

PHILIP MORRIS COMPANIES INC.**INTER-OFFICE CORRESPONDENCE**

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TO: Mr. Michael A. Miles

DATE: July 8, 1992

FROM: Craig L. Fuller

SUBJECT: **June Monthly Report****Government Affairs**

With regard to **environmental tobacco issues**, the Washington Relations Office continued its work with Corporate Affairs and PM USA to urge the Administration to issue an executive order establishing procedures to enforce principles of sound science on all federal risk assessments -- including EPA's. Intensive efforts continued in contacts with the White House, the Vice President's office, Congressional allies, and the media. The EPA's expert panel report entitled Safeguarding the Future: Credible Science, Credible Decisions has been circulated to key officials in the Congress and the Administration. As a result, Rep. Norm Lent (R-NY), the ranking Republican on the House Energy and Commerce Committee, has written the President recommending that the issuance of an executive order be given the highest priority. House Energy and Commerce Committee Chairman John Dingell (D-MI) and Rep. Tom Bliley (R-VA) also have written EPA Administrator Reilly requesting a briefing. In the Administration, the executive order continues to be discussed favorably although no timetable for either finalizing the document or implementing guidelines has been set. Without question, the release of the EPA draft risk assessment demonstrates the urgent need for a broad based policy on the role of science in environmental regulations. The publication by Forbes of a highly critical cover story on EPA as well as reports of state and local government objections to EPA actions provide new opportunities for us. At the same time, we are working to extend the public review period for the draft risk assessment as well as coordinating with the Tobacco Institute on submissions to the Science Advisory Board for its public hearing on July 21 and 22, 1992.

On **tax matters**, we continued to work with the Peat Marwick Coalition on Retroactivity of Intangibles. The Senate Finance Committee included in its tax extension act a provision that would allow elective retroactive amortization of intangibles based on 75% of our return position. The House Ways and Means Committee rejected, 22-11, a provision that would have allowed a 19-year retroactive amortization period. It is uncertain when and if the two bills will be conferenced. We continue to work with the Coalition for a favorable resolution of the intangibles issue as well as with Members and staffs. In the excise tax area, we continued to work with the Coalition Against Regressive Taxation (CART) to strengthen that group's efforts. Efforts to defeat the House Conservative Democratic Forum's (CDF) attempts to include excise taxes in their health care proposal are continuing. Presently, the CDF has not reached consensus on how to fund their plan and Members from tobacco producing states have voiced strong opposition within the CDF to excise tax increases. We have also joined with PM

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USA to begin designing a study to counter the "social costs" argument being used by anti-tobacco advocates both generally and within the context of the health care reform debate. The effort is ongoing and we have met with the Economics Group of Peat Marwick for technical assistance on the study. We have also initiated the formation of a health care "cost control coalition" that will be led by the Committee for a Responsible Federal Budget. This coalition will seek to promote the use of cost savings to pay for federal health care reform so as to obviate the need for any tax increases on business generally and on alcohol and tobacco products.

In the **domestic cigarette market**, given the shift to discount brands, we arranged a meeting for Bill Campbell with the Flue-Cured Tobacco Cooperative Stabilization Corporation. The purpose of the June 12 meeting was to encourage the establishment of a program for flue-cured producers on the need to adjust to competition from imported leaf. A similar meeting will be held later this year in the burley producing region.

On June 3, House and Senate Conferees met and approved a revised conference report that reauthorizes the **Alcohol, Drug, and Mental Health Administration Act (ADAMHA)**. The ADAMHA legislation includes industry-negotiated provisions that require states applying for ADAMHA funding to have in effect an 18-year old minimum age requirement for the purchase of tobacco products and to report annually to HHS concerning the enforcement of these laws.

