

Report from the „Seminar on the taxation of tobacco in the European Union”, 28-29 September 2006 (Budapest, Grand Hotel Royal); by Tibor Szilágyi [currently working at WHO Secretariat]

The conference has been organised by the International Tax and Investment Center (ITIC), an international NGO registered in the US. The website of this organisation (www.iticnet.org) previously acknowledged receiving support from tobacco companies.

Audience: Around 50 people, representing primarily finance ministries and financial research institutes from Central and Eastern European countries. The only speaker from the European Commission has been Mr Alexander Wiedow, director of indirect taxation and tax administration of the EC.

The Chairman of the conference has been Prof Sijbren Cnossen of the University of Maastricht. Another key speaker Mr Adrian Cooper (UK), managing director of Oxford Economic Forecasting. Both have been actively put forward tobacco industry arguments with regard to taxation of tobacco products.

The latter has published a „special report” with this occasion, entitled „Addressing the EU cigarette excise regime review 2006”. The report – the introduction says – analyses the strengths and weaknesses of the EU taxation regime and „considers how it should be reformed”. The report considers the escalation of the black market as a sign of a „destabilized cigarette market”, which is primarily caused by tax and price increases. The report publishes a table (page 10) on the share of black market in selected EU countries, mentioning as source „industry estimates”. It considers, for example, 25% of the Hungarian or 35% of Lithuanian market as „black”, without even mentioning on which basis these estimates have been made. (The frightening „ghost” of cigarette black market had put its imprint in all comments and discussions of the conference.) At the end of the report there is a list of recommendations on how the author wishes to review the EU tax regulation. (The same recommendations have been presented by Prof Cnossen in his introductory keynote speech.) These are as follows:

1. simplification of the excise structure by not using the concept of MPPC, by do not requiring minimum tax and strict ad valorem/specific ratios;
2. simplification of excise rates and levels: all cigarettes to be required to conform to a minimum excise burden, not only the MPPC class. The report recommends that the €64 regulation should only be applied for the old EU15 states, while the new ones should be given longer extension periods (e.g. 2010), and their excise levels should be determined based on affordability and adjusted to their lower living standards. The 57% ad valorem incidence should not be further increased since “tax incidence in the EU is already high by international standards. The document takes US as an example, weher there is significant “clustering” – following the US would link tax rates to affordability.
3. other important areas to consider: longer transition periods, limits to cross-border shopping must be reintroduced. (when the latter has been mentioned by Prof Cnossen, Mr Wiedow responded that such an intervention will not fit into the concept of the internal market, and introducing it for tobacco others would ask for such a regime for other products, too.)

In his introductory speech Prof Cnossen spoke about the externalities of smoking. He mentioned studies of Viscusi (2000), Manning et al (1989), Lightwood et al (2000) and Pekurinen (1992) all suggesting that external costs are not that high and also, smokers “do pay for external costs” in their lifetimes. He recommended that the overall tax burden on cigarettes should not be higher than the level of external costs and than levels which can still be enforced. Ad valorem taxes

"should be confined to VAT" (to a 15% VAT). Derogation periods should be extended for new MSs. At the end of his speech he said that everybody "should stop about smoking as a sin", and saying "enjoy your smoke!" he sent people to a coffee break.

In his speech A Wiedow of the EC already answered some of Cnossen's recommendations, which gave the impression that he knew in advance what Cnossen would recommend. As such, he disagreed with setting taxes in a way to only meet external costs, while admitting that there was no specific health policy objective for introducing tobacco tax directives. He admitted there are "limits to taxation", and these include public acceptance, the fact that in some MS tax receipts do not increase further with higher tax levels, and the black market. He mentioned that TIRSP varies widely across the MSs, and this led to increased cross border shopping and contraband. He criticized the MPPC concept, which "did not lead to approximation, is complex, outdated and may lead to distortions of competition". He implied the requirement for combining ad valorem and specific taxes would remain. The first is preferred by southern countries, the latter by northern countries not producing raw tobacco. He presented the four main aims for the Commission 2006 report. These are: simplification of legislation, basic fundamentals of present legislation questioned (such as MPPC), health objectives and the issue of substitution (fine-cut tobacco taxation). Details have been provided on all the above as follows:

- reform of tax structure contemplated: minimum EU tax level defined in specific rate has some advantages: renounces on the need of using the MPPC concept but EC is committed to provide room for MSs for using both tax types
- derogations: to be finished asap, no further derogations for MSs
- health objectives: currently not taken into account "but they have become more important", since the EC approved the FCTC in June 2004: "need to increase minimum taxes at EU level?"
- fine cut tobaccos: difference between tax structure and minimum taxes of fine cut tobacco and cigarettes, the issue of substitution: "it is recommended to increase the tax burden to at least 2/3 of the burden on cigarettes (i.e. increase minimum duty from €32 to €53 per kg)

Commenting the speech of A Wiedow P Pospisilova of the Czech R raised concerns about the escalation of the black market in her country. She mentioned that Czech R would not agree with a recommendation to increase minimum duty of 57%, but would welcome the prolongation of the granted transition period. M Braszcz Tax expert from Poland said that "the questions of health and external costs related to smoking are simply irrelevant" for him. He also admitted that his country would not agree with a further increase in tobacco tax levels. Z Krajcir of Slovakia seemed to support using tobacco taxation to reach health objectives, saying that his country's "objective to get more revenues while having less smoking". He said he cannot buy arguments which call for cigarettes to be more "affordable". He thinks, however, that excise tax levels should be left to be decided nationally, not at EU level.

Another session dealt with cigarette smuggling. An excellent case study on the fighting against contraband has been presented by Paul Gerrard of UK. Commenting on the presentation A Cooper of Oxford Economic Forecasting said that efforts to counter cigarette smuggling seem to only treat symptoms, but not the cause, the latter being high taxes. Some country representatives also called cigarette smuggling as an important problem for them. Majority of them blamed high taxes for the escalation of the black market.

In a session called "protecting tax revenues" M Juruss from Latvia presented the case of his country. He admitted that tax revenues increased dynamically in his country from €20 million in

2004 to 30 million in 2005, with the first half of 2006 figure put at 18 million. Still he blamed cigarette smuggling from the neighbouring Russia and Belarus as causes lowering budget incomes. Summarizing main methods on how to protect local tax revenues from tobacco he called for more opportunity to MSs "to adjust excise tax rate to the level of real incomes". He recommends that EU tax levels should not be increased until the end of transition periods granted to new MSs. Other recommendations: discussions at political level with neighbouring states the levels of cigarette taxes with a view to their approximation; EU excise levels can be increased if tax collection in MSs "is ensured in full and the tax administration is able to combat smuggling"; "strengthening the capacity of national tax administrations"; "encourage further cooperation with tax administrations in other MSs and customs administrations of non-EU countries".

One session, with the participation of Ayda Yurekli, advisor to the WB and WHO dealt with "the balance of tax and health policies". She put forward the health objectives in taxing tobacco products, but emphasised that health advocates would never lobby for policies which endanger national incomes from tobacco. She admitted that both objectives can be reached by a tax raising policy. She put emphasis on external costs related to smoking, which have to be covered by state budgets. Prof Cnossen as discussant agreed to many of what Mrs Yurekli said. He admitted that the main difference between them is that he is not interested in decreasing the demand for tobacco products. He agreed that with a view to reaching health objectives specific taxes should be levied, if raising more revenues is also an issue ad valorem taxes should also be increased. Responding to a question from the floor Mrs Yurekli admitted that earmarking tobacco taxes for financing health promotion interventions "does not necessarily work" in particular countries. There should be a good infrastructure to use the collected funds otherwise this "can be corrupted".

At the end of the meeting Prof Cnossen summarized the different approaches used in tobacco taxation. He mentioned the issue of covering the external costs related to smoking and of increasing revenues. When talking about the affordability of cigarettes he disagreed with cigarettes being called "luxury products" but instead "tobacco is a necessity just as bread is". In trying to approximate cigarette prices at EU level he considers a new "tax and excise organisation" to be established at EU level, which could have this objective.

Mr Daniel Witt, president of ITIC in his closing remarks admitted that ITIC has been thinking about "bringing together new MSs for about two years". He called ITIC a "neutral table" which gives the floor to attempts to share views. He was happy that his organisation succeeded in this but remained concerned about how to continue this dialogue. He said ITIC will send out a questionnaire to study participants' views of the best ways of further collaboration. ITIC needs more feedback on which are the most important issues for new MSs finance ministries, he said. He promised a report on the meeting will be sent out to participants by December. He admitted his organisation thinks about publishing an "excise bulletin to share experiences of various countries and research findings". He even asked Mrs Yurekli, as a "health person" to contribute to writing of the report about the meeting.

Dr Tibor Szilágyi

My thoughts about the meeting:

- new MS use tobacco taxation as a means of increasing their tax revenues but are concerned about cigarette smuggling;
- finance ministry officials lack basic knowledge or refuse to internalise the health impact of tobacco tax increases;

- a number of countries already expressed they would not welcome a further raise in excise levels at Community level, instead they call for more room for decisions on taxation to be made locally→it will not be easy to reach consensus on a further tax increase in the European Parliament or a lot of advocacy work should be done locally to get support for this;
- the position of EU representative seemed sound on not leaving new MSs to ask for prolongation of their derogation periods and comments from MSs implied that they would not even ask for such prolongations;
- simplification of tax structure and the abolishment of the MPPC concept will surely have support of the tax directorate.

