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Remarks by Michael A. Miles
Chairman and CEO
Philip Morris Companies Inc.

Union League Club
Public Affairs Forum
New York City

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REMARKS BY MICHAEL A. MILES
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PHILIP MORRIS COMPANIES INC.

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Thank you. It's a pleasure to be here. When I was invited to speak to you, I asked what you might like to hear me talk about. I was told that I could talk about anything I wanted to, as long as I said something interesting.

This reminded me of an occasion back in the 1960's, where the ultra-liberal comedian Mort Sahl was introduced by a master of ceremonies who said, "Come on out, Mort, and say something really funny."

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This kind of introduction is, of course, a comedian's kiss of death, but Sahl was up to the occasion. He came out, looked at the MC, looked at the audience, and said "John Foster Dulles." This brought down the house.

Well, I've been called on to say something interesting, and while it's probably not house-bringing-down material, I hope some of it will be interesting to you.

There are two subjects I'd like to touch on today. First, I'd like to provide you with a brief overview of Philip Morris, including a look at the company's growth, present position and strategies for success in the future.

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Second, I'd like to take a few minutes to talk about "science fiction," and its impact on businesses in general and our business in particular.

Let me begin by touching on some of the highlights that led to Philip Morris's present position as what is probably the world's largest consumer packaged goods company.

The company's modern history dates from 1918 when a group of American businessmen acquired the U.S. Philip Morris Company and incorporated it in Virginia.

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In the late 1920's, Philip Morris introduced a new cigarette whose packaging and advertising were designed to appeal to women.

The brand had modest sales in what was then a very small segment of the market, and it was called "Marlboro."

Fast forward now to 1954, when Marlboro was repositioned with a new, rugged, masculine image, and was introduced nationally in the flip-top box with the red roof design. One particularly popular ad in the "filter/flavor/flip top box" campaign featured a weather-beaten cowboy.

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In 1962, the familiar, if not to say classic, "Marlboro Country" ad campaign was launched. On TV and radio, the campaign featured the stirring theme music from the mega-hit film, "The Magnificent Seven," and nothing has been the same since.

Today, Marlboro is the world's leading branded, consumer packaged good, having passed Coca-Cola for that honor in 1986, and Philip Morris's combined tobacco operations make it the world's largest international cigarette company.

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Our other leading domestic cigarette brands include Virginia Slims, Merit, Benson & Hedges and Parliament, and in international markets we sell Chesterfield, Lark, and L&M as well. Worldwide, our cigarette production now exceeds 1.75 billion units per day.

In addition, through a carefully orchestrated program of strategic acquisitions -- including Miller Brewing in 1970, General Foods in 1985, Kraft Foods in 1989, and the Swiss coffee and confectionery company Jacobs Suchard in 1990 -- Philip Morris has also become the world's second largest food company, and the world's third largest beer company.

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Last year, our combined operating revenues totaled slightly more than 56 billion dollars. About 58 percent of those revenues come from our food and beer operations, while 42 percent come from tobacco.

And, because Philip Morris was one of the first U.S. package goods companies to recognize and capitalize on the international opportunities for our kinds of products, we can today lay a legitimate claim to being a truly global corporation.

We now have more than 166,000 employees working in 1,100 facilities in 160 countries around the world.

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Last year our overseas businesses accounted for 36 percent of total PM Companies revenues, up from 28 percent five years ago.

At 20 billion dollars, these international revenues were greater than the combined overseas revenues of Coca-Cola, PepsiCo and CPC International, three major consumer packaged goods companies known for their large international operations.

Looking to the future, our objective -- not surprisingly, perhaps -- is to continue to build on the company's success, to ensure that our shareholders, employees, and the communities in which we do business, continue to benefit.

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In that context, let me try to give you some sense of the future of our business by highlighting the five major strategies we are following to continue the company's successful record.

Our first strategy is to protect and build our brand franchises. We are blessed with some of the world's most recognizable and most popular brands.

That's partly because, even back when it was primarily a tobacco company, Philip Morris recognized the importance of strong brand names.

Out of that recognition came Marlboro -- which, as I said earlier, may be today the strongest global brand name in existence in any consumer product category.

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In our beer business, that same strategy has been evident in Miller's brand building marketing programs over the years: the creation of Miller Time; Lite Beer from Miller, the first light beer in the industry; and, more recently, Miller Genuine Draft, now the fastest growing product in the U.S. beer business.

And, in the food industry, Philip Morris' acquisition program has resulted in the creation of what is perhaps the strongest branded food portfolio in the world as well.