On the **federal packaging front**, the House Energy and Commerce Committee began a full Committee markup of the federal RCRA bill, but did not complete action on it by the end of the month. In lieu of the explicit "food safety" and "flexible" plastic film exemptions contained in the Subcommittee bill, Subcommittee Chairman Al Swift prepared a substitute amendment for the recycling title of the bill that the full Committee will consider. The Swift substitute deletes the exemptions and contains a provision we negotiated that covers plastic bottles and jars only -- other plastic packaging, including flexible films, would not be covered. The narrowly drawn bottle and jar definition covers only a small number of KGF products, and the recovery rate for plastic bottles and jars is an industry-wide rate which is expected to be achieved. The Swift substitute also contains a provision we negotiated that requires state and local governments to consider food safety concerns and the food safety requirements of the Food, Drug and Cosmetic Act when developing legislation and regulations affecting food packaging. Our paper packaging also is not covered under the Swift amendment, so PM USA's cigarette packaging would not be subject to any recycling requirements. The Swift substitute is a positive outcome for both KGF and PM USA and will be supported when it is considered by the full Committee. Final Committee action is expected in early July.

On **FDA enforcement**, Energy and Commerce Committee Chairman Dingell has scheduled the legislation for Committee action following completion of the RCRA markup. HHS Secretary Sullivan sent the Committee a strong letter repeating the Administration's threat to veto the legislation. The bill may be reported by the Committee on a party-line vote, but is not expected to be taken to the floor for consideration this year. The Senate committee still has not considered an enforcement bill.

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On **food safety issues**, anticipated House Agriculture Committee action on the FIFRA reauthorization bill did not occur in June amidst reports of disagreements between the Agriculture and Energy and Commerce Committees over food safety provisions to be added to the bill. Markup of the bill is still on the full Committee agenda, however, and could occur in July.

On **nutrition labeling**, the extension of the effective date of the NLEA regulations by FDA has not yet been finalized. FDA and HHS have proposed to the White House a nine-month extension, until February, 1994, to coincide with the effective date of the metric labeling law. The food trade associations have been pushing for a full twelve-month extension as allowed by the NLEA statute. Consumer groups are opposed to any extension. The Senate Labor Committee held a hearing on June 9 at which all of these views were represented. KGF is of the opinion that the difference between a nine- or twelve-month extension is not as important as making the extension final. KGF has been working to have the extension officially announced.

With regard to the **Defense Commissary Agency's (DeCA) late payments** of approximately \$17 million to KGF, we briefed Rep. Martin Lancaster (D-NC), Chairman of the House Armed Services Committee Morale, Welfare and Recreation panel. As a result, Chairman Lancaster held a hearing on the issue on June 11 at which KGF's General Manager of Military Sales, Tom McGough, testified. At the hearing, Chairman Lancaster urged DeCA to resolve these problems. The Chairman also has set a tentative follow-up hearing for September to check on DeCA's progress in solving its late payments problems.

On **state packaging issues**, Governor William Weld reached a compromise with the Joint Committee on Natural Resources on the contours of a stringent packaging standards bill. The Joint Committee thereafter passed the bill by a voice vote and referred the bill to the Senate Ways and Means Committee. The compromise bill is adamantly opposed by industry because: 1) it contains no recycling infrastructure trigger; 2) it permits increases in recycling rates in successive years; 3) there are no business or trade representatives on a proposed State Packaging Board; and 4) it contains criminal penalties. We have scheduled meetings with the Senate leadership and will continue to lobby them to oppose the bill. Meanwhile, MassPIRG announced that it had collected the additional signatures necessary to complete its final petition drive to qualify for the November ballot. We continue to discuss the opposition campaign with Winner, Wagner and Mandebach, who has finalized the campaign plan. We expect to receive a request from William Smithburg, Chairman-Elect of GMA, seeking a \$100,000-plus contribution for the opposition campaign.

On **Proposition 65 issues**, the Ohio Citizen's Action (OCA) fired its first salvo in what will be an aggressive media campaign to win support for its "Right-To-Know" initiative on the November ballot. OCA, in its first commercial, has focused on DOW Chemical and its K2R Spotlifter. The advertisement, which will be run extensively in the Toledo market, states that the product contains "a chemical known to cause cancer" and is available in Ohio stores. Industry's plans are to initiate its media campaign shortly after Labor Day so that the campaign will have a much more immediate impact. In the meantime, GMA is conducting a fundraising campaign in order to buy advertising space in media outlets. We expect William Smithburg to ask for an additional \$100,000 contribution to oppose the campaign.