Article of the Budapest Business Journal about the meeting:

http://www.bbj.hu/news/news_181116_where%2Bthere%25E2%2580%2599s%2Bsmoke%2Bthe%25E2%2580%2599s%2Bfire%2Bover%2Beigarette%2Btax.html

To find out more about the meeting check the website of ITIC at:

http://www.iticnet.org/SeminarEU_TobaccoTaxation/

<cnoossen@few.eur.nl> 3/7/2006

Dear Mr. Merriman, [Dr Merriman is my colleague from Chicago and he asked me if he should attend this seminar. I advised him not to go.]

I'm organizing a one-day seminar in Budapest on tobacco taxation, June 2 next. The seminar takes place under the auspices of the International Tax and Investment Center in Washington DC and Corvinus University in Budapest. I'm inviting papers on EU tobacco taxation issues (probably, will do this one myself), cigarette smuggling and counterfeit (someone from UK Customs and Excise), and on the balance between tax and health policies. I should be grateful if you would write a paper, partially drawing on earlier work if you like, on the latter subject. I can offer you a fee of €10,000, including travel (I would expect you to make your own arrangements). The hotel will be paid for. I would look forward to working with you. Kindly, let me know what you think.

Your knowledge of the subject is so broad that what you'll have to say will be interesting anyway. The seminar will be attended by tax officials, mainly from Eastern European countries, academics, and possibly industry representatives. The seminar will be mixture of theory, practice, and EU politics. I've used this formula before in The Hague and Pretoria and it seems to work quite well. I've not committed myself to the publication of the proceedings, but we may be able to do something in Tax Notes International.

With best regards, Sijbren Cnossen

From: Ross Hammond [mailto:margross@igc.org]

Sent: Monday, March 08, 2004 2:46 PM

Subject: [FCA] **International Tax and Investment Center** – Any Experiences in Your Country?

Hello GlobalLinkers -- Luk Joossens recently brought to my attention the "**International Tax and Investment Center**", a supposedly "independent nonprofit research and education foundation" with offices in Russia, Kazakhstan, Ukraine, the UK and the USA. This Center has published a report on tobacco taxation in Eastern Europe urging that accession countries be given a longer time to implement tax increases to make sure that tobacco remains "affordable":

<http://www.iticnet.org/publications/IIC%2001F%20Affordability%20Paper%20Nov%202003.pdf>

and another criticizing the World Bank's work on tobacco:

<http://www.iticnet.org/publications/IIC%2001F%20Special%20Report%20English%20final.pdf>

Not surprisingly, the Center's financial sponsors include Altria/Philip Morris and Japan Tobacco, as well as some more surprising sponsors (including the Foreign Affairs Ministries of Australia, the Netherlands and Norway, as well as Glaxo Smith

Kline) <http://www.iticnet.org/about/sponsors.htm>

Their Board of Directors is stocked with high-powered people like Thomas Pickering (former US Ambassador to the UN), George Schultz (former US Secretary of State),

Lord Peter Walker (former Secretary of Trade and Industry in the UK) Mazhit Esenbaev (Minister of Trade and Industry from Kazakhstan), and Alexander Zhoukov (Chairman of the Committee on Budget, Banking, Finance and Taxation in the Russian Duma) as well as reps. from PM, Gallaher and JTI: <http://www.iticnet.org/about/board.htm>

The goal of the Center is basically to "improve the investment climate of transition countries":

<http://www.iticnet.org/about/Default.htm>

People might want to check whether this group is dispensing advice in their countries and if so make sure that policymakers know more about their background.



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Welzijn en Sport

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DWJZ-2012000001

Bijlagen
1

Uw brief

*Correspondentie uitsluitend
richten aan het retouradres
met vermelding van de datum
en het kenmerk van deze
brief.*

Datum : **-5 APR. 2012**

Betreft : toezending advies inzake dhr. J.M. Bouma te Amsterdam

Bij brief van 5 april 2012 heeft de VWS-commissie bezwaarschriften Awb mij het advies doen toekomen inzake de te nemen beslissing op het door u ingediende bezwaarschrift van 29 december 2011.

Het spijt mij dat een en ander langer heeft geduurd dan voorzien.

Aangezien ik mij op het moment beraad over de te nemen beslissing op het bezwaarschrift, doe ik u hierbij alvast een afschrift toekomen van het door de VWS-commissie bezwaarschriften Awb vastgestelde advies.

Volledigheidshalve deel ik u mee dat de beslissing niet noodzakelijkerwijs overeenkomstig het door bovengenoemde commissie uitgebracht advies hoeft te luiden.

Tegen de beslissing - die u zo spoedig mogelijk zult ontvangen - kunt u ingevolge de Algemene wet bestuursrecht beroep instellen.

De Minister van Volksgezondheid,
Welzijn en Sport,
namens deze,
het hoofd van het team Rechtsbescherming en Europa
van de directie Wetgeving en Juridische Zaken,

mw. mr. T.A. de Haan

y

Aan de Minister van Volksgezondheid,
Welzijn en Sport

Ons kenmerk Inlichtingen bij
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Den Haag

- 5 APR. 2012
Uw brief

U heeft advies gevraagd aan de VWS-commissie bezwaarschriften Awb (hierna: commissie) over het bezwaarschrift dat de heer J.M. Bouma (hierna: bezwaarde) te Amsterdam, mede namens Trouw, op 29 december 2011 heeft ingediend op grond van de Algemene wet bestuursrecht (hierna: Awb). Het bezwaar is gericht tegen uw besluit van 21 november 2011, kenmerk DCo-3090678. Bij dat besluit hebt u de openbaarmaking van een aantal documenten waarom is verzocht bij brief van 31 mei 2011 gedeeltelijk geweigerd. Op 9 februari 2012 heeft u (hierna: de minister) een verweerschrift ingediend.

Samenstelling commissie

Voor de behandeling van het bezwaar is de commissie als volgt samengesteld: mw. mr. C.C. de Rijke - Maas (voorzitter), professor mr. A.W. Hins, mw. mr. E.P.J. Duurkoop. De commissie is bijgestaan door: mw. mr. drs. R.L.A. Burm (secretaris).

Verslag van de hoorzitting

Tijdens de hoorzitting van de commissie op 21 februari 2012 om 11.00 uur hebben bezwaarde en de minister de gelegenheid gekregen hun standpunten mondeling toe te lichten.

Voor bezwaarde is verschenen de heer J.M. Bouma. Bezwaarde pleit conform pleitnota. Deze pleitnota is als bijlage bij dit advies gevoegd.

Voor de minister zijn verschenen drs. A.M.G. Hagens en mr. M.J.P.C. Zeegers. In aanvulling op het verweerschrift heeft de minister nog het volgende opgemerkt. Met betrekking tot de nota en brief aan het Platform Verkooppunten Tabak (hierna: PVT), valende onder nummer 57, legt de minister uit dat bezwaarde die heeft ontvangen. Dit stuk zit in de stapel met openbaar gemaakte stukken, zoals ook in het verweerschrift staat. Bezwaarde heeft bij de pleitnota een lijst e-mails overgelegd om gestructureerd overleg tussen VWS en de tabakslobby aan te tonen. De minister legt uit dat de e-mails in de lijst die bezwaarde bij de pleitnota heeft overgelegd openbaar zijn gemaakt. De minister legt uit dat die lijst deels uit e-mails tussen ambtenaren en deels uit e-mails tussen ambtenaren en de tabakslobby bestaat. Er blijkt volgens de minister niet uit dat er sprake is van een gestructureerd overleg. Volgens de minister is er sprake van een gestructureerd overleg als er afspraken zijn over hoe vaak, wanneer en hoe een overleg moet plaatsvinden. De e-mails in de lijst zijn e-mails die de minister van allerlei organisaties krijgt, waaronder ook van de tabakslobby. Met betrekking tot de WHO Framework Convention on Tobacco Control (hierna: FCTC-verdrag) merkt de minister op dat het verdrag is gesloten tussen landen en het geen directe werking

richting individuen heeft. De minister geeft verder aan dat er geen relatieve weigeringsgronden primair zijn gebruikt. Van de relatieve weigeringsgronden die nog gehandhaafd worden, zijn zowel artikel 10, tweede lid, onder a, van de Wet openbaarheid van bestuur (hierna: Wob) bij de documenten 13/1 t/m 13/6 als artikel 10, tweede lid, onder g, van de Wob bij de correspondentie tussen bewindspersonen als subsidiaire gronden opgevoerd.

