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MONDAY, JUNE 20, 1994

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Procter & Gamble	55 5/8	+1/4
RJR Nabisco	5 3/4	- 1/8
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PHILIP MORRIS
COMPANIES INC.

CORPORATE/ FINANCIAL

Business Day

The New York Times

MONDAY, JUNE 20, 1994

Philip Morris Chairman Unexpectedly Resigns

By DIANA B. HENRIQUES

Michael A. Miles, the chairman and chief executive of the Philip Morris Companies, resigned unexpectedly over the weekend, the company announced yesterday.

Mr. Miles, in a statement released by the company, simply said that he felt it was time for the $50 billion consumer products giant to be led by a career Philip Morris executive with a background in tobacco. Mr. Miles was chairman and chief executive of Kraft General Foods, when Philip Morris acquired it in 1988. He was named chairman and chief executive of Philip Morris in August 1991, the first leader of the company from outside the tobacco industry.

The unexpected move comes less than a month after the Philip Morris board wrangled over and rejected a proposal to divide the corporation into separate food and tobacco companies, as a way of enhancing its attractiveness to investors.

Although he has not addressed the issue publicly, Mr. Miles was widely seen on Wall Street as an advocate of the plan, which called for separating the company's Kraft food brand and Miller Brewing business from its tobacco company, built on such strong brands as Marlboro and Virginia Slims.

His departure, therefore, is being interpreted by some analysts as a victory for the status quo — and a challenge to institutional investors frustrated by the company's failure to arrest a steep two-year decline in its stock price.

"When a person takes that strong a stand in a highly visible arena and loses the battle and possibly the confidence of the board, a resignation often follows," Frederic Dickson, an analyst with D. A. Davidson & Company in Great Falls, Mont., told Bloomberg Business News last night.

It is possible the departure of Mr. Miles will increase the level of frustration and unrest among such large institutional investors — a development the Philip Morris board could not ignore, given the increasing willingness of such investors to flex their muscle on important issues of corporate strategy.

But it is less certain what impact the weekend's developments will have in the stock market, where Philip Morris's stock has already sustained significant damage in the weeks since the two-company plan was rejected.

S. Leigh Ferst, who monitors the company for Prudential Securities, said Philip Morris might benefit from having "a strong tobacco person to lead it through the maelstrom of public debate" that has been triggered by congressional hearings on the industry's handling of research into the health risks of smoking. "The break-

Continued on Page D4

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Cont'd)

Philip Morris Chairman Unexpectedly Resigns

Continued From First Business Page

up is a sexy topic, but a stronger tobacco-industry voice could be more important in the long run, because of the political context," she said.

A Philip Morris spokesman, Nicholas Rolli, said Mr. Miles, who is 54, had "decided to leave on his own, for his own personal reasons." He said the board first learned of Mr. Miles's plan to leave late Friday afternoon.

Another spokesman, Barry Holt, said board members had convened by telephone on Saturday morning and voted to have John Reed, the chairman of the board's compensation committee and the chairman of Citicorp, accept Mr. Miles's resignation on behalf of the board. The resignation was effective immediately upon its acceptance by the board, Mr. Holt said.

Two men who previously reported to Mr. Miles will now divide his duties, Mr. Holt said. During the conference call on Saturday, the board voted to appoint R. William Murray, who is 58, as its chairman, and named Geoffrey C. Bible, 56, as the president and chief executive.

Both men had just been given new assignments at the rancorous meeting of the board of directors on May 25, when the restructuring plan for the company was debated. At that time, Mr. Murray was put in charge of the company's worldwide food operation, and Mr. Bible was named to run the tobacco business, with both men reporting to Mr. Miles.

The corporation's six operating companies will now report to Mr. Bible, who reports to Mr. Murray, Mr. Holt said.

The net effect of the weekend's developments is that all the operating companies now report to an executive who is seen as a veteran of Philip Morris's tobacco operations, although Mr. Holt noted that Mr. Bible's tenure at Philip Morris does include "some food experience."

Beginning in January 1990, Mr. Bible served for about 16 months as president and chief administrative officer of Kraft General Foods, and from April 1991 until 1993 he was vice president in charge of international operations for both the tobacco and food units, Mr. Holt said.

In a statement released by the company, Mr. Reed of Citicorp said the chairman's decision to resign "was Mr. Miles's."

Keith Meyers/The New York Times

Michael A. Miles

'Difficult Pricing Decisions'

He praised the work Mr. Miles had done in building the company's food operations, and in seeing the company through "some difficult pricing decisions" — a reference, most likely, to the company's controversial move to cut the price of its Marlboro cigarettes in April 1993 in an effort to rebuild its market share.

Slashing the price of one of the top brand names in cigarettes was widely blamed for starting a price war that depleted earnings at Philip Morris and throughout the tobacco industry.

In a statement released by the company, Mr. Miles said he was leaving "in the full confidence that the difficult decisions made over the past two years will be proven right by our results in 1994 and beyond." Citing the "resurgence" of the company's domestic tobacco business and continued growth in overseas tobacco sales, he continued, "it makes sense to again have a career Philip Morris executive in the top job."

Philip Morris said Mr. Miles was not available for comment.

Both Mr. Murray and Mr. Bible were careful to stress that they were committed to a strong performance by "all three lines of business" — foods, beer and tobacco. But Wall Street analysts who commented on the move last night said the markets would see Mr. Miles's departure as a victory for board-level supporters of the status quo, including Hamish Maxwell, the former chairman of Philip Morris, who retired in September 1991 but still wields considerable influence among the company's 19 directors.

Last month, when the board confirmed that it had decided against splitting the company, several public pension fund managers — whose funds control substantial blocks of Philip Morris stock — stated that they were displeased that Mr. Maxwell's influence was still strong enough to dictate company strategy.

The company's shares, which closed at $50.75 on the eve of the May 25 board meeting, did not trade at all as that protracted six-hour meeting continued. The next morning, May 26, the shares opened at $50.25. The stock fell as low as $48.25 over the next few days, before recovering to close on Friday at $50.375.

Significant Slump

These recent stock price levels represent a significant slump for a company whose shares traded at more than $85 in the fall of 1992. Since then, the stock has been battered amid investor fears about increases in Government cigarette taxes, price wars and the threat of liabilities arising from consumer health concerns.

One analyst argued yesterday that those who favor a split of the company's tobacco and food businesses have already been disappointed, and Mr. Miles did not have a strong personal following among institutional investors. He predicted little additional damage to the shares.

Ms. Ferst of Prudential said she would not be surprised if the stock gained in today's trading, if the market concludes that Philip Morris is stronger with its new leadership in the face of pubic debate over smoking.

But other analysts said that since the departure of Mr. Miles eliminates any hopes that he might ultimately have prevailed with a divided-company strategy, the move might cause a further decline of at least several dollars a share.

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THE WALL STREET JOURNAL MONDAY, JUNE 20, 1994

What's News—

* * *

Business and Finance

MICHAEL MILES quit as head of Philip Morris. The company tapped two veterans of its tobacco business to succeed him, naming R. William Murray chairman and Geoffrey Bible president and chief executive. A split of Philip Morris's food and tobacco operations into two separate companies is considered less likely under the new management team.

(Article on Page A3)

Philip Morris CEO Resigns Under Pressure

Board Names Two Veterans Of Tobacco Business As Successors to Miles

By EBEN SHAPIRO
Staff Reporter of THE WALL STREET JOURNAL

Michael A. Miles, the embattled chairman and chief executive officer of **Philip Morris** Cos., resigned after months of mounting pressure.

The Philip Morris board appointed R. William Murray, 58 years old, as chairman, and Geoffrey C. Bible, 56, as president and chief executive, to succeed Mr. Miles. Both men had been vice chairmen. The change puts smokers back in charge of the nation's largest tobacco company.

While the new leaders of Philip Morris are expected to be more open with Wall Street than Mr. Miles had been, the company's pressing problems remain. Large shareholders are frustrated that, under Mr. Miles, the company has lost more than $30 billion in stock-market value since 1992. And in Washington, the company faces the threat of higher tobacco taxes and


Michael A. Miles

[stif]fer regulation. A new round of congressional hearings, which have depressed tobacco stocks, is set for this week.

"The pressure isn't going away. We aren't happy," said Richard Koppes, general counsel of the California Public Employees' Retirement System, one of the large institutional shareholders pressing the company to split the company into separate food and tobacco business. Such an action, which Mr. Miles had advocated, is considered less likely under the new management team.

Mr. Miles, 54, has come under increasing criticism from large shareholders, the board and employees in recent months. He was the first nonsmoker to run the company and never fully gained the confidence or loyalty of the company's tobacco executives, according to analysts and employees. Questions about his leadership have haunted Mr. Miles since last year, when his abrupt decision to cut the price of Marlboro cigarettes rocked the industry.

Industry Whistleblower

Merrell Williams Jr. is the tobacco industry's worst nightmare: an informed insider who has turned against the secretive industry. Article on page B1.

Never Quite Comfortable

Mr. Miles joined Philip Morris in 1988 when it acquired Kraft Inc., and he never become completely comfortable with the swashbuckling culture of the tobacco business, some of the company's tobacco executives say.

At a six-and-a-half hour board meeting last month, the company's powerful former chairman, Hamish Maxwell, resisted Mr. Miles's proposal to split the company into separate tobacco and food businesses. The board ultimately decided to take no action on the proposal, but named Mr. Murray and Mr. Bible vice chairmen.

At that meeting, the board openly aired its doubts about Mr. Miles. People close to the company say the board discussed whether Mr. Miles was the right executive to be running the company. During that discussion, Mr. Miles and the other Philip Morris executives on the board were asked to leave the room. Philip Morris declined to comment, but John J. Tucker, a senior vice president at Philip Morris and perhaps Mr. Miles's closest associate at the company, said Mr. Miles retained the full confidence of the board.

'Nobody Ever Saw the Guy'

But Mr. Miles's aloof style has been criticized by people inside and outside the company at a time when the industry is facing an unprecedented series of attacks. "He was invisible," says Gary Black, an analyst with Sanford C. Bernstein. "Nobody ever saw the guy."

Mr. Black said the changes were positive for the company. "The board is realizing this has always been a tobacco company and that it makes sense to have tobacco guys in charge." Mr. Black added that it's likely that Mr. Bible, a hugely popular and well-respected tobacco executive, will eventually run the entire company.

In a company statement, Mr. Miles said that, with the company's tobacco business gaining strength, "it makes sense to again have a career Philip Morris executive in the top job." He couldn't be reached for further comment.

Philip Morris generates annual sales of $60 billion, selling such household brand names as Marlboro cigarettes, Velveeta cheese, Cheez Whiz and Miller beer. In 1993, 55% of its $9.2 billion in operating profit came from tobacco. Philip Morris had net income of $3 billion.

The new team is expected to be far more open than Mr. Miles, who hasn't briefed Wall Street analysts or the media in more than a year. Messrs. Murray and Bible plan to meet with analysts and the media this week.

Mr. Miles's problems escalated in recent months as he advocated splitting the company into separate food and tobacco businesses and old-line board members resisted. In recent months, Mr. Maxwell had been reinserting himself in company affairs and showing up at Philip Morris budget meetings.

As chairman of the compensation committee, CitiCorp chairman John Reed was the Philip Morris board member that handled Mr. Miles's resignation.

Mr. Miles resigned Friday afternoon. A board meeting was conducted by telephone Saturday morning and the resignation was accepted with "regret," the company said in a statement. Mr. Reed said the decision to resign was Mr. Miles's.

In announcing his resignation, the company quoted Mr. Miles as defending his controversial decision to cut the price of premium cigarettes last year, a move that bolstered the company's volume but hurt its stock price and profits.

"I leave with full confidence that the difficult decisions made over the past two years will be proven right by our results in 1994 and beyond," he said.

Mr. Tucker, the friend of Mr. Miles, says that Mr. Miles plans to take the summer off and "play golf, go to Italy."

While the tobacco business is faring better, the performance of the food business continues to be a frustration to analysts. Cutbacks and perpetual restructuring at Kraft General Foods has resulted in a decline in service, says Ned Meara, a buyer for Grand Union Supermarkets in New Jersey, who says fewer Kraft General Foods salespeople now call on his store. The cost-cutting, he adds, became evident last year after Philip Morris's earnings plunged, following Mr. Miles's decision to cut cigarette prices.

Says Mr. Meara, " 'Marlboro Friday' has had a tremendous residual effect throughout the whole company."

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NEW YORK POST, MONDAY, JUNE 20, 1994

Business

PHILIP MORRIS CHIEF QUITS IN A SHAKE-UP

By JONATHAN AUERBACH

Philip Morris boss Michael Miles resigned from the nation's largest tobacco company yesterday following widespread criticism for lack of leadership.

Big Mo said the 54-year-old Miles decided to quit as chairman and chief executive officer and that his resignation was "accepted with regret."

The company split the two posts, naming R. William Murray chairman and Geoffrey Bible president and chief executive officer.

Both were named vice-chairmen in May when Philip Morris opted not to split its food and tobacco business.

Murray, 58, was heading up the company's worldwide food operations, which include Miller Beer, Kraft and General Foods. Bible, 56, ran tobacco operations, which include the Marlboro and Benson & Hedges brands.

Wall Street is expected to applaud Miles' departure this morning, sending Philip Morris shares up. The consumer-products giant on Friday closed down ¼ at 50¼.

"I leave with the full confidence that the difficult decisions made over the past two years will be proven right by our results in 1994

MICHAEL MILES
Resigned.

R. WILLIAM MURRAY
Named chairman.

GEOFFREY BIBLE
President and CEO.

and beyond," Miles said in a statement.

"Now, however, with the resurgence of the U.S. tobacco business and the continued strong growth in international tobacco, it makes sense to again have a career Philip Morris executive in the top job," he said.

The resignation was accepted by Citicorp Chairman John Reed, who heads up Big Mo's compensation committee.

Reed said: "We are fortunate to be able to turn to Bill Murray and Geoff Bible, who have long demonstrated their skills in guiding our food, tobacco and brewing businesses around the world.

"Between them, they have nearly 50 years of experience with the company."

Since taking the helm in 1991, Miles' inaccessibility to the investment community has irked analysts, while Bible has already garnered praise for his openness.

Analysts were dismayed last year when he disappeared after announcing what became known as Marlboro Friday. On April 2, 1993, the company stunned the financial community by slashing cigarette prices by 40 cents a pack.

Tobacco has been hit hard by price wars and growing government scrutiny of the industry. Last year, the cut-throat competition among cigarette makers resulted in a $2 billion drop in domestic tobacco profits.

Since Marlboro Friday, Philip Morris stock has dropped more than 20 percent. Its share of the domestic tobacco business has increased to 27 percent from 22 percent before the price cuts.

In the first quarter of 1994, operating income in the company's domestic tobacco business fell 25 percent to $769 million.

Concern over Miles' leadership was also a key point at last month's marathon board meeting.

At that meeting, Philip Morris decided not to break up its food and tobacco operation into separate businesses. Some senior executives of the company had lobbied for the split, saying the anti-tobacco sentiment was hurting its shares.

They also pressed for the separation in order to protect food operations from possible liability lawsuits, increased government regulation and higher taxes facing the tobacco business.

Miles' appointment three years ago was considered a surprise because he was viewed as an outsider coming from Kraft, with no tobacco background.

The fact that he had quit smoking also drew skepticism.

The promotion was seen as an indication that Philip Morris was moving away from its tobacco roots. Food and beer now account for 56 percent of the company's $50.6 billion in sales, but tobacco is still the profit center.

Miles replaced Hamish Maxwell, who retired. Maxwell recently has been spotted visiting the company's Park Avenue headquarters, a scene casting more doubt on Miles' leadership.

NEW YORK POST, MONDAY, JUNE 20, 1994

Miles failed to take charge of Big Mo

MICHAEL Miles failed to show the leadership that would overcome the culture clash within Philip Morris between the tobacco and food operations. He paid the price with his resignation yesterday.

The stunningly efficient leadership coup, at America's seventh biggest company, came just weeks after Miles fought off an increasingly hostile board.

The board knew Big Mo's stock price was languishing after last year's tobacco price war. It was also hurt by anti-tobacco sentiment across the country.

The board also knew its tobacco people were confident they would defeat the tobacco liability claims. Profits were bouncing back and its decision to slash cigarette prices last year was vindicated. Marlboro, its top brand was regaining market power.

What the board wanted was effective leadership to bring these positives to the attention of the shattered morale within the company and the doubters on Wall Street.

Miles did neither.

Instead the board decided to go with the so-called Kangaroo mafia of fellow Australians, Bill Murray and Geoffrey Bible. The two veterans — one from tobacco and the other from food side — would lead the fight.

The appointment of these two seasoned insiders, with over 50 years combined experience across the cultural divide at Big Mo, should serve as a rallying point within the company.

The shake-up should be reflected in a higher stock price today, because both men are also better known among analysts than their publicity-shy predecessor.

To help the cause, Big Mo is also expected shortly to announce an extended stock buyback program to return more value to stockholders.

Big Mo is presently spending the last of the $1 billion authorized for stock purchases earlier this year.

Yesterday's action also represents a complete reversal of the decision just three years ago that put Miles in charge.

Miles came to Philip Morris in 1988 when it purchased Kraft Inc. for $12.9 billion.

Big Mo paid too much for Kraft. In a highly-competitive industry where all the participants are struggling, its performance has been just average.

International tobacco sales will emerge as the profit leader in the company. Meanwhile, the domestic industry is being hit with a wave of liability claims, which Philip Morris is confident can be beaten.

Big Mo's stock price is languishing. Friday it closed at 50⅜, off ⅛. That is 28 percent below the 70-a-share level the stock traded at when Miles took over in September 1991.

As reported last week, board-level concern over Miles' lack of leadership came to a peak at its June 25 board meeting. After seven hours it was decided to give Miles another chance.

The market mistakenly thought the fight was over splitting up the company between food and tobacco. But this issue was settled before the June 25 meeting. It was decided the split was not legally possible.

Murray Bring, the company's top lawyer advised a split could not safely protect the food operations from tobacco liability claims without an outright sale of one of the divisions.

It was Miles who first proposed the split some nine months ago, when the company was fighting to restore its tobacco profits in the wake of the Marlboro Friday price cuts.

The move was rejected at the time as being a little premature. The board knew that the struggling food division could only benefit from the steady cash flow from tobacco.

With only begrudging board support Miles chose to stay on. But when word leaked out early last week about the real contents of last month's meeting he handed in his resignation.

He rightly decided it was in the best interests of the company to leave quickly. This would avoid a potentially destabilizing public fight at a time when the company desperately needs unity.

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MONDAY, JUNE 20, 1994 · USA TODAY

Philip Morris CEO quits; stock likely to fall

By Eric D. Randall
USA TODAY

Philip Morris Chairman and Chief Executive Michael Miles, 54, abruptly resigned over the weekend. And industry analysts predict more tough times for the firm in the stock market.

"The decision was Mr. Miles'," John Reed, a Philip Morris board member and chairman of Citicorp, said in a news release. The board accepted the resignation "with regret" Saturday.

"For shareholders, this is not a good thing," says Tony Vento, stock analyst at Edward D. Jones. He expects the stock to drop today.

The company is losing the leading advocate of splitting off its food unit, which produces half of Philip Morris' revenue. Some big shareholders support the idea. They fear anti-tobacco lawsuits and legislation are hurting the company's stock.

Philip Morris' board didn't act on the proposal after a $6\frac{1}{2}$-hour meeting May 25. "That board meeting had to be a lot more bloody than anyone imagined," says Frederic Dickson, stock analyst at D.A. Davidson.

Not so, says company spokesman Barry Holt. "There was a consensus among the board members, including Mr. Miles, (that) it was not appropriate to take action at this time to split the company."

Still, "you don't often find people walking away from million-dollar jobs," Dickson says. In 1993, Miles was paid \$1 million, a \$345,000 bonus and stock options worth an estimated \$1.2 million. Holt wouldn't comment on Miles' severance package.

Miles, a non-smoker, became CEO in September 1991 after being CEO of Kraft General Foods. (Philip Morris bought Kraft in 1988.)

Since then, the company's stock has dropped 32% to close Friday at $\$50\frac{3}{8}$, down $\frac{1}{8}$. "He made the tough decisions," Dickson says, including cutting cigarette prices 40 cents a pack in April 1993.

Now power is shifting back to the tobacco side. Geoffrey Bible, formerly executive vice president of worldwide tobacco, becomes president and CEO. William Murray, the former president, becomes chairman. Both were named vice chairmen last month.

MILES: Background is in food business, not tobacco.

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JUN 20 1994

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Philip Morris Chairman Announces Resignation

2 Longtime Executives to Fill Posts

By Jay Mathews
Washington Post Staff Writer

NEW YORK, June 19—Philip Morris Cos., the world's premier tobacco producer, today announced the resignation of its chairman and chief executive, Michael A. Miles.

Like other cigarette companies, Philip Morris has been besieged this year by threats of increased government taxes and lawsuits because of mounting evidence that tobacco is a health risk, but many financial analysts have praised the company's management and said its food and international tobacco divisions showed potential for growth.

John C. Maxwell Jr., a managing director of Wheat First Securities in Richmond, speculated that Miles may have quit after losing a fight to split the firm's troubled American tobacco operations away from its healthy food and international tobacco business.

A Philip Morris spokesman, Barry Holt, denied the claim. "There was a consensus, including Mr. Miles, that such action was not appropriate at this time," Holt said.

Miles, 54, a food industry expert who has been with Philip Morris six years, said in a statement he thought it was time for a chairman with longer tenure at company, which had revenue last year of $50.6 billion. "With the resurgence of our U.S. tobacco business, and the continued strong growth in international tobacco, it makes sense to again have a career Philip Morris executive in the top job," he said.

Miles joined Kraft General

MICHAEL A. MILES
. . . with company for six years

Foods Inc. in 1982 as president and chief operating officer and was chairman and chief executive of that company when it was acquired by Philip Morris in 1988. In 1991 he became chairman and CEO at Philip Morris.