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On **beer issues**, Rep. Ed Markey (D-MA) indicated that he will offer an amendment that would establish a national forced deposit system when the House Energy and Commerce Committee reconvenes to mark up its RCRA bill. However, Markey does not have the votes in Committee for his proposed amendment. The House Appropriations Committee's Treasury appropriation bill was amended to include a provision that would allow the Bureau of Alcohol Tobacco and Firearms "to prohibit the use of the name of a deceased individual of public prominence on alcoholic beverage labels if such use would degrade or disparage the reputation of that individual." This measure was adopted due to the controversy surrounding "Crazy Horse" brand malt liquor.

With respect to **international trade issues**, two GATT dispute settlement panels have found that the European Community (EC) has engaged in practices that are harmful to U.S. exports of soybeans. Because the EC has not corrected these practices, the U.S. Trade Representative (USTR) is asking for public comments on whether a 100% ad valorem import duty should be imposed on numerous EC exports. The USTR has listed the following EC exports that are of interest to Philip Morris: cheeses, meat products, confections, apple juice, dehydrated vegetables, clams, unmanufactured tobacco, cut filler, cigarettes, casein, non-alcoholic malt beverages, and vegetable and cooking oil. It is estimated that the amount of trade covered by the list amounts to approximately \$2 billion. The U.S. is seeking to cover approximately \$1 billion in EC imports, so a sizeable number of categories will ultimately be dropped from consideration. We are planning to make formal submissions in opposition to duty increases for several of these items.

On **tort reform issues**, the coalition Philip Morris helped organize -- Louisiana Citizens Against Lawsuit Abuse -- led the effort to defeat all trial lawyer-advocated tort proposals in the 1992 regular session of the Louisiana legislature, which adjourned on June 22. The plaintiffs' bar priorities included legislation to allow recovery of punitive damages in all civil actions and a bill to emasculate the 1988 products liability statute. These positive results were achieved in the face of the trial bar's widespread successes in the 1991 legislative and gubernatorial elections, and the domination by their supporters of key Senate and House legislative committees.

The Washington Relations Office is finalizing preparations for the July Democratic National Convention and continuing our preparations for the August Republican National Convention. We hosted breakfasts for Senator David Pryor (D-AR) and Rep. John Tanner (D-TN), as well as dinners for Rep. Charles Hatcher (D-GA), Chairman of the House Tobacco Subcommittee, and Rep. John Boehner (R-OH), who represents the Miller Brewery in Trenton, Ohio. In addition, the Washington Relations Office, as well as representatives from each of the operating companies, hosted two plant tours in the State of New York for several legislators. We also hosted three Cultural Affairs events (HEARTSTRINGS, Danish Ballet, and the District Curator's MULTIWORKS), which were attended collectively by over 40 Members of Congress and staffers. With respect to corporate contributions, the Washington Relations Office made 10 corporate contributions to civic organizations, including the Food Research Action Committee where we chaired their fundraising dinner and raised over one-quarter of their final tally. In addition, eight students from around the country were chosen as finalists for the 1992 Philip Morris Scholarship for Future Teachers established by our office.

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Public Affairs

Programs

PUBLIC POLICY/LEGISLATIVE SUPPORT

Assisted USA in securing grass roots opposition to NYMTA's cigarette ad ban proposal.

Supported USA/Washington Relations mobilization on California SB 711.

Worked with USA Government Affairs Chicago in effort relating to proposed tobacco billboard ban.

We sponsored or supported:

National Newspaper Publishers Association annual conference dinner in Baltimore, George Knox and Virgis Colbert of Miller Brewing delivering remarks

National United Affiliated Beverage Association annual convention, Las Vegas

Rep. Charles Rangel birthday party and reception, New York City

Rep. Ed Towns' 10th Anniversary in Office Reception and Award Presentation to Allene Roberts, New York City

