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INTER-OFFICE CORRESPONDENCE
RICHMOND, VIRGINIA

To: . Mr. A. J. Kay, Jr.
From: . R. D. Latshaw
Subject: . DOW-NICORETTE SITUATION

Date: September 6, 1985

Since our becoming aware of Dow's involvement with Nicorette in 1982, we have conducted an ongoing dialogue with Dow attempting to eliminate, or at least tone down, the Nicorette marketing and promotional activities. Some of the more significant events which transpired are:

1. Dow's agreement to cancel The Smoking Cessation Newsletter in July, 1982.
2. Suspending our glycerine, propylene glycol, and TEG purchases in May, 1984 due to the offensive nature of Nicorette's introduction.
3. Assurances in October, 1984 from Dow Chemical U.S.A. and Merrell Dow Pharmaceuticals' top management that Dow is not assuming an anti-smoking position despite the inherently "anti" nature of Nicorette. These assurances were reinforced by such actions as Dow's withdrawing support of purely anti-smoking associations, their Corporate Affairs Department making sure there were no anti-cigarette industry policies, and joint Dow Chemical-Merrell Dow reviews of Nicorette advertising and promotions to eliminate purely anti-industry type themes.
4. Partial resumption of humectant purchases in October, 1984 based on tight markets and to recognize Dow's response. Dow's annual 1984 and 1985 sales to PM U.S.A. are \$3.1 million versus 1982 and 1983 annual sales of \$7.0 million.

We continue to be frustrated by Merrell Dow's advertising of Nicorette. Their perception is that Nicorette is a competitive product whose theme is "if you want to quit smoking, we have a product". They claim to have no policy or dictate against the cigarette industry. But the fact remains that every ad which appears is offensive because of the purpose of Nicorette.

We have so far chosen not to permanently eliminate Dow as a supplier for the following reasons:

1. To cut off Dow would seriously jeopardize the supply security of glycerine, propylene glycol, and TEG. They are the only U.S. synthetic glycerine producer accounting for one-third of this country's output. They are one of only two integrated PG producers. Dow is the only back-up source of TEG to Union Carbide.
2. Except for the Nicorette problem, Dow is a first-class, dependable supplier.

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3. Merrell Dow Pharmaceuticals is a separate division of Dow, Dow Chemical U.S.A. being PM's supplier. The Dow Chemical U.S.A. organization has been very supportive of PM during the whole Nicorette affair.
4. As a customer we have an ameliorating influence on Nicorette promotions. We would lose this impact as a non-customer.

Attached for your review are notes of some of the key sessions conducted with Dow.

RDL/lwk

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