The Philip Morris board said it accepted Miles's resignation Saturday. The board elected R. William Murray, 58, formerly corporate vice chairman, as chairman. Geoffrey C. Bible, 56, was elected president and chief executive. Murray joined the company in 1970 and Bible in 1968.

John Reed, chairman of the board's compensation committee, said it was Miles's decision to resign. Reed, chairman of Citicorp, said Miles "helped build and integrate our global food business, and led us through some difficult pricing decisions," including a cigarette price war last year that helped its Marlboro brand keep its leading market share.

JUN 2 0 1994

CHICAGO SUN TIMES JUN 2 0 1994

Chairman Resigns At Philip Morris Inc.

By Farrell Kramer
7-39
Associated Press

NEW YORK—Philip Morris Companies Inc. announced Sunday the resignation of chairman and chief executive Michael A. Miles, who said it was time to "again have a career Philip Morris executive in the top job."

Miles headed Kraft General Foods, based in north suburban Glenview, when it was acquired by the tobacco giant in 1988.

Michael A. Miles

The world's largest tobacco company said its board had named vice chairman R. William Murray as chairman and vice chairman and board member Geoffrey C. Bible as president and chief executive, amid a streamlining of its top management.

"The decision was Mr. Miles'," said Citicorp chairman John Reed, chairman of the Philip Morris board's compensation committee. "Mike has done much for Philip Morris since he joined the Philip Morris family of companies in 1988."

The New York-based food and tobacco company said Miles' resignation was accepted Saturday by Reed.

Barry Holt, a spokesman for Philip Morris, said the resignation was not due to the company's performance under Miles, nor did it have anything to do with a rumored possible split of the company's food and tobacco businesses.

"As a matter of fact, as we have previously announced, that is not on the table anymore," Holt said. At a board meeting last month the company decided not to separate the businesses, but there was a split reported between board members about that strategy.

The tobacco industry has been under fire recently from Congress and the public over the health hazards of cigarettes and allegations that the industry concealed information about potential dangers as far back as the 1950s.

Tobacco companies have maintained they have done nothing wrong.

A realignment of Philip Morris' top management structure follows Miles' resignation, Holt said. There will no longer be a chief operating officer. Instead, heads of the company's operating businesses will report directly to Bible, the new CEO.

Also, Holt said, the two vice chairman positions will be eliminated.

"I leave with the full confidence that the difficult decisions made over the past two years will be proven right by our results in 1994 and beyond," said Miles, 54.

"Now, however, with the resurgence of our U.S. tobacco business, and the continued strong growth in international tobacco, it makes sense to again have a career Philip Morris executive in the top job."

Miles was elected chairman and chief executive of Philip Morris in August 1991, after serving as deputy chairman. Before that, Miles was chairman and chief executive of Kraft General Foods Inc., which Philip Morris acquired in 1988.

He joined Kraft in 1982 as president and chief operating officer.

Of Murray, 58, and Bible, 56, Reed noted that together they have nearly 60 years' experience with Philip Morris.

The recent past has proven challenging for Philip Morris.

In 1993, Philip Morris surprised analysts with a drastic price cut on premium brand cigarettes.

Hurt by the increasing popularity of cut-rate cigarettes, Philip Morris last May cut the price of Marlboro, its best-known brand, by 40 percent. The company later made similar cuts on other domestic brands.

Also, Philip Morris announced a major restructuring last fall that included the elimination of 14,000 jobs over three years.

In the first quarter, Philip Morris reported earnings improved 59 percent from a year earlier, when results were hurt by an accounting change. The company earned $1.17 billion, or $1.34 a share, compared with $737 million, or 84 cents a share, a year earlier.

CHICAGO TRIBUNE JUN 2 0 1994

Philip Morris chairman resigns

Associated Press 1/3

NEW YORK—The chairman and chief executive of Philip Morris Cos.—the world's largest tobacco company—has resigned, saying it is time for a "career Philip Morris executive in the top job."

Michael A. Miles resigned Saturday after three years at the post, the company said in a statement Sunday.

Philip Morris' board named two men with a total of 50 years of experience at the company to take over Miles' job. Vice chairman R. William Murray was named chairman, and vice chairman and board member Geoffrey C. Bible was named president and chief executive.

The New York-based food and tobacco company said the changes are effective immediately. Miles, a nonsmoker, was the company's first chairman from outside the tobacco industry.

"The decision was Mr. Miles'," Citicorp Chairman John Reed, chairman of the Philip Morris board's compensation committee, said in the statement. "Mike has done much for Philip Morris."

Company spokesman Barry Holt said the resignation was not related to the company's performance or to a rumored split of its food and tobacco businesses.

"I leave with the full confidence that the difficult decisions made over the past two years will be proven right by our results in 1994 and beyond," Miles said in the statement.

"Now, however, with the resurgence of our U.S. tobacco business, and the continued strong growth in international tobacco, it makes sense to again have a career Philip Morris executive in the top job," he said.

Hurt by the increasing popularity of cut-rate cigarettes, Philip Morris in May 1993 cut the price of Marlboro, its best-known brand, by 40 percent. The company later made similar cuts on other domestic brands.

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DALLAS MORNING NEWS JUN 2 0 1994

Philip Morris CEO resigns unexpectedly

Analysts point to battle to spin off food business

Bloomberg Business News

NEW YORK — The surprising resignation of Michael Miles as chairman and chief executive of Philip Morris Cos. follows a rift between him and the board over the company's direction, analysts said.

The board, meeting Saturday in what a spokesman described as an "emergency" session, elected R. William Murray as chairman and Geoffrey C. Bible as president and CEO. Mr. Miles, Mr. Murray and Mr. Bible weren't available for comment.

Mr. Miles, 54, resigned from the New York-based tobacco and food company amid growing government scrutiny of tobacco companies, competition from discount cigarettes and pressure from shareholders to restructure. Philip Morris makes Marlboro cigarettes, Kraft brand foods and Miller beer.

Securities analysts who track the company have been vocal in their belief that a move to split the tobacco unit apart from the food business would increase the value of the food business and raise Philip Morris' long-ailing stock price. Many shareholders had urged such a breakup to shield the food operations from the possibility of liability lawsuits.

Many analysts expected this decision to be made at Philip Morris' board meeting in May. It wasn't.

Mr. Miles "was invited to leave the board meeting and the insiders kept the meeting going for several hours after he left," said Frederic Dickson, an analyst at D.A. Davidson & Co. in Great Falls, Mont. "It said to me that the battle had to be very, very heated over the strategic direction of the company."

Tony Vento, of Edward D. Jones & Co. in St. Louis, said many analysts believed that "Mr. Miles had wanted to split up the food and tobacco businesses. He was under a lot of pressure to boost the value of the stock."

"If Mr. Miles thought splitting the company was the best way to enhance shareholder value," he would have felt substantial

Please see PHILLIP MORRIS on Page 4D.

"frustration" with the board for its lack of support, said Jeffrey Omohundro of J.J.B. Hilliard & Co. in Louisville.

Analysts said Sunday they expect Philip Morris' new leadership will soon announce that the company will begin buying back its shares as a gesture of support designed to boost the price of the stock.

Meanwhile, Philip Morris tried to dispel the notion that a rift between Mr. Miles and the board compelled him to leave the job he had held since September 1991. He joined Philip Morris in 1988, when the company acquired Kraft General Foods Inc.

Insisting that Mr. Miles was not pushed out by the 19-person board, Nicholas M. Rolli, a Philip Morris spokesman, said: "He decided to leave on his own, for his own personal reasons."

In any event, the moves occurred swiftly. Mr. Rolli said the matter of Mr. Miles' resignation was first discussed by the directors by telephone late Friday afternoon.

"The formal resignation was accepted on Saturday morning at an emergency meeting," Mr. Rolli said.

"We were quite disappointed after the last board meeting," said analyst Marvin Roffman of Roffman-Miller Associates in Philadelphia. "We were looking for a break-up or a shareholder repurchase. A significant amount of value is locked up in the food business. If you break the company up, you can release that value."

To the analysts, the timing of the announcement indicated that Mr. Miles had become too frustrated to continue in his posts.

"It's interesting the announcement came out on a Sunday," said Mr. Dickson of D.A. Davidson. "My initial sense when I first heard it was basically the board meeting of a couple of weeks ago was still being played out behind the scenes, and off-stage. Behind the scenes, it was clear you had a chairman that was looking at options, trying to best protect the company from the possibility of fairly severe legal fallout regarding domestic tobacco liability."

(Other coverage available upon request.)

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LOS ANGELES TIMES JUN 20 1994

Philip Morris CEO Quits; 2 Officers to Split His Duties

By STUART SILVERSTEIN
TIMES STAFF WRITER

The head of Philip Morris Cos. abruptly quit over the weekend in a stunning shake-up at the nation's biggest tobacco concern.

Chairman and Chief Executive Michael A. Miles, a veteran of the company's food business who has been criticized by tobacco partisans for being unresponsive to attacks on the cigarette industry, is being replaced by two executives with long experience on the tobacco side of the business.

The changes at the helm of New York-based Philip Morris come as the entire U.S. tobacco industry is reeling from assaults by politicians and anti-smoking activists. Tobacco company profits also have suffered until recently from a price war fueled by Philip Morris last year when it slashed the price of its Marlboro cigarettes.

Even so, the shake-up at Philip Morris favors the tobacco side of the company over its vast food and beer operations, which include Kraft General Foods and Miller Brewing Co. Miles, 54, who is stepping down after nearly three years as the head of Philip Morris, was the first nonsmoker to run the company and was Kraft's chief executive when the food processing giant was acquired by the tobacco concern in 1888.

By contrast, Miles' replacements—R. William Murray, 58, and Geoffrey C. Bible, 56—are both longtime tobacco executives, with a combined 50 years of experience at Philip Morris. Murray, Philip Morris' president and chief operating officer until he was named vice chairman for food last month, now becomes chairman of the entire company.

Please see SHAKE-UP, A15

Bible, who had been vice chairman of tobacco, was elevated to president and chief executive of the entire company. Although the title of CEO would suggest that Bible is now the most powerful executive at Philip Morris, a company spokesman said that he will report to Murray.

In a letter of resignation submitted late Friday but not disclosed by Philin Morris until Sunday, Miles said he is leaving with "full confidence" that the decisions made during his tenure "will be proven right by our results in 1994 and beyond."

"Now, however, with the resurgence of our U.S. tobacco business and the continued strong growth in international tobacco, it makes sense to again have a carder Phillip Morris executive in the top job," he added.

Neither Miles nor his successors could be reached for comment. Spokesmen for the company said Miles was not pressured to leave, but he is widely believed to have run into strong opposition from other directors and major investors.

His main nemesis may have been Philip Morris' former chairman, Hamish Maxwell, who is said to have plunged back into the company's operations recently. When a proposal believed to have been pushed by Miles to split Philip Morris' tobacco and food operations was considered by the board last month, Maxwell is believed to have played a strong role in shooting it down. Splitting the company had many fans on Wall Street, where the investment community hoped such a move would both yield greater value for shareholders and insulate a separate food business from tobacco liability.

Philip Morris stock is one of America's most widely held and is included in many pension funds. The company's shares climbed from about $80 when Miles took over in September, 1991, to a high of just over $86 a year later, but they have plunged since—they closed at $50.375 on Friday—costing investors more than $30 billion since 1992. Industrywide turmoil gets much of the blame, however.

The overall value of the company on Wall Street fell by nearly $13 billion one day last year, after investors were caught off guard by an announcement that the company was slashing premium cigarette prices to stave off competition from cheaper brands.

Although Miles' departure does not appear to be directly related to rising protests by anti-smoking activists, he is believed to have frustrated those close to the company with his barely visible profile in the current national debate. Miles rarely gives interviews to the news media or speaks before Wall Street analysts who follow the company's stock.

But John C. Maxwell Jr., an analyst with Wheat First Securities in Richmond, Va., said he believes the company is positioned to do well in coming years—unless substantial new taxes or other strong regulatory controls are placed on tobacco sales.

JUN 2 0 1994

ADVERTISING AGE, JUNE 20, 1994

What Murray brings to Kraft

Industry speculates his role is as caretaker pending PM breakup

By Patricia Gallagher

Philip Morris Cos.' decision to bring in a tobacco man to run Kraft General Foods has investors and Kraft followers wondering what's in store for the mammoth food company.

With his new job of vice chairman for worldwide food, R. William Murray gives up half his responsibilities and takes more direct control of KGF at a time when Philip Morris is poised to separate its food and tobacco businesses.

"I think they are positioning it for a cleaving," said J. Bruce Harreld, Boston Chicken president and former KGF executive, echoing a theory of dozens of investors and observers.

Mr. Murray, 58, spent 21 of his 24 years at Philip Morris selling cigarettes—and three overseeing both food and tobacco—as president and chief operating officer.

He also moves into the KGF position at a time when growth of food earnings has fallen from the mid-20% range in the late 1980s to about 7% last year.

So who is the man who could end up in charge of a free standing, $30.3 billion food giant that would rank No. 13 on the *Fortune* 500?

Industry sources, including some former KGF executives, characterize Mr. Murray as a strong administrative and operational executive with close ties to former Philip Morris Chairman Hamish Maxwell. He also provides a liaison to top Philip Morris management, the board and Wall Street.

But Mr. Murray is viewed by some as a caretaker at KGF, having virtually no direct experience managing food businesses.

He's "solid and trustworthy," said one source, but "really doesn't add much," said another.

What Mr. Murray does bring is impressive international business experience.

The Australian native joined Philip Morris in 1970 as a finance manager in Switzerland, later holding jobs as president of the Benson & Hedges brand in Canada, president of the company's Europe/Middle East/Africa division and president-CEO of Philip Morris International. He brings that cosmopolitan background to Kraft General Foods at a time when the company's phenomenal growth overseas has slowed.

Just four years ago, KGF's international sales were growing 66% annually and operating income was surging nearly 80%. By last year, the pace had slowed dramatically, with revenue up 8% and operating income up 3%.

Mr. Murray's new focus also coincides with increased investments overseas. Last year, KGF bought Freia Marabou, a Scandinavian candy company, for $1.3 billion, and Terry's Group, a U.K. candy concern, for $295 million.

The company also expanded its coffee business in the Czech Republic and China, its cheese business in Poland and other food categories in Australia, Turkey, Argentina and Brazil.

As Europe's fourth-largest food company and the Asia/Pacific's leading U.S. food marketer, Kraft General Foods International generated $1.11 billion in earnings on $9.43 billion in sales last year—12% and 15%, respectively, of Philip Morris' totals.

International expertise aside, some observers say Mr. Murray's lack of food industry depth is a detriment. But his impact will be significantly buffered by a thick layer of seasoned KGF executives, experts say.

"As long as he and [Mike] Miles work together, I think they'll be a good team," said Bruce Gregory,

R. William Murray, Kraft General Foods' new boss, brings loads of international business experience but no direct experience in the food category.

portfolio manager for Progressive Partners, a New York money management company pushing for a breakup.

Mr. Murray continues reporting to Philip Morris Chairman-CEO Michael A. Miles, as he did as president. Under a breakup, though, KGF might lose Mr. Miles, its former president, as a safety net. Only he—and presumably, his board—know whether a split will occur.

The investment community is pushing that scenario.

After a board meeting late last month, Philip Morris said it would take no action on plans to consider separating its businesses. A day later, the company said it didn't anticipate the board would take up the issue again "in the foreseeable future."

But Philip Morris hasn't completely closed the door on tearing apart the tobacco and food businesses, and management remained flexible on the subject in a meeting with six large institutional investors.

"They have indicated a willingness to meet," said Anne Hansen, deputy director of the Council of Institutional Investors.

Ms. Gallagher is a reporter for Crain's Chicago Business.

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JUN 20 1994

RTf 06/17 1606 Philip Morris <MO.N>, others cut by Salomon

NEW YORK, June 17 (Reuter) - Salomon Brothers analyst Diana Temple downgraded tobacco stocks Philip Morris Cos Inc, RJR Nabisco Holdings Corp <RN.N> and B.A.T. Industries Plc <BATS.L> to hold from buy, citing extensive news coverage of the industry.

The analyst left a buy rating on American Brands Inc <AMB.N>, saying she believes B.A.T. Industries will close its deal to buy the U.S. tobacco unit and will indemnify the U.S. company against the litigation risk.

"We believe the tobacco industry is being tried by the press and mass media which will make it difficult for the tobacco industry to get a fair hearing in court," Temple said.

REUTER

The New York Times

SATURDAY JUNE 18, 1994

Date:

Goodbye Cyclicals, Hello Growth Stocks, Or So the Analysts Say

P36

By SUSAN SCHERREIK

Quite a few money managers are gushing about the prospects for large-company growth stocks, a group that has languished for two and a half years.

The cyclical stocks, in the auto, steel, rail and other economically sensitive industries, have had a heady surge but are running out of steam, the argument goes. The Federal Reserve, in its zeal to keep inflation in check, will ultimately slow economic growth. When it does, the cyclicals will be replaced by big growth companies, which record consistent earnings gains even in a sluggish economy.

"The next major move in the economic cycle is going to favor growth stocks," said John D. Gillespie, manager of the $2 billion T. Rowe Price Growth Stock Fund. Although it is hard to pinpoint economic transitions, the growth-stock followers expect a shift over the next six months.

Naysayers, of course, point out that just last week, a blue-chip growth stock — Pepsico — headed south on a report that the company's second-quarter earnings would be flat. Other food and beverage stocks fell as well. The decline raised concerns about whether growth stocks could stage a rally any time soon.

The growth stocks will come around, the investment advisers insist. But something else is afoot as well — a drastic change in the category.

"The 1990's will largely redefine growth stocks," predicted Shelby Davis, portfolio manager of Selected American Shares, a mutual fund invested primarily in large companies. Some old die-hards are giving way to new favorites.

Quality growth companies, which have hefty market shares and strong balance sheets, typically post 10 to 20 percent increases in earnings year after year. Because they plow most of their earnings into operations for future growth, they pay skimpy dividends, if any at all. Like Energizer bunnies, they keep going even when the economy languishes because they sell goods and services that people buy no matter what.

Consumer products companies dominated the growth category in the late 1980's. Their brand-name products, whether small-ticket items like soft drinks, cigarettes and cereals, or essentials, like drugs, found a ready market. But in the early 1990's, consumers turned frugal, and price competition squeezed profit margins for food, tobacco and drug companies, including Kellogg, Philip Morris and Merck. Pepsi cited similar competition and price pressures in its latest earnings forecast.

"The traditional growth stocks are showing signs of age — their profitability is slowing," said Ron Ognar, who runs the Strong Growth Fund, which invests in growth companies of all sizes. "Newer, fresher companies will have an easier time."

Although it is premature to conclude that Pepsico will be displaced as a blue-chip growth stock, many companies no longer fit the mold, said David Shulman, chief equity strategist at Salomon Brothers.

What does? Fund managers interviewed in recent weeks pointed to companies that help consumers and businesses cut costs and save money.

Financial services companies, like Charles Schwab and Merrill Lynch, are expected to flourish as baby-boomers focus on saving for retirement. Companies that help businesses raise productivity — by using technology or by taking over routine tasks — should also deliver double-digit earnings growth. Among the managers' favorites: Automatic Data Processing, which processes company payrolls, and Motorola, a leader in wireless communications products.

Many of the new growth companies will add to earnings by muscling into foreign markets. Mr. Davis dubs the American International Group "the Coca-Cola of insurance" because of its global strategy.

(Cont'd)

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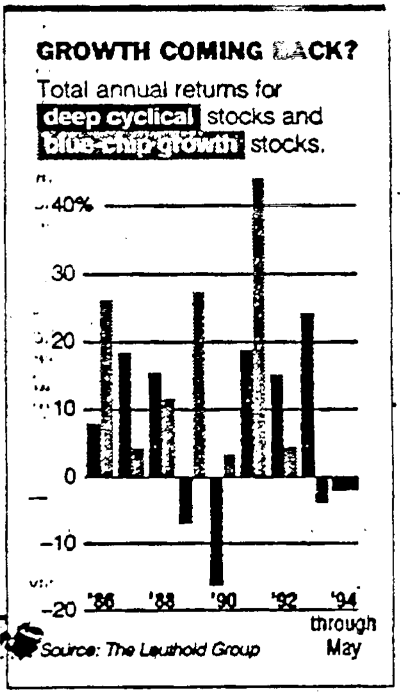

The New York Times

And not all the old-line growth stocks will fade. Gillette and Procter & Gamble, for example, are expected to thrive in large part because of their international positions.

Investors who collect these stocks will be rewarded over the next three to four years, said Mr. Ognar of the Strong fund.

For support, the fund managers point out that the party is ending for cyclical stocks. The cyclicals have been the market leaders for 22 months, while their typical spurt is just 18 months, said Michael A. Hamilton, a financial analyst with the Leuthold Group, an equity research group in Minneapolis.

What's more, investors can find exceptionally good deals in the growth sector. Growth stocks usually sell for a premium, reflected in high price-to-earnings ratios. But the P/E ratios of many issues are near their lowest levels in several years.

One way to spot issues that are well priced is to compare a stock's P/E with the annual earnings gains forecast for the next five years. If the P/E ratio (the price of a share divided by its per-share earnings for the next 12 months) is equal to or less than the annual growth rate, then the stock represents good value.

Mr. Gillespie of T. Rowe Price favors the Federal Home Loan Mortgage Mortgage Corporation. Its stock has a P/E of 10 based on 1995 earnings projections, and its annual earnings growth is expected to be 15 percent. At the end of March, the mortgage company was the largest holding in Mr. Gillespie's growth fund — a stark change from five years ago. At the end of 1988, the fund's biggest holding was I.B.M., no longer a growth stock by any definition.

OR State Investments-Tobacco, Bjt,370
Oregon Public Investment Managers Worried About Tobacco Stocks

PORTLAND, Ore. (AP) The prospect of anti-smoking legislation has state retirement fund managers reconsidering more than a half billion dollars invested in tobacco companies.

The Business Journal, a Portland weekly, said the single largest state investment in tobacco is $450 million worth of stock in RJR Nabisco Holdings Corp., the makers of Winston, Salem and other cigarette brands.