National Black Chamber of Commerce annual conference, Fort Worth

National Rainbow Coalition Annual Conference, Washington

NAACP Corporate Recognition luncheon, New York City

Bethune-Dubois Fund Annual Dinner, Washington

TransAfrica Annual Awards Dinner, Washington

Leadership Conference on Civil Rights Annual Dinner, Washington

Massachusetts Legislative Black Caucus Annual Dinner, Boston

Studio Museum of Harlem annual dinner, New York City

Harlem Junior Tennis Program Community Fundraiser

Jackie Robinson Foundation Annual Benefit Concert, New York City

Opportunities Industrialization Centers annual conference and expo, Omaha

Women Involved in Farm Economics annual conference, Washington

National Association of Latino Elected Officials annual conference, Santa Fe

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National Society of Hispanic MBAs first Vista 2000 Scholarship Fundraiser, Frank Gómez honorary chairman, New York City

Mexican American National Women's Association conference and unveiling of 16-year retrospective book underwritten by PM Cos., Washington

Hispanic Parade Awards Banquet, New York

Hosted Mayor's reception, U.S. Conference of Mayors conference, Houston (with PM USA and Miller Brewing Company)

We attended or participated in:

Asian Law Caucus 20th Anniversary Celebration, and meetings of Asian Pacific Americans in Philanthropy and the National Asian Pacific American Legal Consortium, San Francisco

U.S. Hispanic Chamber of Commerce convention planning meeting, Dallas

White House Briefing on urban policy agenda, Washington

Caribbean American Chamber of Commerce Corporate Advisory Board Meeting

National Black Caucus of State Legislators Corporate Roundtable

New York City Council meeting hosted by the Hon. Priscilla Wooten

Reception in honor of City Councilman Adam Powell, New York

Harlem Business Alliance reception, New York

Corporate Women's Network luncheon in New York City honoring Ann Fudge, Executive Vice President, Kraft USA

National Urban League Black Executive Exchange Program annual meeting, Atlanta

Other:

PM's and Radio America's documentary series "Thurgood Marshall and the Struggle to End Legal Segregation" won the Silver Award of the New York International Radio Festival, New York City

Submitted PM's Guide to Black Organizations for consideration for CEBA award, New York

Met in Washington and New York with Chicago Mercantile Exchange and House Ag Committee staff to plan committee dinner during NY convention

Researched and provided Washington Relations with resource information on mayors in cities throughout the U.S.

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Met with U.S. Conference of Mayors and conducted research on possibilities of renewing programmatic relationship

Met with fellow corporate sponsors of DNC Hispanic Caucus reception at Financial Center Winter Garden to plan event

Allene Roberts attended the Minority Vendor Task Force Meeting, Richmond; and Mark Monteverdi completed work on Task Force newsletter

Mark also chaired the selection committee meeting for the Herbert H. Wright Community Service Award

Briefed USIA International Visitor Leocaido Salmarán, head of Spanish Red Cross, on private sector support to non-profits and on PM programs

Lent support to Cippolone decision response at PM headquarters

Corporate Affairs Administration

Coordinated an in-depth briefing for you and Dick Mayer in preparation to your participation at the GMA Board meeting.

Worked with KGF and Corporate Scientific Affairs in determining appropriate company involvement in ILSI in response to a solicitation to you from the Chairman & CEO of Coke.

Began to mobilize involvement in opposition to the nascent but growing support for a federal VAT, using the resources of the operating companies and third party organizations with which we are affiliated.

Represented Corporate Affairs on the Steering Committee of the 1993 PM Companies Symposium on the Environment, organized by the PM Companies Technical Synergy Committee and consisting of representatives of all operating companies.

Began discussions with PM Europe regarding think tank strategy on the continent and how the company can best leverage resources similar to procedures followed in the U.S.

Working with numerous third party organizations in developing information and resources regarding Asian affiliates of American organizations on behalf of PMI.

Worked with Corporate Contributions and the Washington office in devising our 1992 strategy for support of public policy organizations and trade associations, and in leveraging these resources in a number of issue areas, most notably, risk assessment and the politicization of science.

In the area of computer systems, we created a new Corporate Affairs Consolidated Calendar of corporate-wide company events to help increase its usefulness for company personnel and the quality of the output. Converted Contributions department to a new network and upgraded its machine's memory, delivering an threefold increase in network performance.

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