De commissie wijst de minister op de discretionaire bevoegdheid van artikel 11, tweede lid, van de Wob, op grond waarvan de minister de mogelijkheid heeft om beleidsopvattingen openbaar te maken in niet tot personen herleidbare vorm. De commissie zal de originele versie van de documenten na de zitting inzien en vraagt de minister of de discretionaire bevoegdheid is gebruikt bij de beoordeling van het openbaar maken van de documenten. De minister voert aan dat, in tegenstelling tot de overwegingen die ertoe hebben geleid, de conclusies van het interne beraad vaak wel openbaar zijn gemaakt. De Wob en artikel 5.3 van het FCTC-verdrag nopen er volgens de minister niet toe om de achterliggende discussie openbaar te maken, mede omdat ambtenaren in een ambtelijke organisatie ervan uit moeten kunnen gaan vrij te kunnen debatteren. Als een en ander ertoe kan leiden dat meningen genoemd kunnen worden, die vaak zijn te herleiden tot de personen erachter, dan legt dat een beslag op de wijze waarop binnen een bestuurlijke organisatie gewerkt wordt. Met betrekking tot de blauwe brieven is het openbaar maken van de overwegingen volgens de minister eveneens onwenselijk, omdat die brieven bedoeld zijn als persoonlijk communicatiemiddel tussen bewindspersonen. De aard van de brief sluit uit dat de inhoud openbaar gemaakt kan worden zonder dat bekend is van wie de brief komt. De minister vervolgt dat de feiten eruit openbaar gemaakt zouden kunnen worden, maar het is dan de vraag of er een leesbaar geheel overblijft.

De commissie vraagt de minister of intern beraad mogelijk is als lobbyisten mee doen met het beraad. De minister antwoordt dat de bewoording 'intern beraad' suggereert dat het beraad alleen intern kan plaatsvinden, maar dat intern beraad ook kan plaatsvinden met personen buiten de overheid, bijvoorbeeld met adviseurs. De minister voegt hieraan toe dat als er mails over en weer gestuurd worden, dat niet wil zeggen dat die mails niet onder intern beraad kunnen vallen.

De commissie geeft een definitie van intern beraad uit de jurisprudentie waarin staat dat het denkbaar is dat derden van buiten de overheid in de sfeer van intern beraad worden betrokken. Voorbeelden hiervan zijn advocaten en adviseurs, maar lobbyisten worden niet betrokken in het maken van het overheidsbeleid. De commissie vraagt de minister of artikel 11 van de Wob op e-mailwisselingen met de tabakslobby is toegepast.

De minister reageert dat de e-mailwisselingen die onderwerp van het bezwaar zijn, interne e-mailwisselingen tussen ambtenaren onderling zijn. Het gaat derhalve niet om e-mailwisselingen tussen ambtenaren en vertegenwoordigers van de tabaksindustrie, zoals de lijst die door bezwaarde ter zitting is aangeleverd. Artikel 11, van de Wob is daarop dan ook niet toegepast.

De commissie vraagt de minister naar de ontbrekende stukken. Een van de ontbrekende stukken blijkt wel in de stapel te zitten. De minister is van mening dat de andere stukken buiten de reikwijdte van dit Wob-verzoek vallen. De minister geeft aan te hebben gekeken naar de aanleiding van het Wob-verzoek, zoals in het verzoek staat: om een beeld te vormen hoe de industrie invloed heeft gehad op het beleid van VWS, met daaronder een niet uitputtende lijst met onderwerpen. De minister geeft aan te hebben geprobeerd die lijst zoveel mogelijk

te hanteren. De ontbrekende stukken horen volgens de minister niet onder de reikwijdte van het Wob-verzoek.

De commissie vraagt bezwaarde of hij een nieuw Wob-verzoek zou willen indienen ten aanzien van de ontbrekende stukken en geeft aan dat bezwaarde hierover enkele dagen mag nadenken. Bezwaarde geeft ter zitting aan dat hij geen nieuw Wob-verzoek wenst in te dienen en zich tot het huidige verzoek wil beperken.

Overwegingen van de commissie

Algemeen

Aan de orde is een advies over de heroverweging van het besluit van 21 november 2011. Deze heroverweging geschiedt binnen de wettelijke en beleidsmatige kaders die van toepassing zijn op het besluit waartegen bezwaar is gemaakt.

Uitgangspunt van de Wob is openbaarheid te geven aan documenten waardoor de burger in de gelegenheid wordt gesteld de bestuurlijke besluitvormingsprocessen te volgen dan wel te voorzien. Van deze verplichting tot openbaarmaking kunnen slechts worden uitgezonderd, die documenten die vallen onder de in de wet opgenomen uitzonderingsgronden.

Ingevolge artikel 3, eerste lid, van de Wob kan een ieder een verzoek om informatie neergelegd in documenten over een bestuurlijke aangelegenheid richten tot een overheidsorgaan of een onder de verantwoordelijkheid van een overheidsorgaan werkzame instelling, dienst of bedrijf.

Ingevolge het vijfde lid van dit artikel wordt een verzoek om informatie ingewilligd met inachtneming van het bepaalde in artikel 10 en 11 van de Wob.

Artikel 10, eerste lid, van de Wob behelst absolute weigeringsgronden, op basis waarvan het verstrekken van informatie zonder meer achterwege blijft. De Wob verplicht er voorts toe het belang van bovenomschreven openbaarheid af te wegen tegen de in artikel 10, tweede lid, omschreven belangen, indien daartoe aanleiding bestaat. Het verstrekken van informatie blijft achterwege voor zover het belang daarvan niet opweegt tegen één van de in dit lid opgesomde belangen. Volgens vaste jurisprudentie moet onder het belang van het verstrekken van informatie worden verstaan het algemene belang van openbaarmaking. Het specifieke belang dat een verzoeker heeft bij de verstrekking van informatie is geen belang dat betrokken wordt bij de in het kader van de Wob toe te passen belangenafweging. Om welke reden de verzoeker om openbaarmaking verzoekt is in de afweging evenmin van belang. Dit volgt ook uit artikel 3, derde lid, van de Wob waarin staat dat een verzoeker bij het indienen van zijn verzoek geen belang hoeft te stellen.

De commissie stelt vast dat de minister het verzoek van bezwaarde voor zover het in dit bezwaar aan de orde is heeft afgewezen met een primair beroep op artikel 11 van de Wob en een secundair beroep op artikel 10, tweede lid, aanhef en onder a, e en g, van de Wob.

Artikel 10, tweede lid, aanhef en onder a, e en g, van de Wob luidt als volgt:

2. Het verstrekken van informatie ingevolge deze wet blijft eveneens achterwege voor zover het belang daarvan niet opweegt tegen de volgende belangen:
 - a. de betrekkingen van Nederland met andere staten en met internationale organisaties;

- e. de eerbiediging van de persoonlijke levenssfeer;
- g. het voorkomen van onevenredige bevoordeling of benadeling van bij de aangelegenheid betrokken natuurlijke of rechtspersonen dan wel van derden.

Ingevolge artikel 11, eerste lid, van de Wob wordt in geval van een verzoek om informatie uit documenten, opgesteld ten behoeve van intern beraad, geen informatie verstrekt over daarin opgenomen persoonlijke beleidsopvattingen.

Ingevolge artikel 11, tweede lid, van de Wob kan over persoonlijke beleidsopvattingen, met het oog op een goede en democratische bestuursvoering, informatie worden verstrekt in niet tot personen herleidbare vorm. Indien degene die deze opvattingen heeft geuit of zich erachter heeft gesteld, daarmee heeft ingestemd, kan de informatie in tot personen herleidbare vorm worden verstrekt. Dit artikel beoogt ter bescherming van de vrije meningsvorming te verzekeren dat de bij de ontwikkeling van beleid van een bestuursorgaan betrokken personen in alle vrijheid en in een vertrouwelijke sfeer hun gedachten en opvattingen kunnen uiten zonder vrees voor gezichtsverlies.

Onder intern beraad wordt blijkens artikel 1, onder c, van de Wob verstaan: het beraad over een bestuurlijke aangelegenheid binnen een bestuursorgaan, dan wel binnen een kring van bestuursorganen in het kader van de gezamenlijke verantwoordelijkheid voor een bestuurlijke aangelegenheid.

Onder persoonlijke beleidsopvattingen wordt blijkens artikel 1, onder f, van de Wob verstaan: een opvatting, voorstel, aanbeveling of conclusie van een of meer personen over een bestuurlijke aangelegenheid en de daartoe aangevoerde argumenten.

Gronden van bezwaar

Voorts geschiedt de heroverweging van het besluit van 21 november 2011 op de gronden die door bezwaarde zijn aangevoerd. Daarbij staat de vraag ter beantwoording of de minister op goede gronden heeft geoordeeld dat de belangen als genoemd in artikel 10, tweede lid, aanhef en onder a, e en g, van de Wob en artikel 11 van de Wob aan de orde zijn.

De commissie constateert dat, zoals aangegeven in het verweerschrift, de volgende documenten na het indienen van het bezwaar alsnog openbaar zijn gemaakt:

- punt b), de bijlage bij de e-mail correspondentie 14/1 t/m 14/2. Dit is de brief van de NVS aan de minister van VWS d.d. 12 oktober 2009;
- punt g), document 110. Dit betreft de domeinnaam die is opgevraagd via de e-mail van 2 januari 2012;
- de antwoordbrief van VWS op een brief van de SSI en VNK met datum 3 februari 2011 (genoemd als ontbrekend stuk in het bezwaarschrift onder 1; in de lijst onder 341).