``The thing that's really overhanging the industry is what's going on in Washington,'' said John Maxwell Jr., an analyst with Wheat First Butcher & Singer in Chicago.

Maxwell noted that David Kessler, commissioner of the U.S. Food and Drug Administration; Surgeon General Joycelyn Elders and U.S. Rep. Henry Waxman, D-Calif., are leading a fight against smoking.

Waxman, who heads the health and environment subcommittee, hauled seven tobacco industry chief executives before the panel in March as part of his effort to ban public smoking.

Kessler said this spring he's willing to consider classifying nicotine as a drug to put tobacco under FDA authority.

As a result, Oregon Treasury officials requested in writing this spring that four of its money managers justify their investments in tobacco stocks as a part of the state's $18 billion investment portfolio.

Jay Fewel Jr., the state Treasury's equities investment officer, said the state bought RJR stock at $5.50 a share five years ago but it has gone nowhere, trading about the same level this week.

But the state could not dump its RJR holdings even if it wanted to sell because Kohlberg Kravis Roberts & Co. is the managing partner of the state's portfolio and the Treasury is a limited partner without any legal right to interfere.

Past KKR investments have been hugely profitable for the state, including returns in excess of 20 percent for the buyout of the Portland-based Fred Meyer Inc. retail chain.

The state could dump the rest of its tobacco industry holding, estimated to be worth nearly $75 million in Philip Morris, American Brands and US Tobacco.

But none of the state's four money managers indicate they are selling tobacco stocks despite the state's inquiry.

``I'm not speaking for them,'' Fewel said, ``but based on their actions, they must feel that there's greater upside potential than downside risk.''

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Follow-the-leader can be dangerous for investors

Even pros stumble: Soros makes $10 million gaffe

NEW YORK — Even smart guys who think they have the inside track do dumb things.

Take globe-trotting George Soros, 63, skipper of $10 billion Soros Fund Management.

Financial World magazine reports the investment whiz personally made more than $1 billion last year. Whether that's so is anybody's guess. But his firm — in its stock activities — is said to have pulled a blunder on the short side (a bet on falling stock prices) on Genentech, a biotech leader.

Given the size of Soros' fund, the loss is no big deal — about $10 million, I'm told. But there's a lesson for investors: It's dumb to get involved in a stock just because Soros is a rumored player in it. And many investors have been doing just that.

Biggest stock holdings

About half of Soros' assets are in stocks. At top of list:

Company	Friday close	Holding value (millions)	Shares owned March 31
Newmont Mining	$41	$471	8,461,000
Deere & Co.	$74⅜	$135	1,569,000
Perkin-Elmer	$31⅝	$68	2,036,000
Tektronix	$28¼	$57	1,869,000
Philip Morris	$50⅜	$41	808,000
Legent	$28¼	$34	1,321,000
LIN Broadcasting	$119½	$33	304,000
Anadarko Petroleum	$53⅛	$32	700,000
Host Marriott	$11	$31	3,054,000
General Motors	$53⅞	$30	562,900

Source: Federal Filings

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How George Soros is playing the U.S. stock market

A rundown of Soros Fund Management's top first-quarter stock purchases and sales, ranked by dollar value.

BIGGEST PURCHASES . . .

Company	Friday close	Shares Bought in 1st Q '94	Shares Held March 31
Georgia Gulf	$34	800,000	800,000
Southern Pacific Rail	$20¼	950,000	950,000
LIN Broadcasting	$119½	185,000	304,000
Philip Morris	$50⅜	371,000	808,000
Western Atlas	$47	402,000	402,000
UAL	$123⅜	125,000	125,000
Stone Container	$15⅝	1,118,000	1,118,000
Valassis Communications	$14½	800,000	800,000
FlightSafety International	$38⅞	345,000	355,000
McCaw Cellular Communications	$52 13/16	224,000	224,000

Source: Federal Filings

. . . AND BIGGEST SALES

Company	Friday close	Shares Bought in 1st Q '94	Shares Held March 31
Home Depot	$43⅜	1,665,000	0
Kemper	$58⅝	950,000	194,000
Motorola	$47⅛	498,000	9,000
Sears, Roebuck	$48¾	762,000	0
Newbridge Networks	$34⅞	659,000	361,000
DSC Communications	$20½	537,000	114,000
Burlington Resources	$44½	592,000	0
American International Group	$95¼	272,000	25,000
General Re	$116⅝	205,000	0
Goodyear Tire & Rubber	$39¼	507,000	8,000

JUN 20 1994

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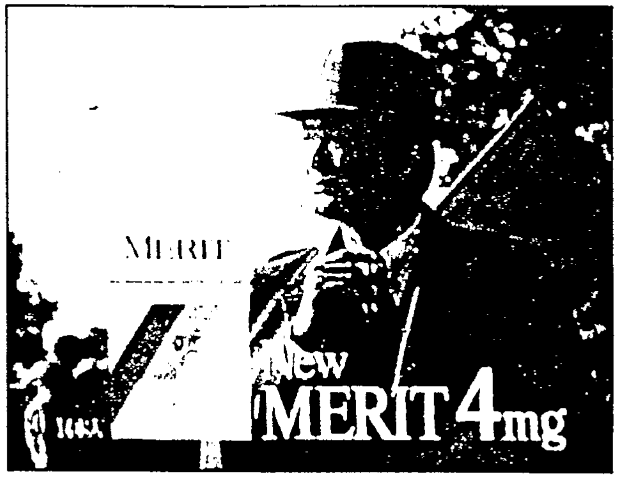
ADVERTISING AGE, JUNE 20, 1994

JUN 20 1994



Actor Tsutomu Yamazaki helps introduce Merit's lower tar content in a spot featuring a traffic jam caused by turtles.

PM is pinning high hopes on low-tar cigs in Japan

By Jack Russell

TOKYO—With a two-prong strategy to turn around its ailing ultra low-tar brands, Philip Morris International isn't just blowing smoke.

The marketer lowered Merit's tar content by 33% to 4 milligrams and began a new campaign, helping slow sales declines by volume to 14% last year from 20% in 1992.

The brand's market share hovers around 1% by volume.

And Philip Morris also expects a new campaign for Next to pay off big with a threefold sales increase to $175 million this year.

Unlike many global markets where cigarette consumption is down, the Japanese market has risen four years running. The Tobacco Institute of Japan reported sales climbed 1.6% to $36 billion for the fiscal year ended March 31. Ultra low-tar brands, classified as those with 6 milligrams or less, are showing exceptional growth in this massive market.

James A. Scully Jr., Philip Morris director of marketing, said ultra low-tar cigarettes now hold 28% of the overall cigarette category by volume and will likely reach a 35% share by 1995.

Merit sales in 1993 were $92 million and are projected to decline about 3.3% in '94. Philip Morris' total sales last year were $1.4 billion.

Merit virtually created the ultra low-tar segment in 1987 with a TV, print and transit ad campaign from Leo Burnett-Kyodo, using the slogan "Thirty-three percent less tar than Japan's leading lights and it tastes better."

"We woke up Japan Tobacco," Mr. Scully said.

In fact, Philip Morris caught Japan Tobacco by surprise, forcing it to reduce the tar content of its leading smoke, Mild Seven Light, by 33% to 6 milligrams. Mild Seven Light and its higher-tar sister brand Mild Seven dominate the industry, with volume shares of 15.6% and 10.9%, respectively.

GLOBAL NEWS

But by 1992, about a dozen brands had crowded into the field. The profusion sent Merit's sales falling, and for '92, volume sales were down 20%, Mr. Scully said. Merit suffered a disadvantage because it was priced at $2.38 a pack, 14% more than the $2.09 charged for Mild Seven and most other rival brands.

Instead of lowering the price, however, Merit created a new point of difference by dropping tar content to 4 milligrams.

The change was heralded in a TV, newspaper, transit and magazine campaign that began early this year, starring actor Tsutomu Yamazaki.

In one 30-second minidrama, a conservative father of the bride refuses to pose in the wedding picture. Mr. Yamazaki comes on the scene and says, "For the time being, I wish you happiness," and offers him a Merit.

The father joins the photo session, the bridegroom's toupee falls off and the bride faints.

In another spot, the actor smoothes the ruffled feathers of motorists in a fender-bender by offering them a Merit.

While Merit has been battling back from sales declines, Philip Morris' 1-milligram Next has performed more evenly.

Japan Tobacco opened this even lower-tar niche in the early 1990s with 1-milligram Frontier Light, leaving Philip Morris to challenge the brand last September with Next.

Within one year, the 1-milligram tar niche quickly racked up 3% of the total market, including 1% for Frontier Light and 1% for Next.

Lightness is the overriding theme in Burnett's Next campaign, begun last fall. The spots, a :30 split into two :15s, use animated fingers. The finger with a male voice asks, "The No. 1 lightest, please?" Another finger with a female voice, representing the retailer, says "The lightest with the great taste." The male voice then says, "Next! That's great. Next with 1 milligrams please."

In the second half of the spot, the male finger finds the "lightest," which is Next at a vending machine. □

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JUN 20 1994

MINNEAPOLIS STAR AND TRIBUNE

JUN 18 1994

Blowing smoke

250 million strong, China's market for cigarettes has its share of quirks

High prices and low output keep brands like Blue Panda out of the average smoker's reach.

10

Reuter

Beijing, China

In China's big cities, where conspicuous consumption has become a lifestyle for a few and a hotly pursued dream for the rest, there are some things that the local currency still cannot buy.

"Panda brand? The one that [paramount leader Deng] Xiaoping smokes? You can't buy them anywhere, no one sells them," a 20-year-old who peddles cigarettes in one of Beijing's dark alleys whispered conspiratorially, looking around to make sure no one was watching or listening.

Deng is officially reported to have given up smoking a few years ago.

The peddler later confided that he could secure a "Blue Panda" packet of 20 at the black-market rate of $29, more than 10 times the cost of China's other premier brands such as Chunghwa, produced by the same tobacco factory in Shanghai.

"The Blue Panda brand is supplied only to Beijing, to the central authorities and the state council, and only by request for top official state functions," a spokesman at the China Tobacco Shanghai Corp. told Reuters in a telephone interview.

Pressed for details about where the tobacco that goes into the Panda is grown, its composition and manufacture, he said: "It is an industry secret, a closely guarded secret."

He also declined to disclose the price. "It is priceless; we produce only a very, very small quantity every year."

"It would definitely be fake if you find it in the open market, or in the black market. You cannot buy it."

One-fourth of China's 1.1 billion people are smokers, making the country the world's biggest cigarette market. It produced 1.7 trillion cigarettes last year. Forty billion were exported to Russia, Southeast Asia and other regions.

There are 180 cigarette factories in China. Except in the far west, at least one factory can be found in every province.

The huge market is seen as fertile ground for U.S. tobacco companies. Facing increasing legal and social restrictions at home, U.S. manufacturers are looking at Asia, the Indian subcontinent and parts of Europe as new markets.

RJ Tobacco International, a division of RJR Nabisco, said from its North Carolina headquarters that it has operations in China on a very small scale. It opened a plant there in 1988 in a joint venture with the Chinese government.

Each year it produces 3 billion sticks of Camel, Winston and a local brand called Golden Bridge in a 1.7 trillion-stick market, according to Brenda Follmer, director of public relations for RJ Tobacco International. She said the company would like to expand but the Chinese government has not allowed it.

Philip Morris sells its Marlboro cigarettes only in special import segments of foreign currency stores. But spokeswoman Elizabeth Chu said "We never discuss the future." Movements against smoking are few and far between in these overseas markets, especially where smoking is seen as a sign of affluence and, especially for women, social liberation.

"Although China's government is discouraging its people from smoking, and insists on warning labels on cigarette boxes, the production of cigarettes has been stable in the last few years and is not likely to fall sharply," a spokesman at the China National Tobacco Corp. in Beijing told Reuters.

"People just do not wake up in the morning and decide not to smoke ... even though cigarettes have the highest taxes slapped on them," he said.

Since January, up to 60 percent of the retail value of cigarettes — which

Cigarettes continued on page 2D

normally cost between 60 cents and $3 for a pack of 20 — has gone back to the state coffers in taxes. Total taxes — the product tax — stood at 52 percent last year.

Many of China's affluent and the more fashionable minded of its populace are opting for foreign brands such as 555 and Marlboro, which is made by Philip Morris and is the biggest-selling brand in the United States.

But because of its exclusiveness, China's top Panda brand is, not surprisingly, still surrounded by a mythical aura for the ordinary Chinese.

"It [the Panda tobacco] is grown in some highland where the air is very cool and pure. No pollutants from the environment. They also don't allow any pesticides and fungicides. And only a very small quantity is produced, maybe for 100 people in all of China. Even ministers may not get to smoke them," said a 35-year-old tobacco-connoisseur, a senior oil executive in Beijing.

While the Blue Panda's price puts it almost entirely out of reach of China's 250 million smokers, the country's tobacco authorities have not been shy to cash in on its mysterious luster on special occasions.

Yellow Panda, a cousin of the Blue Panda, was specially created for public sale during the 1990 Asian Games in China, a spokesman at China National Tobacco said.

"It was then sold to the public at 700 yuan [$80] a carton," or $8 for a packet of 20, he said.

China's three most popular brands — Chunghwa, Yun Yan and Hong Ta Shan — now retail for $10 to $25 per carton.

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ADVERTISING AGE, JUNE 20, 1994

Investment, not ads, soaring in Vietnam

By Laurie Freeman and David Butler

Investment spending in Vietnam is going through the roof, but ad spending hasn't kept pace.

U.S. companies including Visa International, American Express Co., Coca-Cola Co., Pepsi-Cola Co., Mobil Corp. and Gillette Co. almost quadrupled their investment spending in the span of a month—to $78 million in May from $20 million in April, according to Vietnam's State Committee for Cooperatioh & Investment.

The rise comes after February's lifting of the U.S. trade embargo, with the U.S. now ranking as the country's 18th-largest investor. No. 1 Taiwan was far ahead with $1.5 billion and Hong Kong with $1.4 billion.

But the big bucks foreign companies are investing don't extend to advertising, estimated at less than $5 million total this year by local agency executives.

"You go in and expect to see big billboards all over the place, but there aren't that many" in Vietnam, said an agency executive based in Thailand. "The truth is there is not that much to buy. [An advertiser] can get good national coverage for $50,000 a month."

The exceptions are the cola giants. Both Coca-Cola and Pepsi are using splashy, big budget ad campaigns including TV, radio, print and point of purchase.

AmEx is limiting advertising, to outdoor boards, one in Ho Chi Minh City and another in Hanoi, handled by Ogilvy & Mather Thailand, Bangkok.

The boards have "a world currency theme," said Elisabeth Coleman, VP at AmEx's Travel Related Services Co., New York.

GLOBAL NEWS

"Our thrust right now is to build an infrastructure so we can provide high quality services to our corporate card and business travel customers."

AmEx accounts for 75% of Vietnam charge card purchases, she said. The card is accepted by 40% of the restaurants, hotels, car rental services and retail stores in the nation.

Visa is using outdoor ads themed "Welcome to the world of Visa," said a spokesman in San Mateo, Calif.

It's just a matter of time before other marketers follow suit. San Diego-based Vietnam Investment Information & Consulting held an April trade show in Hanoi, attracting 50 major U.S. marketers. Pepsi, Gillette, General Electric Co., Kraft General Foods, Carrier Corp. and Otis Elevator Co. were among the exhibitors.

More than 100,000 people attended the four-day show, said Richard Pirozzolo, whose Pirozzolo Co., Wellesley, Mass., handled communications.

The success spurred plans for a Ho Chi Minh City show.

A Coca-Cola spokesman in Singapore said the company is importing U.S. creative and has some ads created by McCann-Erickson Thailand, Bangkok. Outdoor boards are done locally through Vinexad, Ho Chi Minh City, Vietnam's state advertising enterprise. The campaign's theme is "It's great to be back."

"This is a grass roots promotion that has gone on from" the day the embargo was lifted, the spokesman said. "We started in the centers of Hanoi and Ho Chi Minh City, and spread out to the suburbs. Now we're moving into the other cities and towns."

Coca-Cola and Vietnam National Foodstuff Import-Export Co. are partners in a $20.4 million bottling plant being built south of Hanoi.

Pepsi is also running a heavy schedule, with $1 million being spent on ads and promotion. During a major sampling drive in February and March, 1 million samples were given away in Ho Chi Minh City and Hanoi. □

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PHILIP MORRIS
COMPANIES INC.

TOBACCO

THE WALL STREET JOURNAL MONDAY, JUNE 20, 1994

The Insider Who Copied Tobacco Firm's Secrets

By EBEN SHAPIRO
Staff Reporter of THE WALL STREET JOURNAL

Merrell Williams Jr. is the tobacco industry's worst nightmare: an informed insider who has turned against the secretive industry.

Mr. Williams, 53 years old, the suspected source of a trove of internal files that have been leaked to the media and Congress, may be the most damaging whistleblower in the annals of the tobacco industry. An attorney for Mr. Williams says he doesn't know if Mr. Williams leaked the documents.

As a paralegal for **Wyatt, Tarrant & Combs**, the Louisville, Ky., law firm for the nation's third-largest cigarette company, Mr. Williams cataloged industry secrets. Beginning in 1988, when he joined the firm, and for nearly four years, he reviewed legal papers detailing Brown & Williamson Tobacco Co. executives openly acknowledging the addictive properties of cigarettes and the health risks of smoking.

Mr. Williams, who is being sued by Wyatt Tarrant in Jefferson County state court, is bound by a court order not to discuss the papers. He couldn't be located and his attorney, J. Fox DeMoisey, wouldn't make him available for this article. Mr. DeMoisey says Mr. Williams's reasons for laying low go beyond a court order. "He really has a fear that some Bubba that has been raising tobacco all his life is going to pull up next to him in a pickup truck and blow him away," he says.

Nonetheless, in absentia, Mr. Williams has become a central figure in a period of unprecedented pressure on the tobacco industry.

Mr. Williams's supporters say he copied confidential tobacco-industry documents as a cleansing act of conscience. But Mr. Williams's case seems more complex. Court records and interviews with people in Kentucky who know Mr. Williams paint

WHO'S NEWS

a portrait of a bright but stymied man, a downwardly mobile holder of a Ph.D. in theater who increasingly was bent on using the courts when he felt he was wronged.

The confidential papers "horrified" Mr. Williams, prompting him to quit smoking, according to his lawyer and court records. His lawyer says Mr. Williams "was shocked at the fraud and hoax being perpetrated upon the government and the American people" and began copying documents.

In 1992, Mr. Williams was laid off, and the following year, he underwent major heart surgery. In court papers, Mr. Williams blamed his heart ailment on the stress of "having critical information that should be make public and that would save countless lives and stop children and young adults from smoking." He also said a lifetime of smoking Brown & Williamson cigarettes contributed to his health problems. In the summer of 1993, he retained Mr. DeMoisey, who returned a box of documents to the law firm with a letter demanding "recovery" for Mr. Williams's injuries.

The law firm refused and filed a civil suit accusing Mr. Williams of theft. Brown & Williamson, which has joined the suit, has called Mr. Williams's actions an extortion attempt. Mr. Williams countersued, denying the allegations and seeking damages for health problems he claims were caused by smoking and the stress of keeping the company's secrets.

No criminal charges have been filed to support the allegations of theft and extortion, but the judge in the case has issued a broad order forbidding Mr. Williams from discussing the documents or conferring with his attorneys about his case. His attorneys have filed a motion to amend the order.

The contents of the papers, which have been leaked to various news organizations, were first disclosed in an article last month in the New York Times. Officials of Brown & Williamson, a unit of **B.A.T Industries** PLC, are expected to appear before a congressional subcommittee this week to answer questions about the documents.

Peggy Williams, Mr. Williams's mother, says, "He's done something for other people that not many people would do. He has suffered for years from knowing what he has known." Mrs. Williams says her son has always had a strong sense of justice and proudly recalls that he was once voted "citizen of the year" as a schoolboy in West Texas.

Friends, former coworkers and his ex-wife describe Mr. Williams as a bright but frustrated man. He is widely described as articulate, intelligent and charming.

A man who took great pride in his Ph.D. and once taught college, Mr. Williams held a series of jobs including car salesman and waiter. His ex-wife, Mollie Nickels, says Mr. Williams held more than 20 jobs in the dozen years they were together.

Mr. Williams earned a Ph.D. at the University of Denver in 1971. In an exchange during a deposition last year, Mr. Williams insisted that opposing attorneys note his educational accomplishments. When asked to identify himself, Mr. Williams gave his name and added, "And that's doctor. I have a Ph.D. I'd like that on the record."

After graduate school, his ex-wife says, Mr. Williams held several teaching jobs, but his teaching career ended in the early 1980s, when he was dismissed from a position in favor of a younger teacher. What Mr. Williams found particularly grating, Mrs. Nickels recalls, is that his replacement had inferior academic credentials.

(Cont'd)

HARRIS: Alvin Feinstein, a top epidemiologist at Yale University, is one example. He's known in his field as a major intellect and a bit of a gadfly. A survey of his published studies shows a handful that suggest tobacco's role in lung cancer has been somewhat exaggerated. Documents show that Feinstein received hundreds of thousands of dollars of tobacco money to support his research.

DR. ALVIN FEINSTEIN (EPIDEMIOLOGIST/YALE UNIV): One reason that I have been willing to accept support from them is that some of my free-thinking thoughts have at times led to the disapproval of grant requests that I sent to the NIH. So if I want to carry out work that does not always agree with the pervasive establishment viewpoint, when the establishment reviews requests for funding, they may turn them down. In that case, I'm perfectly happy to look elsewhere.

HARRIS: But the documents obtained by National Public Radio show that Brown & Williamson was not simply interested in supporting dissident voices to keep an ember of doubt glowing in the public debate. The company was also concerned about defending itself in lawsuits. So Brown & Williamson, along with the other major tobacco companies, ran a secret fund at the Council for Tobacco Research called Special Projects. This fund was administered behind the scenes by lawyers.