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The list includes such familiar market leaders as Kraft cheese, Maxwell House coffee, Oscar Mayer meats, Jell-O gelatins and Kool-Aid soft drinks, as well as Miracle Whip toppings, Velveeta, Lender's bagels, Entenmann's baked goods, Toblerone chocolates, -- and many more.

Our objective is to ensure that every brand we offer is a leader in its category.

[*pause*]

Our second strategy is to grow all parts of our business -- food, beer and tobacco -- in all geography around the world where we see opportunity for that growth to be profitable.

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This strategy reaffirms our conviction that the long-term health of the company depends on the real unit volume growth of the goods we sell.

Accordingly, we seek growth through investment in new products, line extensions of existing products, acquisitions, and strategic joint ventures.

The recent focus of our acquisitions has been on international markets -- particularly central Europe.

In May, for example, we acquired majority interest in the Czechoslovak cigarette manufacturer Tabak.

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In Hungary, the majority interest we're acquiring in a company called Egri gives us opportunities not only in tobacco, but also in the distribution of some of our Jacobs Suchard coffee and confectionery products.

[*pause*]

Our third major strategy is to emphasize productivity and synergies in and between all of our businesses.

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Our productivity and synergy initiatives include major ones, like the consolidation of Kraft's and General Foods' respective headquarters and the integration of all Kraft and General Foods operations outside of the United States, as well as smaller, but equally energetic local efforts, like the KGF, Miller, PM-USA cross-company sales teams in the Syracuse area who created a very successful joint promotion for some of our food, beer and tobacco products on Memorial Day.

All of these efforts, large and small, are saving the company literally hundreds of millions of dollars. Today we're taking further steps to combine our distribution, customer service, sales operations, and sales accounting, with further significant savings in prospect.

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[*pause*]

Our fourth major strategy is to emphasize total quality management in all of our business units and staff departments.

Now I know that total quality management, or "TQM," has become something of a buzz phrase recently, and is therefore suspect in some quarters.

The fact is, however, that Philip Morris was practicing total quality management long before business school professors began writing books about it, just because it made good business sense to do so.

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The quality emphasis in all of our businesses is one of the primary reasons for the strength and leadership positions of our brands. We will continue that quality emphasis in the years ahead.

[*pause*]

Our fifth and final major strategy is to manage Philip Morris as a global company in every respect.

Among other things, this means that on the product side, we're looking to elevate more of our packaged goods into truly global brands.

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Today there are just a few brands that truly qualify for membership in that elite group -- Coca Cola, Kodak film, perhaps Nescafe, and a few others.

Also among them are some important and growing Philip Morris brands -- Marlboro, Philadelphia brand Cream Cheese, and Toblerone chocolate. We want to lift other entries up to global status as well.

[*pause*]

Now, those of you who know Philip Morris will recognize that these strategies are pretty much the same ones that the company has applied over the years.

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They have enabled Philip Morris to grow each of its operations in existing markets, to penetrate new markets successfully, and to adapt to changing market conditions. I'm confident that these same strategies will serve us well in the future.

In summary, then, PM is today a global company, with a track record of some success, with strategies we believe are working, and with a good outlook for the future.

[*pause*]

Now, having heard me go on for several minutes about the growth of our company, the scope of our businesses and the opportunities we see ahead, you may be asking yourselves "What, no worries?"

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The answer, of course, is that, yes, we do have our share of worries. We worry about the competition, which is tough in all of our businesses. We worry about the economy which is weak in many of the countries in which we do business.

We worry about price wars. We worry about escalating consumer excise taxes on our products.

And we worry about social pressures on the use of our products, driven by special interest groups who zealously believe they know what is best for everyone else.

One of the most troubling tactics these groups use is the shotgun dissemination of questionable scientific research.

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The tactic is intended to scare the public, and to soften up legislative bodies and regulatory agencies, with the ultimate aim of increasing the regulations on the products and practices that the special interest groups oppose.

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This brings me to the second of the topics I said I'd like to talk about -- science fiction. Not of the Isaac Asimov type, but rather the so-called scientific studies being generated today; studies that are often fundamentally flawed, but that are being used by special interest groups to achieve their own intrusive agendas.

And whether you call it science fiction or junk science or tabloid science, it's all the same.

Now, please don't take what I will have to say as gratuitous science bashing. We were all taught to believe that science is a pure and exacting field, by its very nature one of our most powerful tools for inquiry, and certainly much science is just that.

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But unfortunately, and increasingly, one can today also find examples of junk science that compromise the integrity of the entire field of science and, at the same time, create a scare environment where unnecessary regulations on industry in general, and on the consumer products industry in particular, are rammed through without regard to rhyme, reason, effect or cost.

Let me give you some examples of what I'm talking about.