Het geschil spitst zich derhalve toe op de weigering de overige documenten openbaar te maken.

De commissie heeft na de zitting vertrouwelijk kennis genomen van de inhoud van de niet verstrekte informatie. Het betreft hier (delen van) nota's, e-mailcorrespondentie en correspondentie tussen bewindspersonen.

De commissie constateert dat de omvang van het verzoek van 31 mei 2011 overeenkomt met het bestreden besluit. Het ministerie heeft het verzoek van bezwaarde naar het oordeel van de commissie niet te beperkt opgevat.

De commissie constateert voorts dat de minister gegevens die herleidbaar zijn tot personen, zoals namen, telefoonnummers en e-mailadressen, in het algemeen voor de nog onder het bezwaar ressorterende stukken heeft geweigerd openbaar te maken op grond van artikel 10, tweede lid, aanhef en onder e, van de Wob. De commissie deelt de mening van de minister dat deze gegevens (met uitzondering van de blauwe brieven) zodanig persoonlijk van aard zijn dat het belang van de persoonlijke levenssfeer van de betrokkenen zwaarder weegt dan het algemene belang van openbaarheid van deze gegevens. De openbaarmaking van deze gegevens is derhalve terecht geweigerd. Met betrekking tot de tot personen herleidbare gegevens in de blauwe brieven is de commissie van oordeel dat het belang van de persoonlijke levenssfeer van de betrokken ministers niet opweegt tegen het algemeen belang van openbaarheid van deze gegevens nu het een korte periode betreft waarover algemeen bekend is wie de betrokken bewindspersonen waren. Overigens is de commissie ter zitting gebleken dat bezwaarde tegen de weigering tot openbaarmaking van de tot personen herleidbare gegevens geen bezwaar heeft.

Ter zitting heeft de minister aangegeven dat de weigering op grond van artikel 10, tweede lid, onder a en g, van de Wob subsidiair is gesteld bij de documenten 13/1 t/m 13/6 en de correspondentie tussen bewindspersonen. Derhalve zal de commissie deze weigeringsgronden behandelen indien de behandeling van de primaire grond niet tot weigering van de openbaarmaking leidt.

De commissie constateert dat de minister heeft geweigerd een deel van de door bezwaarde gevraagde informatie openbaar te maken met als primaire weigeringsgrond artikel 11, eerste lid, van de Wob.

De stukken a (13/1 t/m 13/6), c (57/1 t/m 57/3), d (835/1 t/m 835/5), e (902, 903 en 904) en f (correspondentie tussen ministers) waarover na de zitting nog verschil van mening is tussen bezwaarde en de minister, heeft de commissie na de zitting ingezien. De commissie is, na bestudering van deze stukken, tot de conclusie gekomen dat tenminste een deel van de verlangde informatie onder het toepassingsbereik van artikel 11 van de Wob valt. De commissie wijst hiertoe op de niet openbaar gemaakte informatie waarin beslispunten, interne adviezen, intern beraad ter voorbereiding van overleggen en risico-inschattingen staan en waarin de positie van het ministerie van VWS ten opzichte van andere ministeries geschetst wordt. Dit betreft weggelakte gedeelten in de documenten 13/1 t/m 13/6, 57/1 t/m 57/3, 835/2, 835/3, 903 en de documenten 172 t/m 175, 911 en 912.

De commissie is echter van oordeel dat zich binnen de geweigerde informatie ook gedeelten bevinden waarvan niet vast staat dat deze op juiste gronden geweigerd zijn krachtens artikel 11 van de Wob. De commissie doet hierbij op gedeelten met feiten.

Met betrekking tot de stukken genoemd onder a) '13/1 t/m 13/6' en c) '57/1 t/m 57/3' overweegt de commissie het volgende. Bezwaarde maakt bezwaar tegen het weglakken van grote delen uit de e-mail correspondenties op grond van artikel 11, eerste lid, van de Wob, omdat hij meent dat een grotere openbaarmaking op grond van artikel 11, tweede lid, van de Wob in casu in de rede ligt. De commissie is na bestudering van de stukken van oordeel dat het merendeel van de weggelakte passages niet openbaar gemaakt kan worden, omdat het persoonlijke beleidsopvattingen bevat die niet in niet tot personen herleidbare vorm zijn weergegeven.

De commissie merkt op dat artikel 11, tweede lid, van de Wob een discretionaire bevoegdheid is. De minister heeft op grond van dit artikellid aldus de beleidsvrijheid om daaraan invulling te geven. De minister heeft gemotiveerd geoordeeld de bevoegdheid van artikel 11, tweede lid, van de Wob niet toe te passen. Dat is naar het oordeel van de commissie niet onredelijk. Als secundaire grond heeft de minister voor de geheimhouding van de weggelakte stukken in de documenten 13/1 t/m 13/6 en het document dat wordt genoemd in de e-mail van 7 oktober 2009 (behorende onder 13/1) artikel 10, tweede lid, onder a, van de Wob aangevoerd. Naar het oordeel van de commissie kunnen de betrekkingen van Nederland met andere staten niet zodanig worden geschaad dat het belang van openbaarmaking van de door de commissie aangegeven passages uit deze documenten niet opweegt tegen de belangen van deze betrekkingen. De commissie is van oordeel dat de geheimhouding van de aangegeven passages in de stukken 13/1 t/m 13/6, het document dat wordt genoemd in de e-mail van 7 oktober 2009 (behorende onder 13/1) en 57/1 t/m 57/3 beter gemotiveerd dient te worden.

Met betrekking tot de stukken genoemd onder d) '835/2 en 835/3' overweegt de commissie als volgt. Bezwaarde voert, kort gezegd, aan dat het aannemelijk is dat de weggelakte gedeeltes geen persoonlijke beleidsopvattingen bevatten, waardoor het geheel openbaar gemaakt had moeten worden. Mochten de documenten toch persoonlijke beleidsopvattingen bevatten, dan had de minister deze volgens bezwaarde op grond van artikel 11, tweede lid, van de Wob openbaar moeten maken. De commissie heeft na de zitting de stukken in ongeschoonde versie ingezien en is het met de overwegingen van de minister over deze stukken, zoals deze in het verweerschrift staan, eens, met uitzondering van één gedeelte in document 835/3. Naar het oordeel van de commissie biedt de gegeven onderbouwing niet genoeg steun voor het weglakken van dat deel van document 835/3. Een nadere onderbouwing is hier geboden.

Met betrekking tot de stukken onder e) 'documenten 902, 903 en 904' overweegt de commissie als volgt. De commissie stelt vast dat document 902 in zijn geheel openbaar is gemaakt en dat in document 904 slechts de naam en het telefoonnummer van de betrokken ambtenaar weggelakt is. Dit acht de commissie in overeenstemming met artikel 10, tweede lid, aanhef en onder e, van de Wob, zoals hiervoor is weergegeven. Het bezwaar tegen openbaarmaking richt zich op de onder de kopjes 2 en 3 van document 903 opgenomen punten die de samenvatting en de beslispunten vormen. Bezwaarde stelt dat het niet aannemelijk is dat in een nota onder de kopjes 'samenvatting' en 'beslispunten' persoonlijke beleidsopvattingen worden gegeven. De commissie overweegt dat naar haar oordeel onder kopje 2 echter ten dele persoonlijke beleidsopvattingen worden genoemd die bedoeld zijn voor intern beraad. De overige stukken onder kopje 2 betreffen feiten die zich naar het oordeel van de commissie zonder aanvullende motivering lenen voor openbaarmaking. Onder kopje 3 worden alleen persoonlijke beleidsopvattingen gegeven die niet in niet tot personen herleidbare vorm openbaar gemaakt kunnen worden. Deze informatie heeft de minister naar het oordeel van de commissie terecht geweigerd openbaar te maken.

Met betrekking tot de documenten onder f) 'correspondentie tussen ministers, documenten 172 t/m 175, 911 en 912' overweegt de commissie voorts als volgt. De commissie is van oordeel dat het mogelijk is om feiten uit de blauwe brieven te abstraheren zonder persoonlijke beleidsopvattingen in tot personen herleidbare vorm openbaar te maken. Op dit punt is de commissie het aldus met de minister oneens dat alle feiten in de blauwe brieven zodanig verweven zijn met de persoonlijke beleidsopvattingen dat ze niet voor openbaarmaking in aanmerking komen. Ondanks dat er niet veel openbaar te maken feiten in de blauwe brieven staan en deze veelal de inleidingen in de brieven betreffen, kan de geheimhouding ervan naar

het oordeel van de commissie niet in overeenstemming met artikel 11 van de Wob gebeuren. Daardoor is de commissie gehouden de geheimhouding van deze feiten op grond van de subsidiair aangevoerde grond van artikel 10, tweede lid, onder g, van de Wob te beoordelen. Hiertoe overweegt de commissie als volgt. Bij de bestudering van de blauwe brieven is de commissie op passages gestuit die, indien zij openbaar gemaakt zouden worden, geen onevenredige benadeling van de betrokken ministers of andere betrokken personen zouden opleveren. Gelet op het ontbreken van deze onevenredige benadeling is naar het oordeel van de commissie bij die aangegeven passages geen sprake van schending van artikel 10, tweede lid, sub g, van de Wob en dient de geheimhouding van deze passages beter gemotiveerd te worden of achterwege te blijven.