One frequent recipient of these funds was Dr. Theodore Sterling at Simon Fraser University in British Columbia. Sterling had done much work of interest to the industry. His studies suggested that chemicals in the workplace were actually responsible for many cancers attributed to smoking and he has questioned the importance of tobacco smoke in office buildings and the link between chewing tobacco and oral cancer. Sterling is not shy to admit that some of his research was funded by the Council for Tobacco Research.

DR. THEODORE STERLING (SIMON FRASER UNIV): I have received a great deal of funds from various sources and the procedure to obtain monies for tobacco research was no different.

HARRIS: But the documents show his proposals were not simply left to the officials and science advisors of the Council to approve or disapprove as they saw fit. They were handled by a big Kansas City law firm called Schuch Hardy & Bacon. For example, a 1982 letter from that law firm to Ernest Pepples at Brown & Williamson and top lawyers at the other major tobacco companies recommends giving Sterling another $800,000 in the form of a CTR Special Projects grant to continue his research and relationship with the industry. Here's an excerpt.

UNIDENTIFIED MAN (READING LETTER): We continue to consult with Dr. Sterling about new directions for scientific research, developments in the smoking and health controversy, and the identification of investigators and research institutions of possible interest to the industry. Our contacts with Dr. Sterling continue to be helpful and most valuable, especially in view of his expertise in the area of the health effects of occupational exposures.

HARRIS: The Council for Tobacco Research's 1993 annual report naming all past and present grant recipients doesn't mention Sterling once. But a partial listing of CTR Special Projects grants obtained by NPR shows that Sterling and his associates received more than 3.7 million dollars between 1973 and 1988 from the Special Projects fund.

CTR officials didn't answer NPR's questions about the fund. Neither did the lawyer who wrote the letter from Schuch Hardy & Bacon. Nor did Brown & Williams. But one cigarette company, R.J. Reynolds, provided court papers that acknowledged that the Special Projects fund exists primarily to generate research that tobacco companies can then use to defend themselves in court. Sterling says he had no idea that his research was being supported from a fund that was run by lawyers instead of scientists.

DR. STERLING: I know of no dark conspiracy that went on behind my back. For all I know, there may have been.

HARRIS: Sterling says if the tobacco industry wants to use his results, he sees no problem with that. They've been reviewed by other scientists before being published, so they conform to the standards of science.

DR. STERLING: It's just absolutely complete horse manure to say that the support by any funding agencies will buy you a particular piece of belief from the public.

HARRIS: But tobacco companies don't always have to convince the public. Just a few jurors. And Sterling acknowledges that he has prepared written testimony in a lawsuit on behalf of a tobacco company. The company won.

The success of the tobacco industry's legal strategy is renown. To date, tobacco companies haven't paid a penny to a smoker who died of cancer or heart disease. Kenneth Warner at the University of Michigan says the public relations success of this research has been much more subtle.

WARNER: The typical response to these kinds of concerns is that everybody knows that smoking is bad for you. So the subterfuge does nothing for the industry. The fact is that virtually all Americans recognize that smoking is hazardous to health, but they grossly underestimate its health implications, and in particular, smokers underestimate the implications to them personally.

HARRIS: For example, Warner cites a 1986 survey. Medical experts ranked smoking far and away the worst thing for health while 1000 average citizens ranked it tenth on a list of 24 factors.

WARNER: So the public has a very distorted view of the relative importance of cigarettes. They see cigarettes as simply one more toxin in an environmental stew of chemicals that we're all exposed to in the environment when, in fact, it is a unique toxin. It is the cause of more death than all other products combined.

HARRIS: Warner says the industry-funded research isn't the only reason people have that misconception, but it does help explain why 50 million Americans continue to smoke today. This is Richard Harris in Washington.

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WASHINGTON TIMES JUN 20 1994

In states, tobacco firms may have met their match

By Tony Munroe
THE WASHINGTON TIMES

The embattled tobacco industry faces a potential legal nightmare as states begin suing to recoup billions of dollars paid to care for victims of smoking-related illnesses.

Maryland could become the next state to mount a legal challenge against the tobacco industry, joining Mississippi and Florida. West Virginia recently announced plans to take on the tobacco industry in court, while numerous other states are said to be considering their own lawsuits.

"This could be a tremendous suit if we're able to prove our position," Maryland Attorney General J. Joseph Curran said in an interview with The Washington Times.

He hopes to prove that cigarette makers are responsible for repaying the state for its costs in treating sick smokers. Mr. Curran said he plans to use an existing Maryland law that allows the state to recover Medicaid expenses from third parties — such as cigarette manufacturers.

"We're seriously investigating the issue to see if that theory holds up," Mr. Curran said, adding that the state will decide whether to sue by the end of the summer.

Tobacco companies argue that states will have the same burden of proof as individuals who've sued the industry for liability and lost. "It gets down to individual cases," said Victor Han, a spokesman for Philip Morris USA, one of the nation's biggest cigarette manufacturers.

"Proof has to be person by person," which is extremely difficult to establish, agreed Victor Schwartz, a lawyer who specializes in litigation strategies with the D.C. law firm Crowell & Moring.

While the tobacco industry has never paid a cent in a court judgment or settlement, the pending state lawsuits could succeed where individuals and groups have failed, some observers say.

The legal strategies on the state level are patterned on a key premise: the states, not individuals, are the plaintiffs.

In past tobacco liability lawsuits, the industry successfully defeated individual plaintiffs' arguments that smoking directly caused their health problems. But the new cases, which rely on statistical evidence to prove that smoking has cost taxpayers billions of dollars, could pose a sharper challenge.

"The critical question is going to be, are these individual defenses going to be available [to the tobacco industry]?" said Richard A. Daynard, a law professor and chairman of the Tobacco Products Liability Project at Northeastern University in Boston. "I don't think it makes any sense to say, 'Why did Jones smoke?'"

Mr. Daynard favors holding tobacco companies liable for smoking-related illnesses.

States also can capitalize on surging anti-tobacco public sentiment: The tobacco industry has taken a pummeling in recent months at the hands of activists, the Clinton administration and members of Congress.

"There has been a total sea change in the way people perceive cigarettes, just in the last six months," said John F. Banzhaf III, a law professor at George Washington University and executive director of Action on Smoking and Health, which supports lawsuits against the tobacco industry.

"You have everybody from the president of the United States to 'Doonesbury' calling them liars," he said.

Tobacco companies have traditionally argued that smoking is a matter of choice. But some scientific studies show smoking is addictive, and Philip Morris was recently accused by Food and Drug Administration Commissioner David Kessler of suppressing its own studies showing nicotine to be addictive. Philip Morris denied the accusation.

The tobacco industry, which declines to discuss individual liability cases, must also grapple with widely publicized media stories citing industry research suggesting that cigarette companies knew decades ago that smoking is harmful but did not make the information public.

Tobacco companies maintain there is no proof that smoking is bad for people and will likely press these arguments when the state cases go to trial.

"Assumption of risk — or freedom of choice," said Mr. Han of Philip Morris, will be a major element of the industry's defense.

But some observers think that the industry will have a much harder time defending itself with state attorneys general suing on behalf of taxpayers — buoyed by potentially lucrative payouts.

Tobacco manufacturers "are going to be facing fair fights for the first time in their history," Northeastern's Mr. Daynard said. "They'll paper this thing, but I think they've met their match."

Of all the state legal challenges, a Florida law passed last month poses the most serious threat to the tobacco industry, legal experts say.

The law allows the state to argue that it is the innocent victim of the ill-health effects of smoking, removing a key defense of the tobacco industry that smokers know the risks when they choose to smoke.

Under the law, Florida can rely on statistical evidence showing that smoking caused people to get sick and cost the state $1.2 billion in Medicaid payments over the past five years. To calculate its claim, Florida simply adds up the number of Medicaid patients treated for illnesses generally associated with smoking, and sues tobacco companies for the medical bills based on their market share within the state.

Florida business leaders opposed the law for fear that it could be broadly applied to other products, such as liquor and handguns. But Florida Gov. Lawton Chiles insists the law is targeted only at cigarette manufacturers.

The tobacco industry has vowed to challenge the Florida law.

And the industry could benefit from a backlash against anti-smoking forces in tobacco-dependent states: In retaliation against the Florida law, a North Carolina legislator recently proposed a 4-cent excise tax on citrus fruit.

"Tobacco states are just about fed up with all the harassment they are getting," said Walker Merryman, a vice president with the Tobacco Institute, the industry's Washington-based lobby group. "Mississippi grows a lot of catfish."

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ST. PETERSBURG TIMES JUN-1 9 1994

Chiles stalks tobacco with unfair tactics

■ Philip Gailey

Our governor, it turns out, is passionate about something other than turkey hunting. He's also gunning for the tobacco industry, which has replaced the Communists, the Mafia and the South American drug cartels as America's No. 1 public enemy.

Lawton Chiles' pursuit of wild turkey led him to try an assault weapon of a type since banned by federal law. Why, he even stumbled into a baited field recently. He realized it in the nick of time, just before a game warden came along. Charges were filed against Chiles' hunting partner but not the governor.

The governor says he would never take advantage of a turkey in a baited field. I believe him. Chiles is a sportsman, and there is nothing sporting about blowing away a gobbler that walks into a trap. The governor believes in a fair fight, at least in his pursuit of quail and wild turkey.

But when it comes to the tobacco industry, forget fairness. It's the political equivalent of the baited field — a setup. As far as the governor is concerned, anything goes. That explains how Chiles was able to sneak a tobacco liability bill through the Legislature without debate, without most lawmakers even knowing what they were voting on. The bill, which Chiles signed into law, would not only hold the tobacco industry liable for the Medicaid costs (he figures about $1.3-billion) of treating the illnesses of smokers. It would change the rules of evidence to leave the tobacco companies defenseless. A turkey in a baited field would have better odds.

Chiles is extremely proud of his tobacco liability law. He holds on to it the way a dog grips a bone in its mouth, growling at anyone who who comes near. It is about the last bargaining chip Chiles wants to put on the table with state legislators in his fight for health care. In fact, during the recent special session of the Legislature called to consider Chiles' health care plan, the governor was willing to cut deals on nearly everything but his tobacco liability law. To win the vote of a Cuban-American lawmaker, Chiles was prepared to clear the way for some 200 Nicaraguan and Cuban doctors to practice in Florida, even though these doctors have not been able to pass the standard examinations required in the United States. Some contribution that would have been to health care in Florida.

When I see people like our governor letting their zealotry override their sense of fairness, I recall Justice Louis Brandeis' warning: "The greatest dangers to liberty lurk in insidious encroachment by men of zeal — well-meaning but without understanding."

Most rational people are willing to stipulate that smoking is dangerous to one's health, that it contributes to all kinds of illnesses and to early death, that it adds tremendously to health care costs. They also would be willing to support higher taxes on cigarettes and other tobacco products, an end to federal tobacco subsidies and protection of non-smokers and children from second-hand smoke.

There is little to debate on those issues. But the zealotry of anti-smoking forces has gone beyond such questions. It is now aimed at ostracizing and punishing smokers, giving them less sympathy than the zealots are willing to extend to hardcore drug addicts.

As *New York Times* columnist Russell Baker and others have argued recently, the anti-smoking crusade — it is a crusade, make no mistake — is entering a dangerous phase where some people are prepared to sacrifice civil liberties to snuff out the last cigarette.

Thousands of companies refuse to hire smokers and fire employees who smoke away from their workplace. My favorite anti-smoking zealot is Ted Turner, whose business empire includes the Atlanta Braves baseball team and Cable News Network. At CNN, smokers need not apply. There is zero tolerance for smokers, even if they light up in the privacy of their homes. But Turner has an amazing capacity for forgiving Braves players who test positive for illegal drug use. Turner's fanaticism on smoking was formed long before he married Jane Fonda, the video fitness queen.

The outgoing president of the American Medical Association made an astonishing statement the other day. He claimed that cigarettes were just as addictive as heroin. This is the kind of talk that infuriates me. These gourdheads who suggest that cigarette smoking is comparable to using hard drugs ought to be flogged.

Is this the message we want to send to our children? I will do everything I can to discourage my son from smoking, but I had rather see him puffing on a Camel than to find out that he is smoking crack or sniffing cocaine. It's not even a close call. But I know people who, if they had their way, would legalize heroin and criminalize cigarettes.

The Florida Legislature last year passed a bill to protect smokers from employment discrimination, but Gov. Chiles vetoed it, saying such a law was not needed. Obviously, the governor has been spending too much time in the woods, tip-toeing around baited fields. If he doesn't think it's happening in Florida, he should ask the American Civil Liberties Union.

Speaking of the governor, he owns a half interest in a number of Florida seafood restaurants where the specialty is lobster. And everyone knows that lobster is always served with melted butter. We also know that too much butter, melted or otherwise, clogs arteries, requiring expensive heart bypass surgery for those lucky enough not to drop dead of a heart attack. Maybe the Legislature should consider passing a Melted Butter Liability Act to allow the state to recover the health dollars that are spent on unclogging the arteries of people who soak their lobster in tubs of melted butter.

As far as I'm concerned the tobacco industry is fair game for Chiles. But I don't like sneaky, underhanded tactics, whether in stalking turkeys or cigarette companies, that cheapen a good cause and offend our democratic values.

■ *Philip Gailey is editor of editorials of the Times.* ■

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JUN 20 1994

ST. PETERSBURG TIMES JUN 19 1994

Tobacco still has its clout

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■ Martin Dyckman

King James I detested tobacco with an eloquence worthy of his Bible.

Smoking, said James, is "a custom loathsome to the eye, hateful to the nose, harmful to the brain, dangerous to the lungs, and in the black, stinking fume thereof, nearest resembling the horrible Stygian smoke of the pit that is bottomless."

A lot of good that did. Within a decade, tobacco leaves were both cash crop and currency for a Virginia settlement named in his honor. Tobacco has been getting the better of government regulators ever since.

Currently, even President Clinton's puny 75-cent-a-pack increase is proving too big for Congress. Will Congress agree to regulating tobacco as a drug, as Food and Drug Commissioner David Kessler has suggested? Not a chance. In California, Philip Morris has been snookering voters into signing up for a ballot initiative that appears to crack down on smoking in public. In fact, it would prohibit local governments from enforcing blanket bans like Los Angeles' new ordinance against smoking in restaurants and other public places. In Florida, tobacco lobbyists have such clout that when the Legislature finally was embarrassed into raising the state's 24-cent tax four years ago, the increase was held to 9.9 cents a pack rather than 10 so that the lobbyists could claim a symbolic victory. Nothing gets by them except by stealth, which is the method Gov. Lawton Chiles used to pass a bill setting up a $1-billion class action lawsuit to recover Medicaid expense. The courts, whose eyes will be open when *they* consider that law, will more than likely overturn it.

Meanwhile, tobacco has been waging an aggressive advertising and public relations campaign to disparage the Environmental Protection Agency's data on second-hand smoke, to block Kessler's regulatory gambit and to defeat any significant tax increase. Sympathetic voices in the media have begun to echo the refrain: Since everyone knows the risks by now, whose business is it to meddle?

The apologists have one compelling point: Given the histories of Prohibition (which, by the way, succeeded splendidly in reducing alcohol-related disease) and of the unending, tragically costly war on psychotropic drugs, stricter regulation would be a futile remedy for anything to which 46-million Americans happen to be addicted. Too many nonviolent offenders are in prison as it is. Besides, taxation and education (assuming enough of both) have proved effective at getting adults to quit smoking and in helping to persuade children not to start.

As for the live-and-let-die argument, it begs two fundamental questions. Tobacco smoke is offensive — as well as poisonous — to non-smokers who shouldn't have to breathe it. And the fact — yes, fact — that tobacco contributes to the premature deaths of more than 400,000 Americans each year is a tragedy of immense dimensions that people with hearts and consciences cannot ignore. It is by far the largest preventable cause of illness and death. If tobacco executives were capable of shame, even they would blush at their attempts to make comparisons with butter, beef and couch potatoes. Tobacco is the only legal product with absolutely no redeeming qualities.

The best case for raising the tax is not to make money for the government but to help smokers overcome what for many is a devastatingly powerful addiction and to discourage children from taking up the habit. The lives to be saved are those of our spouses, parents, friends and children. We should also begin to think about using tobacco tax revenues to buy up growers' acreage allotments. Among those who make their living from tobacco, the farmers born to that land are the only ones with a valid claim to public sympathy. There are plenty of other products, on the other hand, that RJR Nabisco and Philip Morris could make.

Whatever the rate of tax, it stands to reason that no one should be exempt. History knows no greater irony than the market share some Indian tribes have obtained through the tax-free loophole. Granted, the nation has a debt to pay, but surely there must be a less harmful medium of exchange.

Last week's U.S. Supreme Court ruling endorsing New York's method for collecting tax on Indian sales to non-Indians told Florida nothing it didn't already know. The Seminoles were threatened with loss of the exemption some years ago, after they began to muscle in on bingo, but nothing ever came of it. They know how to lobby, too.

The Seminole smoke shops are no different, of course, than the military PXs and commissaries in Florida that sell some 43-million tax-free packs a year. Tax breaks for military smokers are an anachronism dating to World War II, when soldiers were poorly paid and the health hazards of tobacco remained to be proved. Now, with taxes higher, you can bet a lot of those packs are being bootlegged for non-military friends and neighbors.

Will the Legislature stop it? When pigs fly.

■ *Martin Dyckman is associate editor of the Times.* ■

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JUN 20 1994

LOS ANGELES TIMES JUN 20 1994

Can Regulating Tobacco Get Smokers to Kick the Habit?

■ Health: FDA officials believe gradually lowering cigarette nicotine levels may help users end addiction.

By MARLENE CIMONS
TIMES STAFF WRITER

WASHINGTON—Imagine a society in which cigarettes are so tasteless and unappealing that smokers can easily quit and teenagers may try them but will never get hooked.

Unrealistic? Perhaps.

Nevertheless, such a scenario—or a version of it—is looming in the nation's not-too-distant future.

In recent months, anti-smoking forces in the federal government—particularly the Food and Drug Administration, key members of Congress and the White House—quietly have been building a case for the regulation of cigarettes. FDA officials believe they already have the authority under the agency's drug statutes to regulate cigarettes as drugs—or more precisely, as drug delivery systems—because of the addictive nature of nicotine.

Ultimately, the goal would be to help the nearly 50 million Americans already addicted to cigarettes kick their habit and to keep young people who experiment with tobacco from getting permanently hooked.

"The first premise would have to be to try to not make things too tough on smokers," said Dr. Neal Benowitz, a professor of medicine at UC San Francisco who has studied the effects of nicotine on humans. "It shouldn't be a punitive policy but one aimed at protecting minors. There is going to be some discomfort for smokers, but it's worth it if it protects the next generation from getting addicted."

To be sure, experts insist that any war against tobacco must be a multi-pronged approach—including the strict enforcement of existing laws against sales to minors and restrictions against smoking in public places, in addition to changing labeling and curbing advertising practices, particularly those aimed at the nation's youth.

But the most dramatic—and intriguing—proposal so far is the idea of a forced change in the product itself: a carefully timed lowering—over the course of a decade or so—of the allowable levels of nicotine in cigarettes to enable smokers to wean themselves gradually from their addiction.

The concept raises some thorny questions: Will smokers consume more cigarettes to compensate for the decrease in nicotine? Will the cigarette industry find some other way—perhaps by adding some new substance to cigarettes—to maintain the demand? Will the changes turn law-abiding Americans into tobacco bootleggers, since full-strength cigarettes almost certainly will still be available outside this country?

Or will there come a time when Americans will look back with incredulity on a 20th-Century society in which cigarettes were freely available and smoked by millions?

"You never know for sure, because it's never been done before," Benowitz said. "But I believe it can be successful, if it's real slow."

The FDA is in a "fact-finding mode," said Commissioner David A. Kessler, who is scheduled to give congressional testimony on the subject Tuesday. The agency is investigating both "the physiological aspects of nicotine and the extent to which manufacturers control or manipulate the nicotine content in cigarettes," he said.

Industry officials repeatedly have denied that they deliberately increase nicotine levels in their products. However, they have acknowledged that nicotine concentrations can be adjusted through blending different tobaccos, and that their companies engage in this process.

If nicotine is addictive, as a growing body of scientific evidence indicates, then it could be classified as a drug under FDA statutes—which define a drug as "an article, except for food, intended to affect the structure and function of the body"—and it would be subject to agency regulation. The agency already regulates nicotine in all nicotine-containing products *except* cigarettes. Kessler refused to discuss the FDA's regulatory options at this time but said a realistic approach must "involve reducing demand" for cigarettes. An all-out ban would never work, he contends, because "prohibition would only result in a black market."

A former FDA official involved in the earliest discussions of cigarette regulation there predicts that one of two things will occur.

"The cigarette companies will try to cut a deal in which they lower their nicotine content and open up their plants, and we will see massive restructuring of how cigarettes are sold in this country," he says. "Or the cigarette companies will have a flock of lawyers try to block the FDA at every turn, and it will go all the way up to the Supreme Court to decide whether FDA has jurisdiction over tobacco."

He adds: "The agency is committed to this course now, which it has never been committed to before. The companies have vastly underestimated this, which has been a big mistake on their part."

The FDA has been supported in its efforts by President Clinton and key members of Congress who regard themselves as foes of tobacco—including Rep. Henry A. Waxman (D-Los Angeles), chairman of the House Energy and Commerce subcommittee on health, who is also pushing for legislative restrictions against smoking in public places. It is his committee that will hear Kessler's testimony on Tuesday.

The agency also has the support of Reps. Richard J. Durbin (D-Ill.), Mike Synar (D-Okla.) and Ron Wyden (D-Ore.), all of whom are seeking measures to strengthen the FDA's authority to regulate tobacco.

Walker Merryman, vice president of the pro-industry Tobacco Institute, calls litigation to block the FDA "a very strong possibility" and says he anticipates a long battle.

"If the FDA wants to push it, we're not going to give in," he says, adding: "You can't have a federal agency designing a cigarette. That is a concept that boggles the mind."

