generating letters, opinion pieces and editorials pointing out that federal proposals to increase the tax are an unfair and ineffectual method of dealing with the health care crisis.

Third, we are using all communications channels available to us to educate the public and legislators to the positive, dollars-and-cents contribution tobacco makes to the U.S. economy and the balance of trade.

At the same time, we're making the case that the tax is simply a bad idea; that thousands of ordinary people -- tobacco farmers, truck drivers, retail clerks and so on -- might lose their jobs as a direct result of such an increase, the very citizens that the Administration most wanted to protect.

We intend to keep the heat up. Our position is **NO TAX INCREASE**. *This is what he desires or our colleagues at all operating Cos*
~~where we can come together.~~ Tax-hike opposition from a broad range of the business community could prove instrumental in defeating the tax.

Let me just say ~~again~~, for emphasis, that this one battle is the single most important issue *our Company*
~~the tobacco industry~~ faces in 1994.

We're well aware of this at Philip Morris where Mike Miles, our Chairman and CEO, said recently to company senior executives that fighting the FET is Philip Morris's top priority in 1994.

[PAUSE]

OK, I've gone over the major issues, and I've talked about some of the things that we are doing in defense of our company and industry, and some of the arguments we're offering.

The fact is, our opponents are trying to put us out of business. And that means your business could be severely impacted as well. I hope you will join in the fight to safeguard our common interest.

A little later on, Bob Reese will give you a political update, and he'll explain to you how you can use the ^{Naturals} ~~tax fighting kit~~ that will be sent to each of you in the near future.

We each have to do everything possible to win this fight. That includes getting in touch with members of Congress, especially those on the House Ways and Means Committee and the House Energy and Commerce Committee.

Those two committees are the primary architects and arbiters of how health care reform will be created and financed, and it is within their purview to call for funding of such reform in fairer ways that do not include singling out smokers.

*Focus on them
Build a FET group - Company managers
Field outlets
2/0 - volunteers
FET week march
D*

Write letters to the editor of your local newspapers, letting the paper and its readers know that the FET increase will put people out of jobs and hurt your business.

Go to town hall meetings when your legislators come to their home districts, which they do on a regular basis. This is a simple and direct way for you to let them know that your business and the local economy will be hurt by a tax increase.

Recruit the people you work with -- your employees -- your suppliers -- into the fight. Just as we're saying to you that our business impacts yours, your business impacts those who supply you with goods and services, and it's in their best interests to fight this tax increase too.

So write letters, meet with legislators, reach out to others to join the fight. Let's create a ground swell of opposition.

Finally, I want to share some really encouraging news. Last year we began putting an 800 consumer number on some of our promotions. As a result, we've received thousands of calls from consumers asking what they could do to help.

And when Bill Campbell sent a letter to millions of our consumers to tell them about our pricing initiatives^o, we took the opportunity to ask how many would be interested in joining a group to take action on behalf of smokers' rights. One-half of those responding said "Yes!"

I'm talking about millions of people who are willing to fight this battle with us.

Because of the sheer scale of this positive response, we asked the public relations firm of Burson-Marsteller to consider setting up an organization that would work on behalf of smokers' rights. As a result, they created The National Smokers Alliance, or "NSA."

We are fortunate to have with us today two individuals that are central to the success of NSA's launch, Mr. David McCloud, who is Acting Director, and Mr. Robert Imhoff who is Administrative Director. David, Bob, would you please stand.

[Lead applause for McCloud & Imhoff.]

There is information on NSA included in your packets. Some of you have already expressed an interest in joining.

If you are not a member of NSA, I'm sure that either David or Bob would be happy to speak to any of you who want further information on this very important, very large, and very effective organization.

I thank you in advance for joining us in the battle. Now I'd like to turn things over to Steve Parrish for an update on the EPA's report on environmental tobacco smoke and what is being done to answer that report. We'll take questions after all the presentations.

Steve? .

#

Remarks by Ellen Merlo
Vice President, Corporate Affairs
Philip Morris U.S.A.

Philip Morris U.S.A. Vendor Conference

Grand Hyatt Hotel
New York City

Tuesday, January 25, 1994

Mike Folie -
see notes
inside -
need back
w/ corrected
overhead -
wed pm

2044336109

Thank you. I'm here today with some good news and some bad news.

The bad news is that we in the tobacco industry, and you who provide us with goods and services, face some very tough issues this year, beginning with a proposed federal excise tax increase on cigarettes.

We also face stepped up attempts to ban or restrict smoking, and attempts to ban or restrict the marketing of tobacco products to adult consumers.

The good news is that those of us affected by these issues -- the tobacco industry, the ^{our} ~~industry~~ supplier community, trade associations, groups interested in tax justice, ^{accommodation} ~~privacy~~ and freedom of speech, and millions of consumers -- are all coming together and are beginning to form a united front to battle for their own rights as these issues heat up.

Today's meeting is an example of this kind of coming together, and it's a good, strong, hopeful sign that we can win the battles that face us.

Now, every business group has important issues to deal with, but the Federal Excise Tax issue -- or F.E.T. ~~as we call it~~ -- is one we have in common. It unites us because it represents a serious threat to all our businesses.

The Clinton Administration has proposed an increase in the federal excise tax on cigarettes of 75 cents a pack -- an increase of more than 300 percent -- to pay for health care reform.

All of us here today can agree that health care reform is a worthy goal. It's certainly one that we at PM Companies support.

What we take issue with is the Administration's plan to finance reform with excise taxes, because it's unfair, inefficient, and just plain wrong to try to pay for health care reform by putting the revenue requirements on the shoulders of one group of consumers and one industry.

Our critics -- those who are pushing the hardest for a huge increase in the F.E.T. -- don't just want to regulate us.

They are very seriously committed to putting us out of business, and the F.E.T. increase is one of the most direct ways they're trying to reach their goal.

That's why all of us whose livelihoods depend upon tobacco sales -- directly or indirectly -- have a common interest.

Of course, tax increases are not the only battles we're facing this year.

Our consumers face proposed bans or restrictions on tobacco use, simply because there are some overly zealous individuals and groups out there who think they know what is best for everybody else.

And then there are those who are out to ban or restrict the tobacco industry's ability to advertise or promote to adult consumers.