Met betrekking tot het kopje 'ontbrekende stukken' overweegt de commissie als volgt. De commissie constateert dat in het besluit op alle punten van het verzoekschrift is ingegaan. De commissie is van oordeel dat de, na het verzoekschrift, nog ontbrekende stukken niet overgelegd hoeven te worden, omdat het Wob-verzoek daar niet op ziet. Ter zitting is bezwaarde in de gelegenheid gesteld om ten aanzien van de ontbrekende stukken een nieuw Wob-verzoek in te dienen, maar hiervan heeft bezwaarde afgezien.

Naar het oordeel van de commissie heeft de minister ten aanzien van enkele passages niet voldoende gemotiveerd in welk opzicht sprake is van intern beraad of persoonlijke beleidsopvattingen. Het komt de commissie voor dat deze passages feiten betreffen in plaats van persoonlijke beleidsopvattingen. De commissie adviseert derhalve de geheimhouding van deze passages van een betere motivering te voorzien of deze passages openbaar te maken.

Naar het oordeel van de commissie heeft de minister op juiste gronden tot het standpunt kunnen komen de overige passages niet openbaar te maken omdat daarin sprake is van intern beraad en persoonlijke beleidsopvattingen. De commissie is van oordeel dat het standpunt van de minister om geen toepassing te geven aan artikel 11, tweede lid, van de Wob niet onredelijk is.

Samengevat, is de commissie van oordeel dat het bestreden besluit op juiste grond is genomen, behoudens een klein aantal passages in de documenten 13/1 t/m 13/6, het document genoemd in 13/1, de documenten 57/1 t/m 57/3, 835/3 en 903 en de blauwe brieven, zoals hierboven uiteengezet.

Advies

Op grond van het vorenstaande adviseert de commissie:


- Het bezwaar gegrond te verklaren voor zover dit ziet op feiten uit de correspondentiestukken a en c t/m f. De passages waarin deze feiten staan doet de commissie de minister toekomen bij dit advies;
- het bezwaar voor het overige ongegrond te verklaren.

Gezien en akkoord,
de voorzitter,

w.g.

mw. mr. C.C. de Rijke - Maas

Voor eensluidend afschrift,
de secretaris,


mw. mr. drs. R.L.A. Burm

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Pleitaantekeningen VWS

Hoorzitting
Ministerie VWS
Parnassusplein 5
Den Haag
Op 21 februari 2012
Om 11.00 uur
Muzenzaal 1

PLEITAANTEKENINGEN

Van J. Bouma

namens:

J. Bouma en Dagblad Trouw te Amsterdam
'Bezwaarden' (hierna tezamen in enkelvoud: "Trouw")

inzake:

Het besluit van de Minister van VWS naar aanleiding van
het Wob-verzoek van bezwaarden, waarbij de middels een
Wob-verzoek opgevraagde stukken gedeeltelijk zijn
geweigerd.

-
1. Dit bezwaar is gericht tegen de gedeeltelijke weigering tot openbaarmaking van stukken waarom door Trouw middels een Wob-verzoek was verzocht. De stukken bevatten kort gezegd informatie waaruit de invloed van de tabakslobby op overheidshandelen volgt of zou kunnen volgen. '

E-mailcorrespondentie inzake 'plain packaging', september-oktober 2009 13/1 t/m 13/6 (index bijlage 2)

2. Trouw gaat ervan uit dat u kennis heeft kunnen nemen van de integrale tekst van deze correspondentie. Met het oog daarop verzoekt zij u uitdrukkelijk na te gaan of inderdaad sprake is van 'intern beraad'. Is dat niet het geval is, dan kan de informatie op die grond niet worden geweigerd.
3. Hetzelfde geldt voor de weigeringsgrond die de minister eerst in verweer aanvoert. Mocht daarvan al sprake zijn, dan wijst Trouw erop dat artikel 10 lid 2 sub a Wob een relatieve weigeringsgrond bevat. Het daarmee gemoeide belang moet worden afgewogen tegen het zwaarwegende belang van openbaarheid. Trouw meent dat dat in het licht van het WHO-kaderverdrag inzake tabaksontmoediging, waarin transparantie vooropstaat en waarbij inmiddels 174 staten zijn aangesloten, niet snel het geval is. Hetzelfde geldt voor het verslag van 7 oktober 2009.
4. Komt u toch tot het oordeel dat sprake is van intern beraad, dan kunnen slechts die persoonlijke beleidsopvattingen daaruit worden geweigerd. Trouw verzoekt u alsdan steeds na te gaan of de weggelakte gedeelten persoonlijke beleidsopvattingen bevatten en anders tot openbaarmaking te adviseren.¹ Daalder merkt daarover in zijn recent verschenen handboek op dat "de Afdeling bestuursrechtspraak (...) de laatste jaren steeds minder snel aan(neemt) dat er sprake is van verwevenheid van feiten en beleidsopvattingen (...) die aan openbaarmaking van de feitelijkheden in de weg staat".²

E-mailcorrespondentie inzake rookvrije ruimten en generieke verpakkingen, oktober 2009 14/1 t/m 14/2 (index bijlage 2)

5. Trouw verzoekt u na te gaan of hetgeen de Minister in het verweer stelt juist is. Mocht het om andere stukken gaan, dan verzoekt Trouw te adviseren deze alsnog te verstrekken.

E-mail correspondentie met het Platform Verkooppunten Tabak, juni 2010, 57/1, t/m 57/3 (bijlage 2)

6. De correspondentie is geweigerd met een beroep op artikel 11 lid 1 Wob. Deze beperking op de openbaarheid ziet op 'intern beraad'. Slechts beleidsopvattingen daaruit kunnen worden geweigerd. Volgens de wetsgeschiedenis is daarmee beoogd dat betrokkenen bij de vormgeving van beleid in alle vrijheid gedachten en opvattingen kunnen uiten. Daarvan is in ieder geval in het geval van document 57/3 geen sprake. Dat ziet op correspondentie met het Platform Verkooppunten Tabak. Trouw ziet niet in waarom WWS interne beleidsopvattingen zou delen met een representant van de tabakslobby ten aanzien waarvan zij zich ingevolge het WHO-kaderverdrag³ inzake tabaksontmoediging zeer terughoudend moet opstellen. Ik kom hierop later in dit betoog nog uitgebreid terug.

Nota 13 januari 2010 in verband met gesprek tabaksindustrie, 835/1 t/m 835/5 (index bijlage 1)

7. Openbaarmaking van dit document is gedeeltelijk geweigerd met een beroep op de beperking van artikel 11 lid 1 Wob. Trouw meent dat daarvan in het geval van de nota geen sprake kan zijn. De Nota ziet immers op overleg met vertegenwoordigers van de tabakslobby. Zoals hiervoor aangegeven gaat het bij intern beraad om de bij de primaire vormgeving van het beleid betrokkenen die in alle vrijheid hun gedachten en opvattingen kunnen uiten. Trouw gaat ervan uit dat de tabakslobby om de hiervoor al genoemde redenen niet gerekend wordt tot de groep van de betrokkenen die de primaire vormgeving

¹ AbRvS 21 juli 2010, AB 2010, 263.

² E.J. Daalder, *Handboek openbaarheid van bestuur*, Boom Juridische Uitgevers 2011, p. 268.

³ Zie preambule en artikel 5.3 WHO-Kaderverdrag.

van het beleid van VWS bepalen. Trouw meent daarom dat delen uit dit document ten onrechte geweigerd zijn met een beroep op de beperking van artikel 11 lid 1 Wob.

8. Verder maakt Trouw uit de wel openbaar gemaakte gedeelten op dat de nota de feitelijke voorbereiding van een bespreking bevat. Als in weervil van het voorgaande al moet worden aangenomen dat sprake is van intern beraad, dan is niet aannemelijk dat deze persoonlijke beleidsopvattingen bevat. Trouw verzoekt u met het oog daarop nauwgezet kennis te nemen van de nota en te adviseren de weggelakte gedeelten alsnog openbaar te maken, als die niet als persoonlijke beleidsopvatting kunnen worden aangemerkt.

Correspondentie met de heer E. Smid, coördinator Platform Verkooppunten Tabak d.d. 14 juni 2007 en 26 september 2007 en een nota van 20 september 2007, 902,903 en 904 (bijlage 1)

9. Trouw maakt bezwaar tegen het feit dat grote delen uit de nota van 20 september 2007 (stuk nr. 903, bijlage 1) zijn weggelakt met een beroep op artikel 11 lid 1 Wob. Op grond daarvan kan immers slechts de openbaarmaking van persoonlijke beleidsopvattingen geweigerd worden. Zo ziet onderdeel 2 op een 'samenvatting', wat duidt op een zakelijke weergave. In verweer is een van de alinea's daaronder nader openbaar gemaakt. Trouw verzoekt u na te gaan of de overige delen van het memo eveneens openbaar moeten worden gemaakt, omdat geen sprake is van persoonlijke beleidsopvattingen.