He and other industry officials maintain that cigarettes are not addictive and that "most of the kids who experiment with cigarettes don't end up being smokers."

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Nevertheless, Dr. Jack Henningfield, chief of the clinical pharmacology research branch of the National Institute on Drug Abuse, points out that most adult smokers began smoking as teen-agers. He also notes that approximately one-third or more of smokers try to quit every year and "only about 7% make it."

Moreover, he added, the 40 million Americans who have successfully stopped smoking represent "only 2.5% per year since 1964, which is really a lousy rate of spontaneous recovery."

Addiction experts say the only logical strategy that would help current smokers quit and protect future smokers from addiction is to reduce the dependence on nicotine by lessening or eliminating it in cigarettes.

Cigarettes now on the market have five to six times the nicotine levels necessary to create and sustain an addiction, experts say.

The amount of nicotine in cigarettes has remained virtually the same for more than 30 years, according to Henningfield. In 1952, the percentage of nicotine in cigarettes was about 1.5% to 1.8%. Currently, the range is 1.5% to 2.5%, he says. Each cigarette, regardless of whether it is a "light" or regular version, contains from 7 to 9 milligrams of nicotine, he says.

The average smoker takes in a milligram or more of nicotine per cigarette, for a total of approximately 25 milligrams a day, according to Henningfield.

A smoker begins to suffer withdrawal when the accustomed level of nicotine drops below half, he says. For example, if a smoker is used to getting 40 milligrams of nicotine a day, he or she will begin to experience withdrawal when the level reaches 20 milligrams or less, he says.

Cutting nicotine levels by a small percentage over a long period of time "will give smokers the opportunity to learn to modify their taste and learn to smoke cigarettes with less nicotine," Benowitz says. "People may find cigarettes not satisfying anymore, and will just stop."

But some critics of this approach argue that smokers will only compensate by smoking more cigarettes.

"When we made light cigarettes, smokers just smoked more of them," says Dr. Robert DuPont, the first director of the National

Please see TOBACCO, A17

Institute on Drug Abuse who now heads the Institute for Behavior and Health, a nonprofit research organization. "Smokers will smoke whatever it takes to get to the blood nicotine levels they need. The people who tell you that you can solve it this way are wrong. It won't work."

Any inclination by smokers to compensate for lower nicotine levels by smoking more cigarettes could indeed prove troublesome. Although the addiction to cigarettes stems from nicotine, the health dangers come from inhaling the smoke produced by burning the tobacco.

"The tobacco leaf is extremely toxic when burned," Henningfield says. "You can clean up the natural product a little bit, but you still have a highly toxic product. It's like the difference between falling out of a 10-story building instead of a 12-story building.

"The only way you get a huge gain, if you need to keep some people on nicotine, is by taking away the tobacco," he adds. "Using nicotine in a non-tobacco product is infinitely safer than smoking a cigarette. Also, smoking brings out the worst in nicotine by giving you high, spiking doses that go directly to the left side of the heart, into the brain, and, if you're pregnant, to the fetus."

Experts acknowledge that there could be a short-term compensatory increase in smoking, or that smokers could puff their cigarettes more intensively. "But whether it will persist in the long term is unclear," Benowitz says. "There is some evidence that people will be smoking the same number of cigarettes that they smoked before, or will adjust to the lower levels of nicotine. That's why gradual weaning is imperative."

The FDA is studying the limits to which it can reduce access without stimulating a black market. Currently, there are restrictions on numerous substances—alcohol and prescription drugs, for example—which have not resulted in the development of a black market. Agency officials already have rejected the idea of a ban for that reason.

"If you suddenly cut yields, then the black market likelihood would be great," Benowitz says. "But if it's pretty slow—a decade and a half—and if you go down by 10% a year, that gives people time. And they would never notice it much. Also, a black market would not be necessary for kids because they are not smoking in the beginning for nicotine, but more for social reasons. [Now] they learn to smoke for nicotine over time."

Thus, a gradual tapering over years would give existing smokers enough time to adjust, and nicotine in cigarettes eventually would reach a level where it would be difficult to initiate addiction, particularly among first-time smokers, experts believe.

"A lot of kids experiment with cigarettes, but the difference [with a low or no nicotine cigarette] would be that four or five years down the road, if they decided not to be a renegade, they could stop," Henningfield says. "They would be able to do it."

Kessler, the father of two young children, calls this one of his major motivations—to keep today's youngsters from becoming tomorrow's smokers.

"If we can prevent the vast majority of teen-agers who smoke a few cigarettes from becoming addicted for life, then it will be an enormous public health achievement," he says.

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THE NEW YORK TIMES, MONDAY, JUNE 20, 1994

Grim Findings on Tobacco And a Decade of Frustration

(Front Page)

By PHILIP J. HILTS

Special to The New York Times

Embattled Tobacco

One Maker's Struggle

Last of three articles.

WASHINGTON, June 17 — By the end of the 1970's, after the Brown & Williamson Tobacco Corporation had gone through a decade of negative research results and inconclusive attempts to develop a safer cigarette, a senior lawyer for the company recommended that much of its medical research be declared "deadwood" and shipped to its affiliate in England. "No notes, memos or lists" of the material should be made, the lawyer wrote.

Among the documents to be removed were the results of Project Janus, a series of more than 40 separate experiments on the biological effects of cigarette smoke, which had succeeded in isolating some of the hazardous components of smoke.

Thus ended a decade of frustration for the company, marked by increasingly negative health news from its own research laboratories, abandoned attempts to develop a safe cigarette and a growing number of lawsuits against the company.

In repeated calls this week, the company was asked to comment on the information in this series of articles, which are based on more than 4,000 pages of documents from the company's archives. The company responded today.

Tom Fitzgerald, the company's spokesman in Louisville, Ky., said: "The Times's stories verify to us that there is nothing new in the debate that The Times is writing about.

"There was a worldwide debate going on 30 years ago about smoking, just as there is a debate going on today. The Times's stories emphasize there was also an internal debate on research on smoking and health within the company.

"Why should that surprise anyone? It's important to note that this was a debate, and points of view were expressed; no consensus was reached nor conclusion drawn that translate into policy or practice.

"We feel that The Times's stories undermine our critics' position that the industry has not been focused on research. The tobacco industry was and is just as interested in research on smoking and health as those outside the industry. Our position continues to be that there are health risks statistically associated with smoking, but that there is no conclusive evidence of a causal link between tobacco use and disease. When these issues are played out in the courts before juries, where our rights have been protected and respected, when we have been given a fair hearing, common sense has prevailed."

The decade of the 1970's saw increasing public anger at the tobacco companies, which was expressing itself in the passage of new restrictive laws. Beginning in 1970, cigarette packages were required to carry the label, "Warning: The Surgeon General has determined that cigarette smoking is dangerous to your health."

Smoking advertisements on television and radio were banned by 1971. The same year, the Surgeon General proposed a ban on smoking in all public buildings. And the Federal Communications Commission declared an official end to the "debate" about the ill effects of smoking, saying that the fairness doctrine would no longer apply to tobacco, and that the companies could not ask for equal time to counter negative comments on television about smoking.

Cigarette smoke's potential hazards, which in the early years the tobacco company scientists had hoped would be few and easily filtered out, continued to multiply. Reports in the company's internal chronology of research referred not only to the chemicals they had long known were in tobacco but also to pesticides and other chemicals used to treat tobacco plants.

And where once researchers thought they could isolate and eliminate the cancer-causing substances in tobacco smoke, they were now beginning to realize that an entire shelf of carcinogenic chemicals could be found there. Today it is known that there are at least 43 different substances in cigarette smoke that can cause cancer.

Product Redesign Becomes the Answer

Tests started by the company in the 1960's began to produce a record of consistent results in the 1970's. They showed that cigarette smoke could not only produce tumors on animal skin but cause other serious health problems as well. One report cited "a growing interest in the area of non-cancer diseases, e.g. emphysema, bronchitis and the cardiovascular diseases."

"Attention should be directed to carbon monoxide," it said.

At a research conference in 1972, documents show, health concerns seemed to have been replaced by product concerns. Rather than seeking to eliminate the hazards of smoking, the goal now was more modest. "Our aim should be to provide smoking pleasure accompanied by a risk no greater than that with comparable habits," like alcohol, the company's summary of the meeting said. "It is felt that the main objective of the research department should be 'to design cigarettes preferred by smokers.'"

In 1974, H. L. Brooks, advertising manager for Brown & Williamson, suggested to the company's research director that "defensive research" be set up to combat scientific reports that linked smoking to ill health.

About the same time, Brown & Williamson's British affiliate, the British-American Tobacco Company (Batco), test-marketed a cigarette, Planet, that was made with a tobacco substitute. It was called "Courtauld's Smoking Material" and had about half the tar of a regular cigarette but about 60 percent more carbon monoxide.

The British Department of Health and Social Services "condemned" the new cigarette because the company had given the government no information about it or its contents.

The research news continued to be bad for the tobacco industry. A Batco review of the scientific literature on the effects of smoke on cells in tissue cultures found "permanent, non-reversible and hereditary changes in morphology and cell functions which may be invoked by cigarette smoke and its carcinogenic components."

Studies of the effect of changing the ratio between total particles, mostly tar, in smoke and nicotine in smoke showed that "decreases of 30 percent nicotine produce only a small compensation in smoking," which smokers make up for "in the form of longer puff retention times," the Batco review said.

In a study of low-tar brands, researchers found that a smoker "adjusts his smoking habits when smoking cigarettes with low nicotine and TPM to duplicate his normal cigarette nicotine intake."

Looking for Safety, Finding Danger

At a research conference in Florida in 1974, researchers reviewed four materials that were leading candidates for safer tobacco. The company also investigated a processed tobacco product called Batflake, which showed promise in reducing the effects shown by ordinary inhaled smoke. It is not clear from the documents what happened to the four possible safer materials or to Batflake.

But a company report on Batflake disclosed some of the harmful effects of smoke. Among them were changes that might precede the appearance of cancer, including, "squamous metaplasia in the larynx, hyperplasia and keratinisation in the larynx, goblet cell hyperplasia in the bronchii, goblet cell

(Cont)

Top executives of American tobacco companies were sworn in before testifying in April before the House Subcommittee on Health and the Environment. They are, from left, Donald S. Johnston of American Tobacco, Thomas Sandefur Jr. of Brown & Williamson, Edward A. Horrigan of Liggett, Andrew H. Tisch of Lorillard, Joseph Taddeo of United States Tobacco, James W. Johnston of R. J. Reynolds and William J. Campbell of Phillip Morris.

hyperplasia in the nasal cavity, and increased macrophage activity in the lung."

Dr. John Laszlo, the vice president of research for the American Cancer Society, said today that hyperplasia is often a precuser of cancer and is a "common signal that cells are being massively injured in animal tests."

Among the papers are lists of company research projects, with brief legal comments:

¶Project RD1091-R: The legal department commented: "Qualitative effect of cell transformation by cigarette smoke condensate is established. Contains concession and confirmation of causation."

¶Project FE-40, 1967: "Reviews the biological activity of smoke condensate from St. Pauli cig. Document contains confirmation of causation."

¶Project T, December 1969: "This deals with interviews with female starters concerning their attitudes, behavior, feelings, and views on smoking."

¶Project RPT-146, March 1975: Using a smoking machine "to investigate changes in smoking behavior." The report added, "This discusses compensation to maintain desired nicotine levels."

¶Marketing studies, May 1975: "Ted Bates doc. — highly sensitive re mentality of smokers: introducing starters thru 'illicit pleasure' theme."

The next document in the series noted, "Controversial Ted Bates advertising targeting young smokers, never used, but still dangerous."

Sowing Doubts About the Facts

Among the documents are minutes of a meeting held just before tobacco advertising was banned from radio and television in 1971. The company had designed a response to its antismoking opponents, code-named Project Truth. John V. Blalock, director of public relations, and C. S. Muije, director of marketing research, gave the presentation. The text of the presentation included these statements:

"Doubt is our product, since it is the best means of competing with the 'body of fact' that exists in the mind of the general public. With the general public, the consensus is that cigarettes are in some way harmful to the health.

"If we are successful in establishing a controversy at the public level, then there is an opportunity to put across the real facts about smoking and health. Doubt is also the limit of our 'product.' Unfortunately, we cannot take a position directly opposing the anti-cigarette forces and say that cigarettes are a contributor to good health. No information that we have supports such a claim."

The project listed objectives, among them:

"Objective No. 1: To set aside in the minds of millions the false conviction that cigarette smoking causes lung cancer and other diseases; a conviction based on fanatical assumptions, fallacious rumors, unsupported claims and the unscientific statements and conjectures of publicity-seeking opportunists.

"Objective No. 2: To lift the cigarette from the cancer identification as quickly as possible and restore it to its proper place of dignity and acceptance in the minds of men and women in the marketplace of American free enterprise.

"Objective No. 3: To expose the incredible, unprecedented and nefarious attack against the cigarette, constituting the greatest libel and slander ever perpetrated against any product in the history of free enterprise; a criminal libel of such major proportions and implications that one wonders how such a crusade of calumny can be reconciled under the Constitution can be so flouted and violated.

"Objective No. 6: To establish — once and for all — that no scientific evidence has ever been produced, presented or submitted to prove conclusively that cigarette smoking causes cancer."

No scientific evidence would be coming from the company, at least. The British tobacco industry's laboratory at Harrogate, England, which produced many of the reports confirming the hazards of cigarettes, was closed in 1974.

Scientists Give Way To Lawyers

By the mid-1980's, the documents show, the emphasis appeared to have shifted from biological testing and research to a legal department concern about what would happen if the years of studies on biological hazards of cigarettes were to become available to plaintiffs in court cases.

By 1985 the lawsuits were piling up fast, and the lawyers had become discouraged about keeping sensitive documents secret.

On Jan. 17, 1985, a senior lawyer for Brown & Williamson, J. Kendrick Wells, wrote a note about how to deal with the sensitive biological documents: "I have marked with an X documents which I suggested were deadwood in the behavioral and biological studies area. I said that the B series are Janus series studies and should also be considered deadwood."

He suggested that the research, development and engineering department "should undertake to remove the deadwood from its files."

"I said the articles I had suggested were a first pass at removing the deadwood and that R.D. and E. should do additional work to identify and remove deadwood on other subjects," the note said.

The deadwood was to be put in boxes and sent to England. The note said, "I suggested that Earl tell his people that this was part of an effort to remove deadwood from the files and that neither he nor anyone else in the department should make any notes, memos or lists."

Asked today if that material had in fact been sent to England, Mr. Fitzgerald, the Brown & Williamson spokesman, declined to comment.

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JUN 20 1994

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Top Scientists For Companies Saw the Perils

The two chiefs of research in the British and American companies, Dr. Robert B. Griffith of Brown and Williamson and Dr. S. J. Green of British-American Tobacco, or Batco, who appear frequently in the documents, have been the subject of news reports because, contrary to company policy, both said after retirement that they had no doubt that cigarettes caused cancer and other diseases.

An article in The Louisville Courier Journal on June 1, 1994, noted that Dr. Griffith left Brown & Williamson in 1969 "because he wanted to focus on research and move forward with his ideas for developing a safe cigarette."

The article said, "Even before he became a key researcher at Brown & Williamson Tobacco Corporation, Robert B. Griffith believed nearly 40 years ago that smoking cigarettes could cause lung cancer and heart disease."

The research papers, beginning in 1955 before he was hired by Brown & Williamson, until 1969, have never been published. Dr. Griffith died of colon cancer at the age 72 in 1991.

Dr. Griffith was a smoker who tried but was unable to quit the habit. "Those who knew him say Griffith never gave up his goal of making a safe cigarette and continued his research in that area until he retired" from the University of Kentucky staff in 1988.

The BBC program Panorama interviewed the widow of Dr. Green last year, and reported that Dr. Green "became increasingly disillusioned as he fought to publicize many of their findings."

The Louisville Courier Journal

Dr. Robert B. Griffith, who was a researcher for Brown & Williamson, in 1960.

The program reported on a memorandum Dr. Green had written to himself, saying, "The position of the tobacco companies is dominated by legal considerations. It has retreated behind impossible, perhaps ridiculous, demands for what in P.R. terms is called scientific proof — usually the first reaction of the guilty."

Dr. Green resigned in 1980 and went public with his concerns about smoking and health, the BBC program said, and quoted his widow, Olwyn Green, as saying that the fights between her husband and the Batco board became increasingly bitter.

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A Chronology Of Concern

1952 Work by Dr. Richard Doll finds that lung cancer is far more common in those who smoke than in those who do not, and that the risk of getting lung cancer is directly proportional to the number of cigarettes smoked.

1953 Dr. Ernst Wynder of Memorial Sloan-Kettering Cancer Center publishes an article showing that condensate made from cigarette smoke, painted onto the backs of mice, causes malignant tumors. The presidents of the top six tobacco companies meet at the Plaza Hotel in New York to determine what to do about the new reports on smoking hazards. They decide to begin a public relations campaign to cast doubt on the scientific findings while doing their own research to gauge the risks and how to combat them..

1957 In July, the United States Surgeon General's first official warning says that statistics indicate excessive cigarette smoking may cause lung cancer.

1964 Surgeon General Luther Terry's Advisory Committee on Smoking and Health says smoking does cause lung cancer, is an important cause of chronic bronchitis, may contribute to other diseases and is "a health hazard of sufficient importance in the U.S. to warrant appropriate remedial action."

1966 Cigarette packages and advertising are required to carry the message, "Caution: Cigarette smoking may be hazardous to your health."

1970 More strongly worded label for cigarette package goes into effect: "Warning: The Surgeon General has determined that cigarette smoking is dangerous to your health."

1971 Cigarette advertising is banned from radio and television. The Federal Communications Commission states that the fairness doctrine will no longer apply to tobacco after the ban, so that tobacco companies may not seek equal broadcast time if cigarettes are criticized on health grounds, because there is no longer a controversy over the issue of smoking and health.

1972 The Supreme Court upholds the ban on tobacco advertising on radio and television.

1973 The Civil Aeronautics Board orders the separation of smokers and nonsmokers in airplane cabins. An advertising ban on little cigars goes into effect.

1979 The Surgeon General releases another smoking report, this one saying that cigarettes are more hazardous than previously suspected, and estimates that cigarettes would kill 346,000 people in the United States in 1979.

1980 The National Cancer Institute announces that it will no longer help the tobacco industry to make a safer cigarette, but will instead concentrate on the prevention of smoking. The General Accounting Office of Congress calls smoking a major source of indoor air pollution and a potential cause of lung cancer.

1981 The Reagan Administration moves to cut the budget of the Health and Human Services anti-smoking programs; it also plans to block further cigarette taxes.

1988 The Surgeon General issues a report declaring that cigarette smoking is addictive by the same scientific standards that apply to illicit drugs.

1994 In February, the Commissioner of the Food and Drug Administration, David Kessler, declares that the agency is willing for the first time to regulate cigarettes as drugs. In April, Representative Henry A. Waxman, Democrat of California, chairman of a House Subcommittee on Health and the Environment, questions the top executives of the seven major American tobacco companies, and each states that nicotine is not addictive and that cigarettes may not cause cancer.

CHICAGO TRIBUNE JUN 2 0 1994

Tobacco battle is heating up

Industry titans fight proposed restrictions

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By Nancy Millman
SPECIAL TO THE TRIBUNE

R.J. Reynolds Tobacco Co. narrowly won its skirmish with the Federal Trade Commission over its controversial "Joe Camel" advertising character, but the cigarette marketer knows it has much tougher battles ahead.

For a month now, RJR, the country's second-biggest seller of cigarettes, has been running full-page, issue-oriented ads in nationally distributed newspapers in an attempt to counter the tidal wave of negative media coverage inundating the tobacco industry.

And the newspaper campaign will be supplemented with a 26-city tour by RJR officials who want to meet with editorial boards, science writers and business reporters to tell their side of the smoking story, said a spokeswoman for the Winston-Salem, N.C.-based company.

Since 1971, when tobacco advertising was banned from television and radio, the U.S. tobacco industry has fought off attempts to regulate its products and the way they are advertised and promoted. But more recently anti-tobacco forces have been steadily gaining sophistication and power. And mainstream America is backing elected representatives who come out against tobacco. Even McDonald's restaurants have declared cigarettes off-limits.

Since March, when Food & Drug Administration chief David A. Kessler testified before a congressional subcommittee about the tobacco companies' ability to manipulate nicotine levels in cigarettes, the battle has intensified.

In April the tobacco companies released the long-secret list of ingredients, including chemicals, that are added to cigarettes, and the industry's top executives testified before Congress, answering questions about their products and business practices.

"The climate in regard to tobacco has become a lot more hot," said Daniel Jaffe, executive vice president at the Association of National Advertisers in Washington, an ad industry lobbying group. "There are an incredible number of proposals facing the tobacco industry. Every week there is a contentious fight, and advertising issues are a part of that fight."

Now floating in the House and Senate are legislative proposals that include eliminating up to 80 percent of the tax deductibility for tobacco advertising, another that would restrict the content of all cigarette ads and ban promotions and sports sponsorships; and a bill co-sponsored by Reps. Richard J. Durbin (D-Ill.) and Mike Synar (D-Okla.) that seeks to put tobacco under the regulatory power of the Food and Drug Administration.

"All this is going on at once on top of proposed excise taxes

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and legislation about where you can smoke," Jaffe said.

Cigarette advertising spending has declined dramatically the last several years, even without regulation. In 1989 the industry spent $656.8 million on cigarette ads, compared with $329 million last year, according to Competitive Media Reporting, a New York firm that measures ad spending.

Much of the decline last year came as a result of price cuts instituted by Philip Morris and matched by the competition as the industry struggled to maintain sales in a shrinking market.

But all is not dark for the tobacco industry on the regulatory front. RJR won a victory this month when the Federal Trade Commission, by a vote of 3-2, decided not to take action against its cartoon character Joe Camel, which has appeared in U.S. advertising for the Camel brand since 1987.

A petition filed against the Joe Camel campaign by the Coalition on Smoking or Health had asked the FTC to prosecute the campaign as an unfair advertising practice because the anti-smoking group contended the character was designed to appeal to children and attract them as smokers.