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In 1982, so-called science -- which now seems to be one of the most flagrant examples of science fiction ever -- made an entire town homeless. The population of Times Beach, Missouri was evacuated, and the town was shut down at a cost of 187 million dollars, because dioxin had been found in the town's roads.

The scientist at whose urging the town was permanently evacuated has since conceded it was all a terrible and costly mistake.

He says that the government should have been more up front with the townspeople, and should have told them, "We may be wrong,".

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But that didn't happen, and the whole town fled from the specter of dioxin. Today, after more thorough study and analysis, dioxin is thought not to be a carcinogen at low levels, and even if it is a carcinogen at high levels , it's a very weak one.

Another, classic example of junk science is the story about Alar and apples.

In this case, an environmental group called the Natural Resources Defense Council, or NRDC, with the help of a paid public relations firm, was able to sell the Alar story to CBS's "60 Minutes" as a prime example of what the NRDC claimed was the deadly threat of pesticides to the safety of the U.S. food chain.

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"60 Minutes" ran the story in February, 1989, complete with a skull and crossbones superimposed over an apple. In the report by Ed Bradley, Alar was branded as, quote, "The most potent cancer-causing agent in the food supply today," unquote.

The report contended that thousands of schoolchildren risked dying from cancer caused by Alar on apples.

The "60-Minutes" story set off a media storm that rolled right over the apple business, which is one of few remaining family-run, small-farm businesses in the country.

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In the wake of the "60 Minutes" story, and congressional testimony by such Alar "experts" as Hollywood's Meryl Streep, the farm price for apples fell 50 percent.

From New York to Michigan to Washington State, 130 million dollars in apple farm income was lost in that one 1989 season alone. Scores of small family-run Apple farms went under.

Farmers who never even used Alar, and 85 percent of them didn't, lost their farms simply because of the Alar halo effect.

At one point, and this is true, people were calling the EPA to ask if it was safe to pour their apple juice down the sink, for fear that doing so would contaminate their local river systems.

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And what was the Alar scare based on? A single study, conducted privately in 1973, and one follow-up study, both of which were later discredited by the EPA because of errors in the data.

These highly suspect studies involved feeding mice with pure Alar, in doses that were 35,000 times higher than the highest estimate of the daily intake by schoolchildren. And it was these so-called scientific studies that sparked the entire Alar fiasco.

Today, again based on more careful study and analysis, the consensus of the scientific community is that there was <u>never</u> any hard evidence that Alar was a threat to human health.

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[*pause*]

Now let me give you a couple of examples of junk science that bring the message even closer to home -- or to my home anyway. The studies have to do with categories where Philip Morris sells products -- coffee in one case, and cigarettes in the other.

But let me say in passing I could have picked, as examples, any of hundreds of other questionable studies that relate to various Philip Morris products.

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The coffee study comes from the March, 1992 issue of the journal entitled Epidemiology, and purports to find a link between coffee consumption and the risk of cancer of the pancreas.

In their summary, the authors state, quote, "Increased risk of cancer was present for users of regular and decaffeinated coffee, but the risk was higher for users of decaffeinated coffee than users of regular coffee." Unquote.

It sounds scientific. It was written by medical scientists. The media reported it as science. But let's take a closer look.

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The subjects in this study were not examined by the study's authors. Rather, the data were obtained by telephone. The researchers picked up their phones, reached out and touched someone. This survey approach is most often the case in epidemiological studies.

In this case, however, the researchers did not even talk to the people who had had the pancreatic cancer being studied.

Instead, they took hospital records of people who had succumbed from the disease, got the name of the next-of-kin, and asked them, in turn, to refer the researchers to a person most likely to have known the deceased's particular coffee drinking habits.

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It was ultimately that person -- the person thought by next of kin to have been most likely to know the deceased subjects' coffee drinking habits over 30 years or so -- who supplied the primary data for this study.

Now, information obtained, even from a spouse, on a person's habits reaching back 20, 30 years and more, is chancy at best. Relying on a cousin, a niece, the wife of a nephew seems absurd. Yet this is exactly what was done in this study.

And how many interviews were obtained? Well, most public opinion researchers will say that you need sample sizes of 1,000 or more to be able to project the results onto a large population with an acceptable margin of error. The sample size in this study was 169 cases.

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Finally, the results were limited to correlations, and as any first year student of statistics knows, correlation does not prove, or even necessarily imply causation. Yet the press coverage of this study most definitely implied that de-caf coffee causes pancreatic cancer.

[*pause*]

Now let me turn to an example of questionable science that affects our tobacco business. It is the so-called science of environmental tobacco smoke, or ETS.