Correspondentie tussen ministers

10. Onder verwijzing naar de uitspraak van 11 januari 2002 (LJN AD9759) meent Trouw dat deze brieven voor zover deze geen persoonlijke beleidsopvattingen bevatten niet op grond van artikel 11 lid 1 Wob geweigerd kunnen worden. Voorts verzoekt zij u de brieven kritisch te lezen en niet te licht mee te gaan met het verweer, waarin de minister stelt dat de persoonlijke beleidsopvattingen en de feiten zodanig met elkaar verweven zijn, dat ook de feitelikheden niet openbaar gemaakt kunnen worden. Hiervoor is aangegeven dat een dergelijke verwevenheid in de recente jurisprudentie van de Afdeling bestuursrechtspraak niet snel wordt aangenomen.
11. In verweer stelt de minister dat zij geen gebruik kan maken van de bevoegdheid om de beleidsopvattingen in geanonimiseerde versie bekend te maken. Daaraan legt zij ten grondslag dat het om bewindspersonen gaat, zodat eenvoudig achterhaald kan worden om welke bewindspersonen het gaat. Trouw meent dat die namen, vanwege de openbare functie die zij bekleden, per definitie bekend zijn, hetgeen geen speciale grond voor weigering oplevert. Voor zover de minister aan de weigering van de feitelijke informatie in de brieven artikel 10 lid 2 sub g Wob ten grondslag legt, omdat de toonzetting vertrouwelijk wellicht persoonlijk getint kan zijn, kan Trouw niet volgen. Vertrouwelijk en persoonlijk getinte informatie klinkt immers als een persoonlijke beleidsopvatting, maar in geen geval als *feitelijke* informatie. Feiten kunnen niet worden geweigerd op grond van artikel 11 en evenmin op grond van artikel 10 lid 2 sub g Wob indien geen sprake is van *onevenredige* benadeling.

Gestructureerd overleg

12. Trouw stelt vast dat veel van de stukken die met een beroep op artikel 11 lid 1 Wob zijn geweigerd, correspondentie met representanten van de tabakslobby bevatten, of zien op overleg daarmee. Trouw benadrukt dat het artikel ziet op 'intern beraad'. Slechts persoonlijke beleidsopvattingen daaruit vallen eronder. Volgens de wetsgeschiedenis is met de beperking beoogd te bewerkstelligen dat de betrokken bij de primaire vormgeving van beleid in alle vrijheid hun gedachten en opvattingen kunnen uiten. In het

licht daarvan meent Trouw dat de correspondentie met de tabakslobby er in het geheel niet onder k n vallen. Trouw licht dit als volgt toe.

13. Onder artikel 11 van de Wob is niet uitgesloten dat externe personen en organisaties die niet horen tot de kring van de overheid, betrokken kunnen zijn bij intern beraad.⁴ Dat volgt ook uit de jurisprudentie.⁵ Het gaat daarbij om een advies van een advocaat dat ten grondslag wordt gelegd aan beleid⁶, een rapport van een externe deskundige dat bij de voorbereiding van de besluitvorming in acht wordt genomen⁷, of een verslag van een projectgroep waarin ook externen zitten, die bestuurlijke besluitvorming voorbereidt.⁸
14. In onderhavig geval gaat het echter om correspondentie/overleg met een lobbygroep. De tabakslobby. Dat is niet te vergelijken met de aangehaalde voorbeelden uit de jurisprudentie. Met het beroep op artikel 11 stelt de minister feitelijk dat de tabakslobby betrokken is bij de primaire vormgeving van het volksgezondheidsbeleid. Dat kan niet de bedoeling zijn, al was het maar omdat het Kaderverdrag inzake tabaksontmoediging terughoudendheid oplegt in de contacten met de tabakslobby.
15. Dat geen sprake is van intern beraad volgt ook uit het feit dat het contact tussen VWS en de tabakslobby het karakter heeft van 'gestructureerd overleg'. Over alle belangrijke onderwerpen op het gebied van tabak heeft de afgelopen jaren immers correspondentie en overleg plaatsgevonden tussen VWS en de tabakslobby: Te denken valt aan 'plain packaging', de FCTC, rookvrije ruimten en ingredi nten en additieven. Dit wordt voor de jaren voorafgaand aan het Wob-verzoek inzichtelijk gemaakt in de aangehechte **bijlage**. De verschillende correspondenties staan duidelijk niet op zichzelf. Ze maken deel uit van overleg dat kennelijk geregeld voorkomt. Wanneer belangenorganisaties meer dan eens, over een langere periode, over meerdere onderwerpen bij de vorming van beleid worden betrokken, is sprake van gestructureerd overleg.⁹ Dit karakter van gestructureerd overleg ontnemt aan de documenten het karakter van intern beraad.¹⁰
16. Gezien het voorgaande kan de inhoud van de documenten die zin op correspondentie en overleg met de tabakslobby, niet worden geweigerd op grond van artikel 11 lid 1 Wob

WHO-FCTC

17. Diverse malen is al gewezen op het feit dat Nederland partij is bij het WHO-Kaderverdrag inzake tabaksontmoediging. Op grond daarvan is Nederland gehouden het gezondheidsbeleid te beschermen tegen commerci le en andere belangen van de tabaksindustrie. Het noopt tot terughoudendheid in de contacten, transparantie daarover en een integer opererende overheid. Het RIVM bijvoorbeeld leeft deze verplichtingen na: "De tabaksindustrie is uitstekend op de hoogte (...) en probeert op alle niveaus gaten te schieten in deze verdragsafspraken (...) Ik raad je aan zeer terughoudend te zijn in jouw contacten

⁴ TK 1986-1987, 19 859, nr. 3, p. 14.

⁵ Zie bijvoorbeeld: AbRvS 8 juli 2009, *LJN*: BJ1890.

⁶ Zie bijvoorbeeld: AbRvS 5 juli 2006, *AB* 2006, 306.

⁷ Zie bijvoorbeeld: AbRvS 14 mei 2008, *AB* 2008, 215.

⁸ Zie bijvoorbeeld: AbRvS 9 juli 2008, *AB* 2008, 297.

⁹ MvA Wob, pag 15, zie ook E.J. Daalder, *Handboek openbaarheid van bestuur*, Boom Juridische Uitgevers 2011, p. 253.

¹⁰ TK 1986-1987, 19 859, nr. 3, p. 13.

met de industrie (...) Het lijkt mij zeer onverstandig onze integriteit in de waagschaal te leggen."¹¹ In 2006 was toenmalig minister Hoogervorst eveneens helder. In een brief aan de samenwerkende shagfabrikanten wees hij erop dat het WHO-verdrag geen aanknopingspunten biedt voor samenwerking tussen tabaksbedrijven en overheid.

18. De huidige contacten tussen VWS en de tabaksindustrie gaan veel verder. Trouw meent dat in het licht van de verdragsverplichtingen aan de belangen die gemoeid zijn met de relatieve weigeringsgronden weinig gewicht worden toegekend en dat het zwaarwegende belang van openbaarheid hier prevaleert.
19. Evenzeer meent Trouw in het licht van het voorgaande, dat zo al sprake is van persoonlijke beleidsopvattingen inde zin van artikel 11 Wob er onderhavig geval groot belang toekomt aan de mogelijkheid van het tweede lid daarvan: om op grond van de discretionaire bevoegdheid daartoe te besluiten tot openbaarmaking. Trouw vraagt u uitdrukkelijk dit gegeven bij uw advisering te laten meewegen.

Tot slot

20. Onder het kopje 'Ontbrekende stukken' gaat de minister in het verweer in op de constatering van Trouw dat er documenten niet bij het Wob-verzoek zijn betrokken en openbaar gemaakt. De minister meent dat deze stukken niet vallen onder de reikwijdte van het Wob-verzoek. Dit bestrijdt Trouw. Naar het oordeel van Trouw is door de minister een te beperkte uitleg gegeven aan de omvang van het Wob-verzoek. In het omvangrijke Wob-verzoek 31 mei 2011 is op meerderde plaatsen aangegeven dat de opsomming van documenten die Trouw vroeg, niet uitputtend was. Op pagina 1 van het verzoek onder de algemene beschrijving van het verzoek staat: "Het verzoek is tevens gericht op alle overige stukken documenten of gegevensdragers die in het licht van het verzoek mogelijk relevante informatie bevatten." Op pagina 2, derde alinea: "Met nadruk herhalen wij dat het verzoek zich niet beperkt tot de onderwerpen die worden opgesomd. (...) Het verzoek ziet derhalve ook op niet nader gespecificeerde thema's waarbij het tabaksbeleid een rol speelt".
21. Trouw heeft het Wob-verzoek op 26 mei 2011 kenbaar gemaakt en toegelicht op het ministerie en heeft zich opengesteld voor tussentijds overleg, ook over de vraag welke documenten wel en welke niet onder het verzoek vallen. Van die mogelijkheid is door het ministerie enkele malen gebruik gemaakt. Nooit is daarbij de vraag gesteld of ook de ontbrekende documenten vallen onder de reikwijdte van het verzoek. Trouw verzoekt u de minister te adviseren dat deze documenten, alsmede gelijksoortige documenten die nu niet zijn verstrekt, wel onder dit Wob-verzoek vallen en derhalve alsnog openbaar moeten worden gemaakt.