The FTC statement said that "although it may seem intuitive to some that the Joe Camel advertising campaign would lead more children to smoke, or lead children to smoke more, the evidence to support that intuition is not there."

Despite the ruling, the ad industry publication Advertising Age, in an editorial last week, urged RJR to drop the ad campaign because it has been used as "a club" in the hands of opponents of tobacco advertising "to bang away at public tolerance ... with charges that Joe is designed to attract the attention of young kids."

RJR used Joe Camel to create an up-to-date image for an aging brand. In the same way, the company is using its issue-oriented advertising to create an image of accessibility and—the new industry buzzword—"accommodation" among the public.

"We're hoping to use the ads as a catalyst to open the debate on a bunch of issues concerning cigarette smoking," said company spokeswoman Maura Ellis. The issues include secondhand smoke (where the tobacco company finds fault with Environmental Protection Agency statistics); nicotine (company Chairman James W. Johnston proclaims in the headline that RJR does not "spike" cigarettes with nicotine); and smokers' rights.

Tribune photo by Bill Hogan

Tobacco companies have launched counterattacks in newspaper and magazine ads against charges of nicotine-spiked cigarettes.

Consumers can call a toll-free number for more information on the RJR point of view on these issues.

Philip Morris Inc., the leading tobacco marketer, also tried the informational ad approach this year, presenting its side of the cigarette-ingredients issue and offering copies of the congressional testimony of its tobacco division president, William Campbell, to interested consumers.

But Philip Morris also is handling the smokers' rights question in an unusual way—in magazine ads for its Benson & Hedges brand.

The company version of this strategy is that it's the '90s twist on the old Benson & Hedges tongue-in-cheek ads that portray the funny situations befalling smokers of the 100 mm-long cigarette. "In the '90s, we're talking about the disadvantages of enjoying a cigarette today ... the inconveniences that smokers face," said a company spokeswoman.

"We're not using brand advertising to talk about the issue, we're using that issue to advertise our brand to smokers," she said.

It is not expected that any of the proposed regulations against tobacco in general or cigarette advertising in particular will become law this year. Nevertheless, the cigarette companies clearly are using big chunks of their advertising budgets today to try to get smokers and non-smokers on their side for the day when the people they send to Washington will be voting on these issues.

But reversing the tide could be next to impossible.

"They're fighting a losing battle," said Barbara Molotsky, president of Bozell Public Relations in Chicago. "I'm sure they think they've got to do something and they think that this is the right way. They are, at least, addressing the fact that there is a lot of controversy. But it seems to me that nothing can work for them. They're never going to win."

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June 16, 1994
9:00-10:00 AM (CT)
KTRH-AM Radio
Houston
Houston Hotline

J.P. Pritchard, co-host:

Good morning, and welcome to 740 KTRH Houston Hotline. Public intolerance of second hand smoke and allegations that cigarette makers concealed evidence about addiction are spurring unprecedented litigation against the once-invincible tobacco industry. In fact, that alleged industry evidence along with continued research may land the tobacco industry under the thumb of the Food and Drug Administration. Some members of Congress are opening a new front on the war on smoking. CBS news correspondent Rob Armstrong has more.

Rob Armstrong reporting:

Several Democrats are trying an end run around the tobacco lobby and will propose an amendment to the rule governing the Agriculture Appropriations bill that will require the FDA to regulate tobacco without banning it outright. The architect of the measure is Oklahoma's Mike Synar.

Mike Synar (Congressman, Oklahoma): This amendment to the appropriations bill will for the first time permit Congress a floor vote to direct the Food and Drug Administration to put a halt to the tobacco company's unabashed targeting of children and their unchecked assault on the health of the American people.

Armstrong: FDA Commissioner David Kessler has resisted calls for a ban on cigarettes or to make them prescription drugs. Synar says this amendment would meet those concerns but would allow the FDA to regulate cigarette advertising, manufacture, sale, labeling, and the content of tobacco products. The tobacco industry and tobacco state representatives oppose any FDA regulation of tobacco. Rob Armstrong, CBS News, Capitol Hill.

Lana Hughes, co-host:

We'll be talking about regulating the tobacco industry, tobacco advertising, the addictive nature of nicotine, alleged nicotine spiking, and the ever-controversial second hand smoke. Does it cause cancer? Now for the first portion of the show, we are joined by Dr. Alan Blum with the anti-smoking group Doctors Ought To Care, or DOC, and Dr. Don Debethesi, director of RJ Reynolds' product development. We'll be focusing on second hand smoke this half hour and its impact on you and our society.

Pritchard: Your direct hotline to our guests is 526-4740. For mobil and long distance callers: 630-5740. And for GTE Mobilnet callers, a free call. The number is star-4740. And we'll be taking your calls and questions for our guests momentarily.

I guess it was the EPA study that was released a few years ago that really got this second hand smoke issue going. Does the tobacco industry accept the findings of that study, Dr. Debethesi?

Debethesi: We do not accept those findings and have questioned them. But not only us, but a number of other people have too. In fact, just recently on National Public Radio Dr. Alvin Feinstein, a prominent epidemiologist from Yale University, indicated that with the small level of risk that's been reported between second hand smoke and lung cancer, it's so small that standard scientific techniques would not be able to detect that. And he went on to say that, in fact, many respectable epidemiologists have said that this level of risk is so small you just can't pay very much attention to it.

And what we're trying to do is draw attention to the fact that there is still a scientific debate going on, and we have published a number of studies in this area. We've published the only complete animal study in the area. And the data are just not there to support a link between lung cancer and second hand

(ENTIRE 17-PAGE TRANSCRIPT AVAILABLE UPON REQUEST)

DAILY NEWS • Monday, June 20, 1994

NEW YORK Now health

UPDATE

Sounding the Smoke Alarm

ROBERT PASSANTINO

New studies of women & children confirm the risks of exposure to secondhand cigaret smoke

By COLETTE BOUCHEZ

If you're a woman whose spouse smokes cigarets, you could die of lung cancer, even if you yourself never take so much as a puff. If your co-workers smoke as well, and/or you spend lots of time socializing in smoke-filled environments, your chances of dying are even greater.

That's the message the American Medical Association (AMA) presented to women nationwide earlier this month, when it published a study chronicling the dangers of secondhand smoke.

"It was not the first study of its kind, but it certainly was the largest and, clinically speaking, the most accurate and well-planned study ever attempted on this subject," reports Larry Garfinkle, an epidemiologist with the American Cancer Society.

The multi-year study conducted in cities around the country examined data from 653 female lung cancer patients who had never smoked and compared it with that from a control group of 1,253 women aged 65 and older. Researchers found that women exposed to secondhand smoke at home increased their risk of lung cancer by as much as 30%. Those also exposed to secondhand smoke on the job suffered an increase of 39%, and those exposed in social situations had up to a 50% increase.

In addition, the study revealed that a woman's risk at home increases in direct proportion to how many packs per day her spouse smokes. Especially disturbing was the finding that those women who had also been exposed to secondhand smoke as children were twice as likely to develop lung cancer as the women exposed only as adults.

According to Dr. William Cahan, a lung surgeon at Memorial Sloan-Kettering Medical Center, these observations coincide with other findings indicating that secondhand smoke increases a child's risk for a variety of respiratory ailments, including asthma, pneumonia, bronchitis and other lung disorders.

"Study after study has shown that children of parents who smoke have weaker respiratory systems and are more prone to illnesses of all kinds. Now we know they may also grow up with a significantly increased risk of cancer," says Cahan.

"If you are a parent who smokes in your home," he asserts, "you are committing one of the worst forms of child abuse known to mankind."

'If you are a parent who smokes at home, you are committing child abuse.'

If you find these words a bit strong, you should know that lung cancer is not the only lethal health risk linked to secondhand smoke, for both children and adults. For years, the American Heart Association (AHA) has warned of the damage caused to the cardiovascular system by inhaling someone else's cigaret smoke. In 1992, the AHA released a paper detailing more than 4,000 chemicals and 40 known carcinogens contained in secondhand smoke. Each year, the AHA estimates, some 40,000 deaths from heart and blood vessel diseases occur as the result of secondhand smoke.

Adding more fuel to the fire is a new study from New York University Medical Center suggesting that secondhand smoke may be particularly damaging to the cardiovascular systems of young children. Researchers found that baby chicks exposed to secondhand smoke for just 16 weeks had significantly larger deposits of fat, cholesterol and other artery-clogging substances in the aorta than those who inhaled only clean air.

Scientists claim their findings, recently published in the AHA journal Circulation, are a strong indication that children exposed to secondhand smoke at a very young age may be at increased risk for heart disease starting as early as infancy.

"Couple this with the smoke exposure children can experience in social settings and you really have a form of abuse that we, as a society, can no longer ignore," says Cahan.

Similar sentiments are being expressed on a public level. Recently, City Council members heard testimony from scientists regarding the need to protect all nonsmokers, especially children, by further banning cigaret smoking in public places, most notably restaurants. And in Washington, medical professionals urged Congress to reclassify cigaret smoking from the status of habit to that of physical addiction — a move that, if passed, could cause cigarets to be classified as drugs.

Ways to reduce the risk

But while the debate continues, the risks remain. If you are a woman who lives with a smoker or if you are a parent in a household in which an adult family member smokes, here are some suggestions from our experts:

- Get adequate ventilation into any room in which someone is smoking.
- Urge smokers to confine their puffing to one room or, preferably, to smoke outside, perhaps on a terrace or patio.
- Invest in an air cleaner system, an exhaust fan or an ionizer. These help move the air around and draw smoke out.
- Try to reduce your exposure outside the home. This includes seeking out social activities where smoking is not permitted or is confined to a separate area.

(Bouchez regularly reports on health for The News.)

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JUN 20 1994

CHICAGO TRIBUNE JUN 19 1994

Press blew away secondhand smoke truths

By Jon Van 4/1

The latest scare over secondhand smoke may be a classic case in which smoke and mirrors overshadow scientific substance.

Recently, newspapers and TV anchors made much of a study reported in the Journal of the American Medical Association (JAMA) that found non-smoking wives of smokers had a 30 percent greater chance of contracting lung cancer than did wives of non-smokers.

The finding may have caused many women to fear needlessly for their health.

There is no doubt that smoking causes cancer and other serious health problems, and that secondhand smoke is a smelly nuisance and perhaps a health hazard. But the case for environmental smoke as a cancer threat is weak.

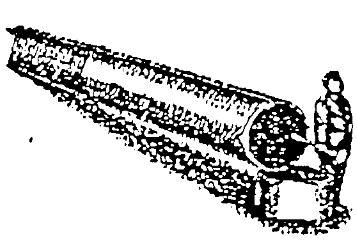
And the case illustrates how a statistically unsophisticated media can provide the public with sweeping conclusions based upon scientific results that can't support them.

Anytime the phenomenon under study is rare, as is lung cancer in non-smokers, small changes can produce large percentage swings, said Temple University mathematician John Allen Paulos, author of the best-selling book "Innumeracy."

"If you look at the new cases of death from AIDS, the fastest growing category could be ladies over the age of 70," Paulos said. "If last year one woman over 70 died from AIDS and this year two do, you get a 100 percent increase in AIDS deaths for that category."

Knowledgeable scientists reading reports in journals can tell at a glance which studies are important and which are marginal, but to many reporters, one study looks like any other. Too often, stories emphasize a study's conclusion without mentioning the limitations that provide necessary context.

Jon Van covers technology and science for the Tribune.



The results of the secondhand smoke study are much less compelling than suggested June 7 at an American Medical Association news conference in Washington.

The JAMA study, conducted by Dr. Elizabeth T.H. Fontham of Louisiana State University and colleagues, appears to have been done well and with great attention to detail.

For example, researchers required participants to provide urine samples when possible to assure that women who claimed to be non-smokers weren't sneaking cigarettes.

But it is important to remember that lung cancer seldom is seen in non-smokers, and the contributing factors may be many, subtle and varied, making them very difficult to isolate.

In the JAMA report, researchers interviewed nearly 17,500 women with lung cancer to find some 650 who had the disease but weren't smokers.

The scientists then selected about 1,250 women at random who didn't have lung cancer and tried to match them with the lung cancer patients according to race, family income and education.

Both the lung cancer patients and their "controls," as the randomly selected women are called, were asked about exposure to smoke as a child, as an adult and other topics such as diet. In some cases, relatives were interviewed because cancer patients had died or were too ill to talk.

The raw study findings aren't difficult to understand.

Among 651 non-smoking lung cancer patients, researchers found that 433 had been exposed to smoke from their husbands' tobacco use, about 66 percent. Among 1,253 non-smoking women who didn't have lung cancer, 766 had been exposed to smoke by their husbands, or about 61 percent.

Most people might conclude that the difference between 66 percent and 61 percent isn't much, and they'd be right.

To make the difference between 66 percent and 61 percent meaningful, researchers calculated a risk number—called an odds ratio—of 1.29.

An odds ratio of 1.00 indicates there is no added risk; an odds ratio of 1.29 works out to a 29 percent added risk, which was rounded to 30.

This figure suggests a precision the study doesn't have.

Random chance could move the study's odds ratio anywhere from 1.04 to 1.60. That is, any figure in that range is consistent with the study's result, meaning that the risk percentage could have been as low as 4, which suggests no added risk, or as high as 60.

That uncertainty range, which is part of any statistical report, was clearly stated in the study, but it wasn't mentioned in the American Medical Association news release about the finding, nor was it stressed at the news conference.

Even though statistically sophisticated people would find the Journal of the American Medical Association conclusion weak, an AMA spokesman stressed the 30 percent risk figure and called for stricter government regulation of tobacco, giving the impression that this study was clear-cut.

Scientific findings are seldom clear-cut, but that may not deter advocates from making them seem so, and reporters sometimes abandon their innate skepticism when confronted with charts teeming with statistics.

"It's very hard for the public or even the legal system that demands yes-no answers to view these things the same way as we do in science," said Dr. Peter Gann of Northwestern University's department of preventive medicine.

"An odds ratio is an estimater of relative risk, the incidence of something happening to one

'People in public health always hammer away that you have to consider actual risk versus relative risk.'

Dr. Peter Gann

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group versus another. It doesn't take into account the actual risk.

"I might find that wearing red clothing doubles your chance of being struck by lightning, except your chance of being struck by lightning is extremely small in the first place, and the finding itself might be due to random error.

"People in public health always hammer away that you have to consider actual risk versus relative risk."

Stories that try to boil down scientific studies to one or two numbers may appear simple and straightforward, but they may mislead.

The secondhand smoke study's weak conclusion is evident when the error range is given, and error ranges should be provided in most stories that list risk percentages, said Shelby Haberman, a Northwestern statistics professor.

"It may be a little tricky to explain the meaning of the range of uncertainty, but it's a good idea to use it in news stories," Haberman said.

"For one thing, it helps the reader to understand that there is uncertainty involved here, that these findings aren't all that precise."

CHICAGO SUN-TIMES

JUN 19 1994

Study Links Moms' Smoking, SIDS

By Karla Harby P. 60
Medical Tribune News Service

Women who smoke during pregnancy increase the likelihood that their infants will have the kind of breathing problems often observed in babies who later die of Sudden Infant Death Syndrome, according to Belgian researchers.

If the prospective father also smokes during the woman's pregnancy, the risk of their baby having breathing problems is even higher, the researchers found.

Smoking by pregnant women—as well as smoking around young children—has long been known to be one of several risk factors for SIDS, a mysterious death that typically strikes babies while they are sleeping. But scientists have been puzzled by SIDS because the babies who die of it appear completely healthy.

The new study, published in the current issue of the journal Pediatrics, found that a particular breathing problem called obstructive sleep apnea—in which the baby stops breathing for at least three seconds because of blockage of the upper airway—is more than two-and-a-half times more common in babies of smoking mothers than in the babies of nonsmokers.

The episode of apnea also is longer for babies whose mothers smoked while pregnant, compared with nonsmoking mothers.

Such repeated airway obstructions have been observed in 40 percent to 50 percent of babies who later die of SIDS, said Dr. Andre Kahn, the study's author.

"The missing link between some cases of SIDS and the data on smoking could be airway obstruction," Kahn said. "I have, we think, a missing link."

Most scientists believe that SIDS probably is caused by many different things, especially since babies of nonsmokers also have died of SIDS. But this new finding adds yet another reason for expectant mothers to lead a smoke-free life, said Dr. Alfred Munzer, president of the American Lung Association.

ADVERTISING AGE, JUNE 20, 1994

LETTERS

Joe Camel only one target

Your editorial calling for R.J. Reynolds Tobacco Co. to give up Joe Camel (AA, June 13) baffles me.

Understand that the antismoking industry will be satisfied with nothing short of a total ban on cigarette advertising. Our dropping the Joe Camel advertising campaign will not appease these groups. Instead of continuous headlines about Joe, you'd be writing about the assault on our competitors' advertising. If you have any doubts about that, reference *The New York Times'* story of June 3, "Joe Camel may have won the battle, but the war against cigarette advertising continues." In that piece, Stuart Elliott quotes Dr. Alan Blum, founder and chairman of Doctors Ought to Care: "Obsessive cries on our side that 'Joe Camel must go'" have meant "we forgot the Marlboro man..." Dropping Joe Camel will not "take a weapon away from (militant tobacco foes)," as you suggest; it will simply shift the focus to other brands.

Clearly the Federal Trade Commission spent enormous effort taking an exhaustive look at the Camel campaign. Had the *Journal of the American Medical Association* articles of December 1991—the very basis on which *Ad Age* originally based its position on Camel—had even a shred of validity, you can bet we would be facing a protracted legal process rather than the exoneration given Joe Camel last week.

The truth is we don't want kids to smoke and we actively sponsor programs to enforce age restrictions. The FTC, after careful investigation, found no evidence to support allegations to the contrary. However, essentially what *Ad Age* has said to the advertising world is that it's not enough to be right; that the politically expedient route is more important than sound business decisions based on marketplace performance and consumer demands. We are not, as you accuse us, simply ensuring sales and profits for Camel today. We are working for the shareholders of RJR Nabisco, responsibly producing a campaign to ensure a long-term repositioning of what was a flagging brand, thereby enhancing the value of their holdings.

What has happened over the past three years with Camel and the tobacco industry can happen to any manufacturer of any product in America. Collectively, industry has to take a stand and send a message to political advocacy groups that they should not and will not make the choices for the American people.

James W. Johnston
Chairman-CEO
R.J. Reynolds Tobacco Co.
Winston-Salem, N.C.

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JUN 20 1994

DENVER POST JUN 19 1994

Let's keep the anti-smoking arguments honest, please

By Donald Homa
Special to The Denver Post

The president's claim that his universal health-care plan won't tax the average American means little to the 25 percent who smoke. A married couple — hard-working, law-abiding and useful contributors to society, but addicted to cigarettes — can expect to pay an additional $1,825 a year if they are heavy smokers (two packs a day). Since 39 percent of Americans near or below poverty smoke, according to the National Cancer Institute's own brochures, this tax is especially egregious, hitting those who can least afford to pay. For the long-term smoker, this is a forced tax, since the addiction is difficult to break.

The justification is that smokers wreak a substantial hardship on the health-care system, and that their smoke is a carcinogenic danger to nonsmokers. Both claims are dubious. Research findings, summarized below, contradict much of the nonsense and hysteria of passive smoking. In a society ignorant of facts and a willing participant to let someone else carry the burden of health care, and a government far too eager to finger a politically powerless scapegoat, implementation of the suggested taxes is nothing short of tyranny by the majority. If nonsmokers wish to claim the moral high ground, then they should be prepared to explain the following inconsistencies.

1. The Smoke Inhaled by Nonsmokers. Researchers (New England Journal of Medicine, 1984) have measured the amount of smoke inhaled by nonsmokers by analyzing the level of cotinine (a major biological by-product of nicotine in the blood and urine) in nonsmokers exposed to smoke at work and home. They found no statistically significant increase in cotinine level for nonsmokers in even the most extreme conditions: nonsmokers who worked with six or more smokers per room. In fact "... the cotinine level associated with smoking one or two cigarettes a day occurred only among one group of nonsmokers — those who worked with more than six smokers per room and who also lived in homes where more than a pack a day was consumed."

2. Physics of Smoking. The nonsmoker cannot physically inhale more than a fraction of one cigarette. Assume that lung capacity is about 1 cubic foot. Smoke exhaled into a small room, say 10 x 12 x 8 feet, is roughly diluted by a factor of 1,000, the volume of the room. This value is reduced further, since much of the smoke remains inside the smoker rather than being dispersed into the surrounding room. Smoke exhaled in open-area arenas, such as stadiums, has a concentration near zero, since the volume is essentially infinite.

The conclusion that passive smoking is probably harmless to healthy individuals was made by experts on smoking and health at the International Conference in Vienna (1985): "There is a high probability that cardiovascular damage due to passive smoking can be ruled out in healthy people." The Division of Lung Diseases of the National Heart, Lung, and Blood Institute (1983) reported: "The effect of passive smoking varies from negligible to quite small."

3. Pregnancy, Smoking, and Passive Smoking. The fetus should be especially vulnerable to toxins. Doctors studied 4-year-old children (Developmental Psychology, 1990) who had been prenatally exposed to alcohol, caffeine, tobacco or aspirin. Although not reported, it is a good bet that most of the children of smoking mothers were subsequently exposed to secondhand smoke as well. Analysis of 14 motor tasks and IQ revealed that alcohol was a negative influence for 7 tasks, aspirin for 5 tasks, caffeine for 3 tasks and tobacco for 0 tasks. Nine of their tasks were correlated with IQ. The authors concluded that this "... study replicates previous evaluations ... in which we were unable to detect neurobehavioral consequences of prenatal cigarette exposure."

Dr. Lefkowitz (Child Development, 1981) investigated the physical, intellectual, affective, and personal and social functioning of offspring of mothers who did or did not smoke during pregnancy. Analysis of results revealed that the children of smoking mothers did not differ from the children of nonsmoking mothers on any of the 16 measures. The IQ of children from smoking mothers was a nonsignificant 3 points higher than the children from nonsmoking mothers.