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On June 18, the EPA released a series of recommendations on environmental tobacco smoke that was welcomed by anti-tobacco activists, because it gave them another opportunity to attempt to push through bans on smoking in the workplace and public places.

Central to the EPA recommendations are studies that purport to link ETS to lung cancer in non-smokers.

The EPA chose to examine 31 such studies. Twenty-four of those studies, 24 out of 31, including the study with by far the largest sample size, found no statistically significant relationship between exposure to ETS and lung cancer in non smokers.

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And with the exception of one incomplete study, the handful of studies that did find statistically significant results were conducted outside the U.S., principally in Asia, where cultural effects such as the widespread use of coal stoves and the way in which food is prepared make any conclusions about ETS highly questionable.

When the EPA held a press conference last year where its draft recommendations were released to the public, Dr. Morton Lippmann, Chairman of the Indoor Air Quality Panel of the EPA's Science Advisory Board was asked to assess the magnitude of the potential risk from ETS.

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Dr. Lippmann answered by saying that it was, quote, "a small added risk, probably much less than you took to get here through Washington traffic," unquote.

[*pause*]

Now, hearing these examples, one might say, "OK, too bad for the farmers and the coffee and cigarette makers, but so what? It doesn't really affect me."

Well, let me give you one final example that touches on the everyday life of everyone in this room. In the spirit of my remarks on "science fiction," I'll call this example "Killer Showers."

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The Environmental Protection Agency, and I am not making this up, has begun an investigation into the potential environmental health risks of taking a long, hot shower.

In fact, a session was held recently, as part of the EPA investigation into indoor air quality, under the title "Guidance to Estimating Exposure to Volatile Organic Compounds (VOCs) During Showers."

It seems that VOCs, which are present in ordinary household tap water, can emit certain gasses when heated. Water is heated for showers, the EPA reasons, and therefore showers, especially long hot showers, are VOC suspect.

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The fact that scores of millions of Americans have been taking hot showers daily for decades, without noticeable ill effect, has not seemed to deter the EPA personnel from pursuing this particular threat to your and my health and welfare.

If there is a potential risk present in showers, no matter how small, they will find it, and you can assume that some anti-shower group will shortly be out there pushing for hot shower regulation.

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One imagines the chilly prospect, as we enter the Twenty-First Century, of being forced to take short, cold showers, under the watchful eye of the Shower Police ... or better, not showering at all ... and of Wall Street reporting the demise of Teledyne Shower Massage, counterbalanced by booming sales in deodorants.

[*pause*]

Well finally and fortunately, the problem of junk science is beginning to attract some attention. Even William Reilly, head of the EPA, has recently admitted, quote, "Our society is being forced to make enormously costly decisions on a very small science base," unquote.

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Reilly, increasingly under pressure from critics in Congress regarding the questionable scientific underpinnings of EPA regulatory decisions, was recently forced to appoint an independent panel of prominent scientists to look at EPA's standards.

The panel concluded that, quote, "The EPA often does not scientifically evaluate the impact of its regulations," unquote.

It also found that the agency's studies frequently are carried out without benefit of peer review or quality assurance. But, in spite of this, the studies then escalate into regulatory proposals, leaving EPA on shaky scientific ground, business with unreasonable new rules and regulations, and taxpayers with the ultimate bill to pay.

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I don't know the total answer to the problem of junk science.

Part of the answer is alerting and educating the public. This isn't an easy task. Explaining flawed scientific practices, results and standards doesn't lend itself to a ten second sound bite or a 30-second public service announcement.

Part of the answer is building a coalition of local governments, businesses, and taxpayers who will begin saying enough is enough.

Part of the answer is regulatory, like the executive order that would standardize risk assessment procedures.

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Part is legislative. Science magazine, following the Alar hysteria, wrote that "Businesses today have product liability and can incur legal damages...Public interest groups have no such constraints at the moment; it may be time to develop appropriate legal safeguards so that victims of irresponsible information have redress."

And part of the answer is a more responsible press that is as skeptical and inquiring about scientific studies as it is about big business and political candidates.

In closing, let me say that junk science undermines the standards and integrity of true science. It undermines our economic strength and competitiveness. It undermines the integrity of regulation and, ultimately of government itself.

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In the consumer products area, where Philip Morris does business, we are very much aware of the impact of junk science.

We offer our products based on consumer needs and desires, scrupulously adhering to all government-required content listings, warnings and other regulations.

Clearly, it is in our self-interest to vigorously oppose regulations without merit that are the sole result of junk science.

But we also think -- and I hope you agree with me -- that becoming more critical about junk science is in the interest of consumers, of the business community and of the American public in general.

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Thank you.

[PAUSE]

That concludes my prepared remarks. Now I'd be delighted to take any questions you might have.

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