Conclusie

22. Gezien het voorgaande verzoekt Trouw u de minister te adviseren het bezwaar gegrond te verklaren en bij de beslissing op bezwaar alsnog te besluiten de geweigerde informatie openbaar te maken.

¹¹ E-mail van 3 december 2009 van Antoon Opperhuizen, hoofd laboratorium RIVM aan Marc Sprenger, DG RIVM, naar aanleiding van een toenadering door British American Tobacco (document nr 1280). Het RIVM heeft gehandeld naar dit bericht en is contact met British American Tobacco uit de weg gegaan.

Doc.nr. VWS	Datum	Soort	Ontvangers/afzenders (van:/aan:)	Onderwerp
2009				
324	4-8-2009	emails	Van VNK (shagindustrie) aan VWS	Tabaksbeleid gesprek VNO-NCW met DG Huijts
326	19-8-2009	Nota	Aan DG Huijts van: dir. VoedingGez.besch.Preventie	Nota over overleg met VNK op 24 aug 2009
331	18-9-2009	Brief	Aan: directie VGP (VWS) van VNK	uitnodiging bedrijfsdag VNK Nieuwspoort
7	28-9-2009	email	Aan: VWS van: PM Benelux	plain packaging, brief aan minister Klink
8	30-9-2009	emails	Aan: VWS van: EZ	plain packaging: EZ wil pas ri. VWS met meer info
10	1-10-2009	emails	Aan: Van Bolhuis, Huijts, Van: onbekend	over reactie VWS op brief PM aan Klink, zie boven
14	12-10-2009	emails	Aan: onbekend, van: Ned.Ver.Sigarenindustrie NVS	brief aan Klink over plain packaging
332	29-10-2009	Nota	Aan: DG Huijts van: Van Bolhuis	VNK wijst na 24/8 erop dat VWS "open staat voor periodieke ontm
17	6-11-2009	emails	Aan: Philip Morris van: directie VGP/VWS	uitslag overleg EU-Brussel over plain packaging en "opbouwen van
27	9-11-2009	email	Aan: VWS, van: PM Benelux	PM wil afspraak over FCTC, ingrediënten, refererend aan email van
80	10-11-2009	email	Aan: VWS, van: VNK	verzoek nadere kennismaking
81	19-11-2009	email	Aan: VWS, van: VNK	brief aan DG Huijts over "wederzijdse informatieuitwisseling"
26	4-12-2009	emails	Aan: VGP/VWS, van: Philip Morris Benelux	afspraak over ingrediënten in tabak
25	9-12-2009	emails	Aan: VGP/VWS, van: EZ	wil info over FCTC want: de volgende dag gesprek met PM en Sticht
83	11-12-2009	emails	Aan: VWS van: PM	PM wil bij gesprek zijn van Huijts met industrie op 15/01/2010
2010				
28	4-1-2010	emails	Aan: Japan Tobacco International, van: VGP/VWS	VWS deelt mee dat JTI inbreng voor afspraak Huijts mee moeten ge
123	4-1-2010	emails	Aan: VWS, van: VNO-NCW	aankondiging brief VNO/NCW aan Huijts over tabaksbeleid
85	6-1-2010	emails	Aan: VWS, van: PM Benelux	VWS zal 'waar mogelijk' kritiek PM inbrengen op Impact Assessmer
124	14-1-2010	emails	Aan: VWS, van: PM Benelux	"over hoe er in de toekomst constructief inzichten kunnen worden :
839	19-1-2010	emails	Aan: DG Huijts, van: NVS	reactie op Impact Assessment EU-Tabaksproductrichtlijn van Europ
88	27-1-2010	brief	Aan: DG Huijts, van: VNK,SSI,PM en NVS	dank voor gesprek bij VWS, gesproken over: "De nationale, Europe
89	29-1-2010	emails	Aan: VWS, van: PM Benelux	mogelijkheid tot bedrijfsbezoek, op verzoek van VWS-ambtenaren
78	8-2-2010	emails	Aan: VWS, van BAT Nederland	BAT wilde met RIVM praten over 'harm reduction', RIVM wees op a
35	9-2-2010	emails	Aan: VWS en EZ, van: PM Benelux	positie PMI in FCTC protocol illegale handel in tabak
92	16-2-2010	emails	Aan: VWS, van: Philip Morris Benelux	blij met mogelijkheid "raadpleging voorafgaand aan de inname van
38	3-3-2010	emails	Aan: VWS, van Philip Morris Benelux	programma fabrieksbezoek aan Bergen op Zoom van vier ambtenar
39	4-3-2010	emails	Aan: tabaksindustrie, van: VWS	VGP/VWS maakt visie bekend aan industrie na consultatie tabaksin
40	4-3-2010	email	Aan: VWS, van: VNO-NCW	VNO-NCW wil dat NL in FTCT doorpakt en wil "contacten stroomlijn
41	7-3-2010	emails	Aan: VGP/VWS?, van: DG Huijts?	mailschrjver is benaderd door Van Kesteren (VNO-NCW) die bezorg
42	8-3-2010	emails	Aan: VGP/VWS?, van: DG Huijts?	mailschrjver wil weten wat het tijdspad is voor NL standpunt, zie hi

44	8-3-2010 emails	Aan:tabaksindustrie, van:VWS
71	9-3-2010 emails	Aan:VWS, van:SSI,VNK en PM
51	15-3-2010 emails	Aan:PM Benelux, van:VGP/VWS
52	19-5-2010 emails	Aan:VWS, van: SSI
94	21-5-2010 emails	Aan:tabaksindustrie, van:VGP/VWS
53	25-5-2010 emails	Aan: VWS, van:VNO-NCW
97	26-5-2010 emails	Aan: VWS, van: SSI
98	13-6-2010 email	Aan: DG Huijts, van: VNK,SSI,NVS,PM
99	14-6-2010 emails	Aan: VWS? Van: EZ
101	14-6-2010 emails	Aan: EZ, van: VGP/VWS
104	17-6-2010 emails	Aan: DG Huijts, van: VNK,SSI,PM en NVS
129	18-6-2010 emails	Aan: tabaksindustrie, van: VGP/VWS?
107	26-8-2010 emails	Aan: SSI, van: VWA
59	30-8-2010 emails	Aan: Platform Verkooppunten Tabak, van: VGP/VWS
60	14-9-2010 email	Aan: VWS, van: Philip Morris Benelux
133	27-9-2010 emails	Aan: VWS? Van: SSI,VNK,PM Benelux en VNO-NCW
135	27-9-2010 emails	Aan: tabaksindustrie, van: VGP/VWS
109	22-10-2010 email	Aan: VWS?, van: Philip Morris Benelux
110	22-10-2010 email	Aan: VWS, van: SSI
137	2-11-2010 email	Aan:VWS, van: PM
66	26-11-2010 emails	Aan: NVSigarenfabrikanten, van: VGP/VWS
112	29-11-2010 emails	Aan: VGP/VWS, van: VNK?
114	10-10-2010 emails	Aan: VGP/VWS, van: VNK?
tot 23/5/2011		
140	3-1-2011 emails	Aan: VWS, van: SSI
114	5-1-2011 email	Aan:tabaksindustrie, van: VGP/VWS
115	6-1-2011 emails	Aan: VWS, van: Philip Morris Benelux
142	14-1-2011 email	Aan: DG Huijts, FIN, van: SSI
118	1-3-2011 emails	Aan:VWS,EZ,FIN, van: VNK
150	18-3-2011 emails	Aan: VGP/VWS, van: SSI
23	4-5-2011 email	Aan: VWS, van PM Benelux
72	16-5-2011 emails	Aan: VGP/VWS, van: Japan Tobacco International
3	23-5-2011 emails	Aan:VWS, van PM Benelux

VGP/VWS bregt tabaksindustrie op de hoogte van tijdspad (zie hier Dank voor toelichting en inzicht in procedure die NL gaat volgen, w: Dank voor bedrijfsbezoek en informatie-uitwisseling over de e-cigar Verzoek om nadere informatie over ingrediëntendiscussie EU. Zorg Uitnodiging voor gesprek met DG Huijts op 11 juni 2010 over ingre VNO-NCW wil aanschuiven bij gesprek tabaksindustrie met DG Huij SSI heeft ontwerp-richtlijn FCTC ingrediënten gezien, waarin "aantr Dank voor overleg op 11 juni, VWS wil alleen maatregelen ingrediën SSI heeft na gesprek Huijts op 11 juni mail naar EZ bestuurd: we zijn Reactie op mail EZ, Zie docs 98,97, "Jammer dat ze blijkbaar nog on Excuusbrief aan Huijts over te hulp roepen van EZ, zie docs 97, 98 e VWS (VGP?) boos op interventie industrie richting EZ: „Ik vind het e Industrie heeft vragen over LIP, verplichte zelfdovende sigaret, stel PVT wil gesprek over ingrediënten, plain packaging met DG Huijts. I FCTC wil toch aantrekkelijkheid aanpakken in ingrediëntenrichtsno „Laten we voorop stellen dat we na het gesprek met VWS in juni 20 „Ik heb begrip voor jullie aandachtspunten." (...) „De invloed van N Vraag of VWS en RIVM scherpe kritiek van PM op impact assessme Brief aan minister over FCTC, EU TPD review en Nationaal Actieplan '....om nog eens mijn grote dank over te brengen voor je discrete er Mail over verloop discussie FCTC ingrediënten: „Waar we wel winst Mail over kennismakingsgesprek nieuwe directeur, bijpraatgesprek „Is het mogelijk dat jij ergens voor kerst of voor 15 januari nog een