4. Passive Smoking and the EPA. The major discrepancy has been the pronouncement by the Environmental Protection Agency that environmental tobacco smoke is a Class A carcinogen and responsible for 3,000 lung cancer deaths a year. This conclusion is false, an example of shameless science, based not on new data but by violating standard rules of statistical testing in a meta analysis of previous studies, most of which failed to find any relationship between passive smoking and health risk. One prominent scientist, Alvan Feinstein of Yale medical school, stated in the journal Toxicologic Pathology that the EPA study "...

(Cont'd)

simply ignored the inconvenient results and emphasized those that are helpful."

In a meta analysis, a number of studies are combined into a single analysis. In fact, the EPA found no statistical significance between passive smoking and illness to nonsmokers. What was done, however, was to expand what in statistics is termed the "significance level" to reject the null hypothesis — in layman terms, the level needed to conclude that a relationship exists. To better understand this, I pulled a research journal off my shelf and counted the number of statistical tests and the level of significance used to report findings. Across the 8 studies, a total of 67 statistical results are reported: not one of the results adopted the liberal significance level adopted by the EPA.

5. Comparative Risks of Other Habits. Diabetes Care (1991) reported a study linking milk consumption and incidence of juvenile diabetes, a disease affecting 1 million American children. Researchers found a near thirtyfold increase in incidence of diabetes due to milk consumption (the rates for Japan and Finland). So striking was the relationship that Scientific American (1992) began its intro with these words: "The National Dairy Board's slogan, "Milk, it does a body good,' sounds a little hollow these days."

If you believe in sin taxes, why not tax milk?

The relationship between cancer death rates and fat intake was reported in Cancer Research (1975). According to this study, there is a near twenty-fivefold increase in cancer deaths based on fat consumption (compare Denmark with Thailand).

If you believe in sin taxes, why not tax fat consumption?

The New England Journal of Medicine (1986) followed smokers and nonsmokers over 12 years and found that incidence of stroke was 4.98 percent for the smokers and 2.64 percent for the nonsmokers. This twofold increase in stroke, relative to nonsmokers, is paltry, compared to the twenty-fivefold and thirtyfold increases in cancer and diabetes associated with fat consumption and milk.

6. Death, Disease and Smoking. C. Everette Koop, the previous surgeon general, claimed that smoking was the single, most-preventable cause of death. The statement is absurd. If everyone quit smoking today, the number of deaths due to disease would be virtually unchanged. The reason for this is that smoking may reduce the age at which you die but not prevent death itself (we all die). A suitable analogy is this: Consider two cylinders, each fed water from the bottom, one 70 inches high and another 75 inches high (roughly the age expectancies of smokers and nonsmokers). The rate at which water flows over the top of each cylinder (number who die) is not affected by the height of the cylinder but by the rate at which water is fed into the cylinder. The rate at which water is fed into each cylinder is analogous to the birthrate. Birthrate, not our habits, determines the rate at which people will die. Since smokers, even by the worst scenario, die well after their childbearing years, their habit cannot influence the rate of death.

Donald Horne is a Professor of Experimental Psychology at Arizona State University

BUSINESS WEEK/JUNE 27, 1994

Economic Trends

BY GENE KORETZ

U.S. DEATH RATES: ANOTHER SOCIAL GAP IS WIDENING...

In the 1980s, social observers lamented the growing income inequality in the U.S. Now, attention is being drawn to a parallel trend: a widening gap in mortality rates between the middle class and the poor.

...AND TOBACCO IS ONE OF THE BIG CULPRITS

Among the many factors contributing to the indifferent health of low-income Americans, notes economist Jeffrey E. Harris of Massachusetts Institute of Technology, is the prevalence of smoking. "Cigarette smoking is now responsible for a fifth of all deaths in the U.S. annually, and the poor are the heaviest smokers," he says.

Some 35% of American adults below the poverty line are regular smokers, compared with just 20% of those from households with incomes above $50,000. Harris, who is a physician as well as an economist, estimates that lifelong smokers live seven years less on average than nonsmokers. In addition, secondary smoke harms children and other nonsmokers in a household.

Similarly, smoking is more prevalent among blacks than among whites—and blacks have higher death rates from smoking-related diseases. For example, 86% of deaths from lung cancer are attributed to smoking, and blacks' death rates for this ailment are more than twice those of whites.

Such stark statistics are one reason many health groups are calling for a $2 increase in the federal cigarette tax. To be sure, such a hike would hurt poor people who continue to smoke more than it would higher-income smokers. On average, a household with two adults each smoking a pack and a half a day now shells out nearly $2,100 a year for cigarettes, and a $2 tax hike would raise it to $4,200. But economists argue that the regressiveness of the tax would enhance its effectiveness in curbing smoking.

"Health information sways the more affluent and educated," says Harris, "while the poor are more concerned about costs." And although the proposed hike would be regressive, the benefits of quitting are progressive: In other words, the poor, who suffer the most from tobacco use, are the most likely to improve their health by kicking the habit.

JUN 2 0 1994

ATLANTA CONSTITUTION JUN 2 0 1994

Movie heroes still smoking onscreen, though audience less likely to light up

ASSOCIATED PRESS

Washington — Smoking in the movies may not be as glamorous as Bogie and Bacall once made it, but a new study says there's still more lighting up on the silver screen than in the real world.

Smoking has dramatically declined since the 1960s, but University of California researchers who reviewed 30 years of films say Hollywood didn't catch on.

Not only are cigarettes still prevalent, movie heroes are three times more likely to smoke than the real-life role models of American society, the study concluded. This has researchers worried about an undue smoking influence on young moviegoers.

Why should people care if fantasy figures smoke?

"The impression kids get from watching these movies is that most people smoke and smoking is something done by desirable figures," said UC researcher Stan Glantz. "It's not the bad guys who are smoking, it's the good guys."

Anti-smokers have long complained that cigarette makers manipulate movies. In one highly publicized incident, Philip Morris paid $350,000 to get its cigarettes in the James Bond movie "Licence to Kill."

The industry stopped these "paid product placements" in 1990 even though they didn't influence moviegoers, insisted Tobacco Institute spokesman Thomas Lauria.

"The sight of a smoker does not another smoker make," he said.

Movies shouldn't be puritanical, conceded Glantz. Many characters need to smoke to be believable, as soldiers did in "The Longest Day," the 1963 epic about D-Day. And, sure, gangsters smoked in "The Godfather."

But what about "E.T.," the cuddly extraterrestrial of 1985 whose adopted mom smoked? Or "Ghostbusters," the 1984 hit comedy about dehaunting New York City?

"Smoking had nothing to do with 'Ghostbusters.' But all of a sudden they all break out cigarettes — it was almost a disjoint in the plot," Glantz said.

The study, published in Monday's American Journal of Public Health, looked at two randomly picked movies from the Top 10 films of each year from 1960 through 1990.

Researchers spotted tobacco or a tobacco references 785 times in the 62 films, 78 percent of which was on-camera tobacco use. This use did not decline over time even though the number of Americans who smoke dwindled from 42.4 percent in 1964 to 25.5 percent in 1990.

"That's counter to what surveys show most people think and to what we expected to find," Glantz said.

Who smoked did change. In the 1960s, 38 percent of movie smokers were major characters, compared with 26 percent in the '80s.

But the number of young adults smoking on camera more than doubled from 21 percent in the 1960s to 45 percent in the 1980s — compared to 26 percent of their real-life counterparts. And although only 19 percent of Americans of high socioeconomic status smoke — the real-life role models, according to researchers — 57 percent of their movie counterparts do, the study said.

That statistic is the one that bothers Glantz. Smoking is portrayed as normal "by people who, if you were a teenager, you'd like to be like," he said.

(Other coverage available upon request.)

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JUN 2 0 1994

BOSTON GLOBE JUN 2 0 1994

'There's been a revolution around the nation among public officials . . . but the revolution has not caught on in Massachusetts.'

- RICHARD DAYNARD
Northeastern Law School

Smoking foes cite inaction by Weld

By Frank Phillips
GLOBE STAFF

Opponents of smoking say Gov. Weld's reluctance to tarnish his libertarian image has pushed Massachusetts to the backwaters of the tobacco control movement.

Saying such states as Florida and Mississippi have taken bold leads on the issue, smoking foes point to initiatives by state governments or other public authorities to sue tobacco companies to recover Medicaid costs, divest public funds of tobacco company stocks and declare public buildings smoke-free areas.

"There's been a revolution around the nation among public officials and the public expectation toward the tobacco industry, but the revolution has not caught on in Massachusetts," said Richard Daynard, a Northeastern Law School professor and president of the college's Tobacco Control Resource Center.

In recent weeks, Weld, a nonsmoker whose extensive stock portfolio includes holdings in the cigarette manufacturer Philip Morris Co., has reportedly rebuffed public health advisers who hoped he would unilaterally ban smoking in state agencies. He has also opposed divestment of his Philip Morris stock.

Sources said Weld's political aides persuaded the governor to allow the initiative to come instead from the Legislature. Those advisers believe Weld's well-crafted image as a libertarian would be jeopardized by unilateral executive action on the issue, the sources said. It was that same advice that persuaded Weld to veto the state's mandatory seat belt bill, which was overridden later.

Sources also said there is an internal struggle in the administration over the smoking issue.

Weld's libertarian philosophy, which is behind his support for gay rights and abortion rights, has won him strong backing from some liberals. And those liberals have had an impact in changing some of his views.

Once allied with the gun lobby that opposed the assault weapons ban, Weld flopped on the issue last fall. And he folded in the face of strong arguments on the issue of requiring children to wear bicycle helmets, a measure he initially opposed.

At a recent luncheon with Globe editors and reporters, Weld acknowledged he is torn between his concern for public health and his adherence to libertarian ideals.

For example, the governor said he is unsure what he would do if the Legislature passed a pending bill to ban smoking in Massachusetts restaurants. As for other initiatives on smoking, Weld made it clear he would watch what the Legislature does.

"I'd rather wait," Weld said when asked why he had not used his executive authority to ban smoking at all state agencies. "I'm not at all sure I'd want to tell the Legislature where they can smoke or not."

Weld's reluctance to take a leadership role in the smoking debate also surfaced in 1992, when he publicly opposed and voted against the Question 1 ballot initiative to raise the cigarette tax by 25 cents per pack to fund antismoking initiatives, saying he did not think tax policy should be used to shape social behavior.

Daynard said that, while Weld shrinks from taking any lead, Massachusetts has become the most "backward" of the New England states on smoking control issues. An exception, he said, came about when voters chose to raise cigarette taxes and create the state's huge smoking control program.

'I'd rather wait. I'm not at all sure I'd want to tell the Legislature where they can smoke or not.'

GOV. WELD
asked about pending legislation to curb smoking

"It's really peculiar," Daynard said, referring to Weld's stance. "He's a libertarian, but that argument doesn't work anymore." Smoke, he said, "gets all over the place and it gets into the lungs of nonsmokers."

Weld's libertarian philosophy also places him in opposition to efforts to divest the state's pension funds of tobacco stocks. His fellow Republican, State Treasurer Joseph Malone, agrees.

The two pension funds currently hold $96.3 million worth of tobacco company stocks and bonds. Former Gov. Michael Dukakis had moved in his last term to divest the stock, but was blocked by then-Treasurer Robert Q. Crane.

Malone said he feels that tinkering with pension funds to try to change people's personal habits, however worthy the effort, is not responsible management of the money.

"We should be careful about sliding down a slippery slope where one social issue after another is addressed by divestment," Malone said. "As the fiduciary of the fund, I have a responsibility for maximizing the returns."

Malone said other measures, such as advertising and halting subsidies to tobacco growers, are the best way to curb cigarette smoking.

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JUN 2 0 1994

ORANGE COUNTY REGISTER JUN 17 1994

Santa Ana's new ban on smoking takes effect

CITIES: The law prohibits lighting up in public buildings and workplaces. p. METRO 5

By DEBORAH BELGUM
The Orange County Register

SANTA ANA — The Marlboro man better keep out of Santa Ana. The city's new no-smoking ordinance went into effect Thursday, and it bans smoking in public buildings, public meeting rooms, places of employment, museums, libraries, retail stores and restrooms that are open to the public.

Restaurants that serve more than 50 people have to reserve 75 percent of their dining rooms for nonsmokers. Cigarette vending machines are illegal in public places.

Bars are exempt.

The ordinance was passed unanimously by the City Council on May 16 after Councilwoman Lisa Mills suggested it was time to limit smoking in the city.

Residents had called her asking that the city impose a smoking ban, especially in workplaces, she said.

"A number of people were afraid to approach their boss or employer" about a ban, Mills said. "Especially if that boss smoked."

The fine is $100 for breaking the law, but the city isn't sending out troops of cigarette police to make sure everyone is complying.

"The ordinance is self-enforcing," said Jill Arthur, senior management assistant in the city manager's office. "Compliance comes through peer pressure and other mechanisms that don't involve the government."

Smokers didn't appear bothered by the new law.

"If the ... ban is in a confined area, that's fine," said Holly Zebari, smoking with friends at a table on the Topaz Cafe patio.

"I think it's great," said Shirley MacDonald, a nonsmoker sitting at a nearby table. "I have secondhand smoke damage or asthma from having lived with a father who smoked three packs a day."

NEWARK STAR LEDGER SUNDAY JUNE 19, 1994

Morris jail enforces ban on cigarette smoking

By BRIAN T. MURRAY p34

If you're locked up in Morris County, you can't light up.

A ban on cigarette smoking in the county jail is in effect, and authorities are allowing no exceptions, even for corrections officers. The policy had been implemented gradually over eight months, with inmates being permitted fewer and fewer smokes.

As of June 6, no one has even been allowed to strike a match, and new inmates have been forced to quit.

"It's cold turkey," said John Kinnecom, acting administrator.

No mental breakdowns have been reported, even among heavy smokers. But the behavior of some inmates is growing strange. One desperate smoker was caught rolling tea leaves in toilet paper in a home-made effort to bypass the new regulations.

"That was pretty hard-core. I can't imagine what that would have tasted like," said Capt. Jack DeLaney, a former smoker who designed and organized the policy.

"I'm glad not all of them are out working in fields every day, or some of them would probably be trying dandelions. It's tough, I know. But for the most part, we haven't had any problems."

The Morris County lockup is one of the first in New Jersey to adhere to the national sentiment against smoking. Gloucester County has issued a directive announcing that smoking will be banned throughout its justice complex, including the jail, by July 1, and state prisons have a policy permitting puffing only in cells.

Morris County's program grew from objections by some corrections officers about the smoky conditions in the old, cramped and unventilated facility, and Sheriff Edward Rochford allowed the union and jail administrators to come up with a plan. It included developing some counseling programs for smokers, although they had to want to quit the habit to get involved.

As for employees, many continue to puff away. But because of regulations against doing it in or even in front of the jail, they have been reduced to acting like schoolchildren by sneaking a smoke in lavatories or in hallways during breaks. Some doorways around the county courthouse complex have turned into smoking enclaves.

The inmates, however, do not have such outlets.

"We've been giving them access to food to make up for it. They can buy up to $45 worth of candy and things through the commissary," said Kinnecom.

"We were going to take out the microwaves (ovens) we have in some of the cellblocks because some inmates have been using them improperly.... But we're not going to do that just yet, because we're letting them have the extra food until they get used to this," he added.

Medical services personnel will be checking on heavy smokers who are suddenly forced to quit and assisting inmates who have difficulty adjusting, said DeLaney.

"They will not be letting them use the patch or anything like that to quit smoking because the inmates just aren't here long enough for those kinds of programs. But we will watch the inmates and give them a lot of extra fluids, which is what the doctor recommends for quitting," he added.

When the policy began in November, inmates were told what was to come and were informed about programs that would be offered on giving up the habit. At first, an inmate's access to cigarettes was limited to two cartons a month, then gradually cut back until only two packs would be issued. No cigarettes were permitted by May, but the policy was not strictly enforced until now.

"Most of them (the inmates) laid right down (cooperated), although they didn't like it. The officers are another story. Some staff don't like it, and if they can, they slip out on break to have a smoke," DeLaney said.

"But the whole place smells better now because of it (the policy), and now we have the inmates scrubbing down the walls. They're getting the nicotine off that has built up. When they're done with that, they'll be painting," he added.

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JUN 20 1994

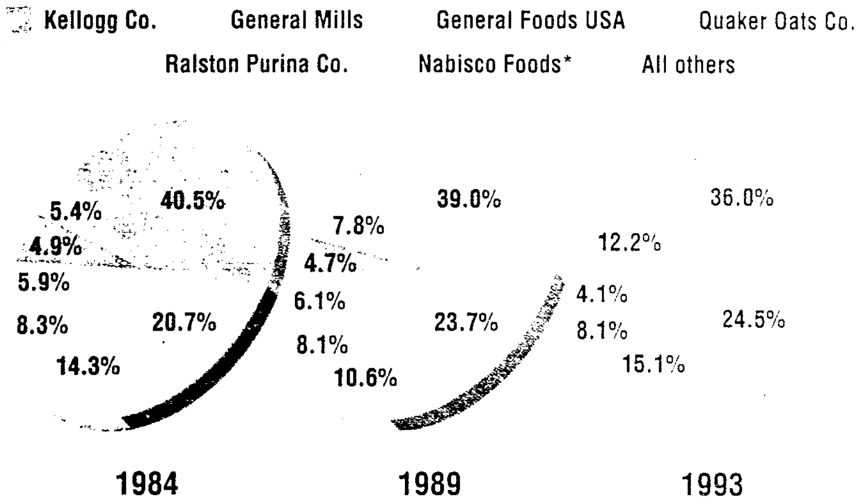
PHILIP MORRIS
COMPANIES INC.

FOOD

ADVERTISING AGE, JUNE 20, 1994

Cereal's big guns

Corporate shares measured in pound volume.



Note: All others includes private-label products.
*Nabisco brands were purchased by General Foods in 1992, and sales were added into General Foods' total for 1993.
Source: John C. Maxwell Jr.

MIKE GARVEY

New items boost cereals

Coupons also help 5% volume gain; Kellogg's lead slips

By John C. Maxwell Jr.

Volume in the cold cereal industry rose an estimated 5% to 2.96 billion pounds last year as a result of new-product introductions, line extensions and continued heavy couponing.

Sales increased around 7.3% to $8.9 billion.

Market leader Kellogg Co. lost share in total pound volume, falling to 34.9% from 36.6%. It appears market share gains went predominantly to General Mills and Quaker Oats Co., though Kraft General Foods' Post division gained on the strength of acquiring Nabisco Foods Group's cereals.

Cereal prices, led by Kellogg, climbed about 3% last year. But in a sharp break from pricing trends in the industry, General Mills in April announced it would reduce prices on its largest cereal brands by an average of 11%, or about $110 million, which translated into about 30¢ to 55¢ a box at retail.

In 1993, Kellogg initiated three price increases, two not followed by the industry as a whole. Kellogg raised prices 6% to 7% overall, about double the average industry increase.

Private label and price brands will pose a more concrete threat than in prior years. More and more consumers have turned to store brands, once reputed to be less than desirable but now providing a palatable taste and a more reasonable price. Ralston (Cont'd)

Top 10 ready-to-eat cereals

Brand (marketer)	Share of pound volume 1985	1987	1989	1991	1993
Corn Flakes (Kellogg)	6.7%	6.3%	5.4%	5.4%	5.1%
Frosted Flakes (Kellogg)	6.0%	5.9%	5.1%	5.0%	4.9%
Cheerios (General Mills)	5.0%	4.6%	4.7%	4.5%	3.9%
Raisin Bran (Kellogg)	4.7%	4.3%	3.7%	3.7%	3.3%
Frosted Mini-Wheats (Kellogg)	2.0%	2.2%	2.1%	2.5%	3.3%
Cap'n Crunch (Quaker)	2.6%	2.9%	2.9%	3.0%	2.9%
Rice Krispies (Kellogg)	3.8%	3.6%	3.1%	3.2%	2.8%
Honey Nut Cheerios (General Mills)	2.8%	2.9%	3.1%	3.0%	2.7%
Chex (Ralston)	3.6%	3.6%	2.9%	3.2%	2.5%
Shredded Wheat (General Foods)	4.0%	3.9%	2.8%	2.3%	2.3%
TOTAL	41.2%	40.2%	35.8%	35.8%	33.7%

Source: John C. Maxwell Jr.

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Purina Co. has an estimated 70% of the U.S. private-label business, with others including Malt-O-Meal in Minneapolis holding the remaining 30%.

Ad expenditures, monitored by Competitive Media Reporting, fell 1.5% to $810 million. Post was the only company to boost spending in the year, increasing measured-media dollars by 16.9% to $166 million. ☐

Mr. Maxwell is managing director at Wheat, First Securities, Richmond, Va.

THE WALL STREET JOURNAL

MONDAY, JUNE 20, 1994

Quaker Oats Shares Soar On Takeover Speculation

By a WALL STREET JOURNAL *Staff Reporter*

CHICAGO – Shares of **Quaker Oats** Co. reached a six-year high as rumors that the diversified food company might be a takeover target swept Wall Street.

Quaker stock rose $7.375, or more than 10%, to $78.50 in New York Stock Exchange composite trading Friday on speculation that Swiss concern **Nestle SA** or another foreign company might seek Quaker.

A spokesman for Chicago-based Quaker wouldn't comment, citing normal corporate policy. Officials of Nestle couldn't be reached.

A maker of Gatorade sports drink, hot and cold cereals, pet foods and snacks, Quaker has long been on food-industry analysts' lists of likely takeover candidates, partly because of its leading brands and recent efforts to pare costs.

Takeover rumors gained fuel following the recent bid for **Gerber Products** Co. by **Sandoz** Ltd. "After Gerber people want to believe," said Prudential Securities analyst John McMillin of Friday's sudden stock rise.

Michael J. Mauboussin, analyst at CS First Boston, noting that Nestle and Quaker are in several similar businesses world-wide, called such a combination "particularly attractive." He recently put Quaker's private market asset value at about $104 a share.

THE WALL STREET JOURNAL MONDAY, JUNE 20, 1994

MARKETING

Chinese cereal (left) copies Kellogg's packaging, and Chinese facial tissues use well-known American name.

Chinese Flagrantly Copy Trademarks of Foreigners

By MARCUS W. BRAUCHLI
Staff Reporter of THE WALL STREET JOURNAL

Visit a Chinese store these days and you'll catch glimpses of America: the bright red of a Colgate toothpaste box, canned foods in Del Monte green, the Kellogg's Corn Flakes rooster.

But the toothpaste is Cologate. The cans of "Cream Style Corn" are made by a company called Jia Long. And the rooster adorns a box of Kongalu Corn Strips. "Kongalu," says the box, is "the trustworthy sign of quality which is famous around the world."

Kongalu is indeed well-known in Battle Creek, Mich., **Kellogg** Co.'s headquarters, where company lawyers are considering their options. "We will take whatever action is available to us under Chinese law" to stop what Kellogg considers a flagrant violation of its well-known trademark, vows a spokesman.

Audacious copying of foreign trademarks, copyrights and patents is rampant in China, the world's fastest growing and potentially biggest consumer market. Brands are ripped off: Bausch & Lomb's Ray Ban sunglasses become Ran Bans. Products are copied: Virtually any Madonna album is available for $1 or less. And well-known names are exploited in strange new ways: One company markets Rambo facial tissues, in pink and blue.

The problem is so serious that the Clinton administration is weighing a special investigation under Section 301 of the U.S. Trade Act. Washington must decide by June 30 whether to proceed. If the U.S. Trade Representative determines that U.S. companies have been hurt, such an investigation could ultimately lead to sanctions. Already, U.S. officials put the annual damage at $800 million.

At issue is China's actual protection of so-called intellectual-property rights. Although Beijing has promised to stop infringements, a senior U.S. trade official says that China hasn't done nearly enough to head off a special 301 investigation.

"I have real confidence if the political will is there, it will be carried out," says the official. "What's lacking right now is political will."

Violations of intellectual-property rights afflict most industries and busi-

Please Turn to Page B2, Column 6

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Chinese Often Copy Trademarks, Patents Owned by Foreigners

Continued From Page B1

nesses doing business in China. **Microsoft** Corp. says Chinese software pirates cost it $30 million a year, and the amount is growing. The Motion Picture Association says virtually all the $45 million or so in videotape and laser-disk sales in China last year were fakes. Beijing Jeep Corp., a **Chrysler** Corp. joint venture, found more than 2,000 four-wheel-drive vehicles designed to look nearly identical to its popular Cherokee model.

Even the powerful suffer: Within weeks after the daughter of China's patriarch, Deng Xiaoping, published a biography called "My Father, Deng Xiaoping," thousands of illegal copies were flooding bookstores in major cities. This month, Deng Rong won a legal case against one publisher among the many who produced tens of thousands of illicit copies of her book.

Spurred by such embarrassments and eager to avoid a trade tussle with the U.S., Beijing has passed tough laws for dealing with counterfeiters and last year set up special intellectual-property rights tribunals.

"It's quite clear that in terms of a comprehensive legal framework, China has done an excellent job," says David Buxbaum, a leading China lawyer who is pursuing 12 intellectual-property rights cases through the new courts. But he worries that some of the judges assigned to the new courts may be unfamiliar with the concept of intellectual property. "It's only beginning to dawn on people that copyrights and trademarks are property," Mr. Buxbaum says.

While the legal concepts may be new, China is staging a huge propaganda campaign to show that it is trying to grasp them. The government says it handles more than 13,000 trademark-infringement and counterfeiting cases each year, of which about 500 involve foreign companies. The U.S. has the largest number of the 59,466 foreign trademarks registered in China.

For the most part, Chinese enforcement so far has meant police raids on street markets or stores that sell counterfeit software, compact disks or laser disks. Few factories have been shut down, to the dismay of U.S. trade officials.

It's not that the factories are secret. Indeed, U.S. trade officials recently visited the biggest of China's 26 known CD factories, Shen Fei Laser Optical Systems Co., in Shenzhen, just across the border from Hong Kong. The U.S. says it has given the names, addresses and telephone numbers of major counterfeit CD manufacturers to Chinese authorities.

"We've in a joking manner offered to provide them with satellite photography if that would be helpful," the senior U.S. official says.

CDs, laser disks and software have attracted the heaviest publicity, in part because losses have been big and those relatively glitzy industries have aggressive lobbies in Washington. Pirated music accounts for half of China's nearly $700 million a year in recording sales. And the software industry estimates that 94% of the software sold in China is fake, a loss industry puts at $595 million.

Yet consumer-products companies are being hit just as hard. Shampoos, soaps, toys, clothing and shoes are all being copied. Particularly vulnerable are those made in China: Exact copies of products made by Procter & Gamble Inc., Colgate-Palmolive Corp., Reebok and Nike are common throughout southern China. "They'll actually hire workers away from the real factories," says an executive.

Most companies in China like to keep low profiles in trade disputes, so few will comment publicly about their troubles. But as with most issues in China, the companies say privately that the intellectual property-rights infringements are compounded by China's size. Even if they succeed in wiping out a counterfeiter in one city, fakes can pop up somewhere else overnight.

BUSINESS WEEK/JUNE 27, 1994

Readers Report

HEINZ SETS THE RECORD STRAIGHT

We are disturbed by the number of basic errors in your article "The new life of O'Reilly" (People, June 13). The following are some examples:

■ Your report that William R. Johnson is "still not on the board" of directors despite the fact that he and William C. Springer were nominated in last year's proxy and elected at last September's annual meeting.

■ U. S. consumers have "turned away from the company's premium price brands." The market shares of our big brands in Ore-Ida, StarKist, 9-Lives, and Heinz ketchup have increased. Overseas, Plasmon and Heinz baby food in the U. K., Canada, Australia, and New Zealand have also grown. Heinz has 18 power brands around the world, each with over $100 million in sales. O'Reilly clearly did not "concede" that our brand-oriented strategy isn't working when it clearly is.

■ In his interview, O'Reilly twice confirmed that he had been rocked by an earthquake in Bombay, but you reported him in Calcutta, 1,000 miles away.

■ You describe food service as "deadly dull." What is "deadly dull" about 5% growth per year and, when on any given day, half the adult population is dining on food-service products.

■ Regarding baby food, you omit pointing out that Sandoz' acquisition of Gerber for 30 times earnings actually validates our previously announced baby food growth strategy. You write, "Heinz will likely feel the heat first in Sandoz' home territory—countries such as Switzerland and France." Suffice to say, Heinz does not compete in these two countries.

■ You report that the Kathleen Sullivan winter TV ad campaign "bombed." Lower Weight Watchers attendance last winter was due primarily to the worst winter in years and the California earthquake. Attendance has, in fact, shown a positive response to the Kathleen Sullivan campaign post-Easter.

■ Fourteen Research Corp. is not one of our "largest institutional shareholders."

Although we would welcome it as a shareholder, current listings of our institutional shareholders don't include it.

Ted Smyth
Vice-President, Corporate Affairs
H. J. Heinz Co.
Pittsburgh

Editor's note: The Heinz story contained a number of errors. The story was wrong regarding Johnson's board service, the site of the earthquake, and Heinz's presence in Switzerland and France. Other errors were an assertion that the investment by O'Reilly's Fitzwilton PLC in Waterford Wedgwood is its largest (It is No. 2) and the statement that O'Reilly is a director of General Electric Co. (He is a director of an unrelated U.K. company, General Electric Co. PLC). The mention of Fourteen Research Corp., which followed a sentence quoting an unidentified institutional investor, wasn't intended to assert that Fourteen Research is an investor.

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PHILIP MORRIS
COMPANIES INC.

BEER

RTf 06/17 1309 Femsa <FEM.MX>says close to beer alliance--analyst

NEW YORK, June 17 (Reuter) - Fomento Economico Mexicano SA de CV (Femsa) told a Bear Stearns Mexico conference it was "very close" to reaching a strategic alliance with a major beer company, said Bear Stearns analyst Carlos Laboy.

Femsa chief financial officer Alfredo Livas Cantu did not say who it was in talks with and did not give any more details about the structure of a possible alliance, Laboy said.

However, Laboy said he believes Femsa may form an alliance with Philip Morris Cos Inc's <MO.N> Miller Brewing unit. Philip Morris has an eight percent stake in Femsa. Philip Morris was not immediately available for comment.

An alliance also might involve Guinness Plc <GUIN.L>, which distributes Femsa's beer in the United States and Europe, he said.

Laboy said he believes an alliance is likely to be announced by the end of the summer.

He said Femsa may be interested tapping Miller's expertise in market segmentation, a strategy that Femsa is pursuing in its Mexican business. "Femsa defined a very clear strategy of creating this higher differentiation and segmentation and Miller is very, very good at executing that strategy in the United States," Laboy said.

Laboy said such a strategic alliance would unleash shareholder value by isolating a more specific value for the company's beer operations.

"Such an announcement would likely be a strong price trigger for the stock," Laboy said. Femsa trades in Mexico and has American Depositary Receipts that are available only to qualified institutional buyers.

--Patricia Vowinkel 212-912-7181
REUTER

RTf 06/20 0650 Guinness<GUIN.L>declines comment on Femsa "rumour"

LONDON, June 20 (Reuter) - U.K.-based international drinks giant Guinness Plc declined to comment on talk from the U.S that the company might form an alliance with Fomento Economico Mexicano SA de CV (Femsa).

"Guinness never comments on rumours," a Guinness spokesman said. Femsa has confirmed in Mexico City that it is close to forming a strategic alliance with a major beer company without disclosing any names.

A U.S. analyst said on Friday after a New York Bear Stearns Mexico conference that an alliance might involve Guinness, which already distributes Femsa's beer in the U.S. and Europe.

He also said Femsa may form an alliance with Philip Morris Cos Inc's <MO.N> Miller Brewing unit. Philip Morris has an eight percent stake in Femsa.

Kirstin Ridley, London newsroom +44 71 324 7987
REUTER

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JUN 20 1994

UPf 06/19 0559 China's beer market next growth area

BEIJING, June 19 (UPI) -- As China's wealthy turn to imported alcohol, foreign breweries are scrambling for a share of China's beer market and predict it will be the world's largest within a few years, the official media said Sunday.

"Brands like Beck's, Carlsberg, Pabst Blue Ribbon and Fosters now fill grocery shelves and restaurant counters," the Business Weekly said.

China's 860 breweries produce an annual 12 million tons of beer, second only to the United States, but consumption per capita is only 12 bottles a year, compared with 168 in the U.S.

"We believe China will become the world's largest market in the next few years," a spokesman for Australia-based Fosters told the newspaper.

Fosters has already invested $900 million in two Chinese joint ventures, and will start a third brewery in Beijing this year.

Beer consumption has risen at 20 percent a year for a decade as China's economic boom creates wealthier urban citizens with greater spending power.

U.S-based Anheuser-Busch, the world's biggest brewer, bought a 5 percent stake in Tsingdao -- China's largest beer producer -- in 1993.

"We expect to strengthen our presence in China," A-B's Vice President John Koykka said.

In 1984, annual beer consumption was less than one bottle per head. But now, even in the poorer countryside, where farmers traditionally drank only at festivals, bottled beer, at 0.9 yuan (d0.1) a time, is for sale in practically every village shop.

THE WALL STREET JOURNAL MONDAY, JUNE 20, 1994

Anheuser-Busch Cos.

Brewer Seeks Large Stake In Zhongde Brewery in China

Anheuser-Busch Cos. said it signed a letter of intent to enter into a joint venture in which it will hold an 80% stake in the **Zhongde Brewery**, a Chinese-German joint venture in China.

Terms weren't disclosed and the St. Louis-based brewer said final details of the transaction are still being negotiated. But the company said it expects to either buy an 80% interest in the existing joint venture company or establish a new joint venture to acquire the Zhondge Brewery's assets.

The purchase would give Anheuser its second stake in the fast-growing Chinese beer market and would be its first majority stake in an offshore brewery. Last year, Anheuser purchased a 5% stake in **Tsingtao Brewery Co.** in China.

The transaction is expected to be completed during the fourth quarter.

ADVERTISING AGE, JUNE 20, 1994

A-B rejiggers after Sharbaugh exit

ST. LOUIS—Anheuser-Busch set in motion a series of promotions and title changes that followed the departure of Tom Sharbaugh as VP-brand management and his replacement by August Busch IV (AA, Feb. 14).

Bob Lachky, 40, succeeds Mr. Busch with the title of group VP-Budweiser brands. Mr. Lachky, a former DDB Needham Worldwide executive, expands he duties to the entire Budweiser line. He previously was director of Budweiser brand marketing since leaving the Bud Light brand in January.

Succeeding Mr. Lachky is Michael J. Brooks, 35, from group director-sports marketing. Robin Braig, 37, succeeds Mr. Brooks, from group manager-motorsports marketing.

Moving into new posts are William E. Braun, 38, to group VP-Busch brands from director of Busch marketing, and William McNulty, 39, to VP-Michelob brands from group director of the Michelob family. □

(Other coverage available upon request.)

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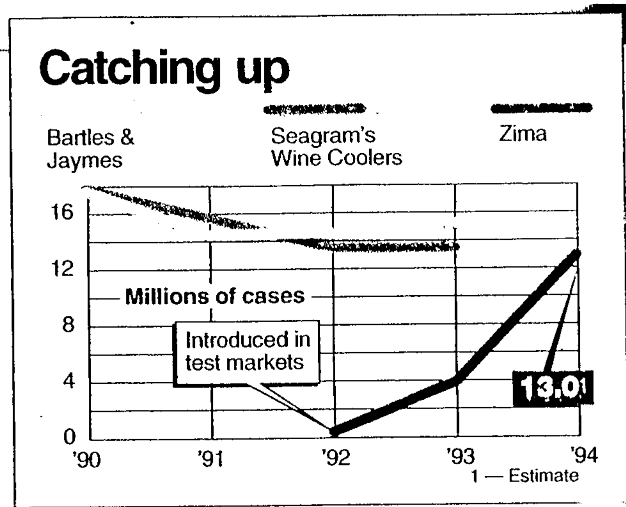
Zippy Zima zooms

Zima — a clear malt beverage — is poised to overtake Bartles & Jaymes and Seagram's wine coolers, the leaders among low-alcohol drinks. More clear malts are on the way, such as Stroh's Clash and E&J Gallo Winery's Kypler's.



Source: *Impact*

By Marty Baumann, USA TODAY

COVER STORY

Clear malts chase beers, wine coolers

Zima aims for young adults, hits the spot with mystery

By Ellen Neuborne
USA TODAY

Taste testers have described it as everything from a sparkling vermouth to a beer with four melted ice cubes.

Trendy housewares retailer Crate & Barrel us[illegible] in summer barware displays. Its ad campaign, marked by a comedian who sprinkles his pitch with too many Z's, has generated curiosity and annoyance. At comedy clubs, it has supplanted Barney the dinosaur as a top joke target.

It's Zima, the hot-selling beverage of the summer, and possibly the great clear hope of a struggling beer industry. Zima is a clear malt beverage, and most tasters put it somewhere between a beer and what's known as a wine cooler.

If you're still confused, that's fine. In fact, that's great. Zima's creator, Coors Brewing, actually wants you to be as

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confused as possible, hoping you'll order Zima just out of frustration or curiosity to know what the heck it is. "We wanted there to be an air of mystery. Curiosity goes a long way," says Julie Demlow, brand manager for Zima.

Brandweek magazine calls Zima part of the "weird beer-like beverage" trend. Zima and a crowd of up-and-coming competitors from beer and wine companies are making a hard pitch for young adults — a group in its prime beer-drinking years that still hasn't latched onto a brand. Targeting men and women ages 21 to 34, Zima *et al.* are trying to spark the flat beer and wine cooler market.

Curiosity drove Tom Murphy of Monroe, La., to try Zima — even before he knew it was an alcoholic beverage. "The ads looked pretty hip. I noticed they never used the word 'beer' in the ads, so I was curious. What was it? What did it taste like?" he says. Now it's his regular drink, displacing Bud Dry.

Zima, which graduated from test markets to national distribution this spring, is off to a fast start. Last year in just 30% of the country, Zima sold 4 million cases. This year, Zima is expected to sell more than 13 million cases. That would put it on par with Seagram's Wine Cooler, the second best-selling low-alcohol drink.

Zima has an alcohol content of 3.7% — about the same as a light beer. Many regular beers reach 5%. Production of the entire low-alcohol drink category rose 8% last year, to 42 million cases, but it's expected to leap to double digits this year.

"This is a product that has taken off like gangbusters," industry analyst Robert S. Weinberg says. "Beer hasn't given the consumer anything new and exciting in a long time.... This is a timely new product."

And a host of competitors want to capitalize, too. Coming as early as this summer to the nation's coolers:

▶ **Clash**, a clear malt beverage from Stroh's, entering test markets in Colorado, New Mexico and Arizona this summer. Stroh's officials will test three ad slogans: "Skirmish against the fray," "In transparency lies simplicity" and "Resist the usual." If young adults rush to buy large quantities of Clash, watch for the

THE Z-MAN: His redundant pitch inspired curiosity and lifted Zima quickly. But he was 'starting to get zilly' and new ads are on the air, company says.

drink to be sold nationwide in 1995. "Consumers have been telling us the mainstream regular brands just aren't cutting it," says Victor Dzenowagis, new products director.

▶ **Kypler's**, from E&J Gallo Winery. From the company that brought consumers Bartles & Jaymes wine coolers and the memorable "Thank you for your support" ad campaign, comes a challenge to beermakers. Kypler's is being tested in New York, Michigan, Arkansas and Arizona. Ad industry gossip says a campaign with the slogan "Think you've seen everything?" is in the works. Industry watchers say Gallo has to move quickly to protect its leadership in the low-alcohol refresher market. Bartles & Jaymes is still No. 1. It sold 15 million cases last year.

▶ **Miller**, despite its disastrous experience with Miller Clear beer, confirms it has a clear malt beverage in development. Miller introduced Miller Clear in early 1993 and spent $12 million promoting and testing the brand. It was a flop within months. Miller is waiting to see just how much staying power Zima has.

Beer makers are excited about clear malt. Brew production was flat last year, after falling 2.5% to 188 million barrels, or $49 billion, in 1992. Experiments such as dry beer and flavored beers have had limited success. Wine cooler popularity has been sliding since 1990.

"Historically, brewers have prospered by kicking the hell out of each other to gain market share," Weinberg says. "You had to do that in an industry that's been moving sideways. If this new product stays hot, it could be an answer to a lot of problems, bringing new customers instead of stealing each other's old ones."

To the casual trend watcher, Zima's clear look appears way behind the curve. Miller Clear died. Crystal Pepsi fizzled. *Saturday Night Live* parodied the whole clear idea with its faux ad for Crystal Gravy — "I don't see any lumps!"

The key, say Zima fans, is that the drink doesn't strike them as a gimmick. "It's a new product that's actually new. It's not just a twist on something," Murphy says.

It took three years of research to come up with something totally new, says Demlow of Coors. Armed with 1991 consumer research indicating drinkers wanted an alternative to beer and wine coolers, a 20-member team in Golden, Colo., went to work.

The result: a clear, malt-based, lightly carbonated and brewed drink Coors has trademarked as Clear-Malt. It doesn't smell like beer, foam like beer or look like beer.

Zima's ribbed bottle was born when one team member went to Europe on vacation. He spied a ribbed glass in a cafe, swiped it and hustled it back to the lab. A professional naming firm in California came up with "Zima" (from a Russian word for winter). And Foote, Cone & Belding last year created a marketing

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blitz of TV, radio and print ads in that memorable-if-annoying Z-language:

"What iz it? It's zophisticated ... not so zweet; and it's clear so you can zee through it and check out what's going on in the rest of the room even while you're drinking it."

Zima is backed by an estimated $50 million ad campaign — as much as Coors spent on its lead brand Coors Light last year.

Beverage analyst Tom Pirko, of Bevmark, says that marketing money is making Zima a hit. Once everyone who is curious has tried it a few times, he says, the weird beerlike beverage category will go the way of the wine cooler: a hot but brief fad drink *du jour*. "What I see now is still the curiosity phase."

Coors itself is not overly confident. The company already is tinkering. Officials are considering a price cut — a six-pack costs $5 to $6 — to keep the interest of value-conscious consumers. They're also planning 12-packs and 22-ounce bottles in the hope of attracting more men. Currently, 55% of Zima is drunk by women.

And new ads are on the way — low on the Z-language. Watch for new "lifestyle" ads showing young, hip rooftop barbecuers enjoying Zima. "The Z-spokesperson was great to start out with. He really cut through the clutter," Demlow says. "But he was starting to get zilly."

DENVER-ROCKY MOUNTAIN NEWS JUN 18 1994

Nanny time again

In other legal news, the Supreme Court also agreed this week to decide whether the government has the right to prevent brewers from labeling their products to show how much alcohol they contain. The right answer: It shouldn't.

This nonsense took hold back in 1935, when a federal law was passed to prevent brewers from waging "strength wars." Coloradans should be pleased that the law is being challenged by the Adolph Coors Co., which has given the nation many wholesome brews, along with the Silver Bullet girl. While the Justice Department, which is staffed by a very stiff crew, wants the law upheld, a federal appeals court has already found it to be unconstitutional.

According to a wire story, the "court said the government offered 'mere speculation and conjecture' to support its argument that brewers might start raising the alcohol content of their beer if people could compare it with other brands." The larger question, of course, is: What if they did? What business is that of the government's?

The answer to that question is supplied by government lawyers, who are quoted as saying the suppression of such information reflects Congress' fears over "a particular type of beer drinker: people who, in the absence of a prohibition on the disclosure of alcohol content, would choose a beer based on its alcohol strength."

That can work both ways, of course: A growing number of drinkers prefer *less* alcohol. Let's hope the court rules correctly, and let's not forget that Congress contains a higher proportion of rummies than Blackbeard's crew.

Dave Shiflett
Assistant editorial page editor

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