SSI en VNK praten met VWS "elkaar bij over diverse tabaksgerelate 'Jullie hebben je zorgen geuit over de weigering van jullie aanwezig PM heeft gehoord van gesprek VWS met VNK en SSI en wil ook prat Kopie van brief aan Weekers (Stas FIN) van SSI,VNK en PM, dat hij z Bedrijfsbezoek Van den Biggelaar, agenda: presentaties over Tobac „Dank voor de plezierige kennismaking afgelopen woensdag. Wat r PM wil dat VWS duidelijk maakt binnen EU dat exportbelangen van Mails over afspraak met DG Huijts of met VGP/VWS over bescherm Uitnodiging van VGP/VWS en Marjolein Sonnema voor een bedrijfs

Bouma, Joop

Van: Martijn Diepenhorst [Martijn.Diepenhorst@kvdl.nl]
Verzonden: donderdag 12 april 2012 11:32
Aan: 'Dominique Hamerlijnck'; 'Joop Bouma'
Onderwerp: Wob: Termijn Min Fin en Advies VWS
Bijlagen: KVDL-REPORT-01_Printer72_2331_001.pdf

Beste Dominique, beste Joop,

Bijgaand zoals juist telefonisch met Joop besproken het advies van VWS, ten behoeve van de beslissing op bezwaar van de Minister van VWS. Er moet nog worden besloten, waarbij de minister de mogelijkheid heeft om (op onderdelen) van het advies af te wijken. Ik zal het advies lezen en jullie een korte juridische analyse toezenden.

Verder heb ik vandaag contact gehad met de heer Blok van het Ministerie van Financiën. De beslissing op bezwaar ligt in principe gereed voor verzending, maar er is nog een aantal nieuwe stukken, waarover nader moet worden besloten. Daarvoor moeten enkele belanghebbenden in de gelegenheid worden gesteld om een zienswijze te geven op het voornemen tot (gedeeltelijke) openbaarmaking daarvan. De heer Blok heeft de keuze voorgelegd om te werken met ofwel twee deelbesluiten (nu de beslissing op bezwaar en over 2 tot 3 weken het besluit waarin over de 'nadere stukken' wordt besloten) of één besluit, waarbij beide besluiten in één beslissing op bezwaar terecht komen. Dat laatste brengt met zich mee dat we nog 2 a 3 weken moeten wachten op het besluit, maar heeft het voordeel dat de rechtsbescherming geconcentreerd blijft tot één beslissing op bezwaar, wat ook relevant is in verband met de termijnen. In overleg met Joop hebben we voor de laatste optie gekozen, met de kanttekening dat we volgende week donderdag een brief uitdoen waarbij we de minister in gebreke stellen vanwege de overschrijding van de beslistermijn, wat tot gevolg heeft dat er binnen twee weken een besluit moet zijn. Luikt dat niet, dan wordt door de Minister een dwangsom verbeurd van enkele tientjes per dag. Op die manier houden we de druk op de ketel, terwijl we het ministerie wel in de gelegenheid stellen om binnen de door hen aangegeven drie weken een besluit te nemen, zonder dat daadwerkelijk die dwangsom wordt verbeurd. Ik heb dit inmiddels telefonisch aan de heer Blok van het ministerie van financiën gecommuniceerd.

Met vriendelijke groet,

Martijn Diepenhorst
advocaat / attorney at law

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Tobacco and the Expert

The tobacco industry has always used its financial muscle to persuade scientists to influence government policy, in both the Netherlands and elsewhere. At first, 'independent experts' would downplay the risks of smoking. Later, they advised on ways to influence legislation. But just how 'independent' are these scientists? In the case of Dutch researchers Sijbren Cnossen and Jan Frijters, this is an extremely pertinent question.

Joop Bouma

Sijbren Cnossen enjoys an international reputation as an expert on taxation. He knows all there is to know about VAT and excise duties, and has therefore been an important discussion partner for the tobacco industry. In 2006, the former professor's special expertise won him the post of advisor to the board of the Netherlands Bureau for Economic Policy Analysis (CPB), an official agency of the Ministry of Economic Affairs, Agriculture and Innovation. He continues to hold that position, even though he is now 76 years old.

The CPB plays a key role in the development of economic policy in the Netherlands. It attaches great importance to independence and impartiality. Prof. Cnossen can look back on a thirty-year career as a university professor in Rotterdam and Maastricht. He remains a visiting professor at the University of Pretoria. Later this year he will yet again present a workshop for the African Tax Institute in Pretoria, examining the practical aspects of excise duty on certain products in African countries.

In 1991, when Professor of Economics at Erasmus University Rotterdam, Prof. Cnossen was retained as an advisor to the tobacco industry, a role which has been omitted from his long CV.

The records of the *Confederation of European Community Cigarette Manufacturers* (CECCM; a partnership consisting of thirteen European stakeholder groups for cigarette manufacturers) reveal that Prof. Cnossen was "recruited as a consultant to establish a connection between the tobacco industry and the Dutch tax authorities, at both the political and administrative levels." His appointment was discussed at the CECCM meeting held in July 1991 at the offices of cigarette manufacturer Rothmans in Denham, England.

The timing of Prof. Cnossen's appointment was fortuitous. From July to December 1991, the Netherlands held the rotating presidency of the European Union. During this period, the EU was to make various decisions about the harmonization of taxation. According to the minutes of the Denham meeting, "Prof. Cnossen has an excellent background for his task. He is a leading authority on fiscal policy. He is also thoroughly familiar with the CECCM's policy with regard to fiscal harmonization in the European Union. He is therefore more than willing to take the appointment and will embark on this task with enthusiasm."

At this time, the CECCM's standpoint with regard to a pan-European tobacco duty regime was simple: it must not happen. There should be no harmonization. Everything should remain exactly as it was. In the industry's vision, each member state should retain its own fiscal policy. A single regime was unthinkable. The manufacturers feared that the (northern) countries with the highest tobacco duties – the Netherlands, Denmark and the United Kingdom – would set the new norms, even in those (future) member states in which duties were often conveniently low.

According to the minutes of the CECCM meeting, Prof. Cnossen shared this viewpoint with his new clients. The records reveal that he was paid a consultancy fee of 25,000 guilders (over 11,000 Euros) in 1991. He continued to work for the European tobacco industry throughout the Netherlands' presidency of the EU.

The cigarette manufacturers also wished to use Prof. Cnossen's services at the European level. In mid-1991, the European Commission decided to appoint an external body to advise on indirect taxation. The CECCM realized how important it would be to have a voice within this advisory council. However, that would only be

possible through some roundabout route, such as the European employers' federation UNICE (today's Business Europe).

The CECCM saw Prof. Cnossen as the ideal spokesman on the new advisory body. According to the minutes, Prof. Cnossen himself was willing to take on the task. All that remained was for him to be officially nominated. The CECCM board announced that it would seek a seat on the council through UNICE. Those tobacco companies which were members of UNICE would then lobby within the organization in order to secure Prof. Cnossen's nomination.

Prof. Cnossen now claims to remember very little of his consultancy work for the tobacco industry. "It is all so long ago. The documents can say whatever they want. I really cannot remember the fee that I apparently received." He does not find the payment in any way unusual. "There were several other stakeholder groups who approached me for an analysis. I did nothing more than write an article."

The former professor denies ever having lobbied the authorities or politicians. "I have never discussed tobacco duties with any government official. I attach far too much importance to my own independence." Similarly, he states that he did not take part in any European Union advisory body. "At no time did the CECCM approach me to represent it on that advisory council."

Nevertheless, Prof. Cnossen's independence as an international expert has been questioned. Luk Joossens is a leading researcher in tobacco control who works for the Belgian cancer foundation. "One frequently comes across Prof. Cnossen as a speaker on taxation at conferences which are sponsored by the tobacco industry," he states.

In late 1995, Prof. Cnossen chaired a European Commission international working party on the harmonization of tobacco duties. Its meeting in Lisbon was attended by 42 representatives of the tobacco industry. Only one representative of a health organization was invited.

Tobacco International, an industry journal, looked back on this working party's activities with some satisfaction. "The international tobacco industry's lobby succeeded in confusing Brussels bureaucracy. A weak European Commission meant that all proposals for raising the minimum duties on cigarettes and rolling tobacco were consigned to the bin."

The American economist Hana Ross, herself a specialist in tobacco duties, is also critical of Prof. Cnossen's activities. She has been following the work of her Dutch counterpart for many years. Dr Ross has been involved in various research projects examining the economic aspects of tobacco control, commissioned by international agencies such as the World Bank, the World Health Organization and the European Union.

"Prof. Cnossen is an expert in using research data out of context and in selectively presenting data in a way which suits the tobacco industry," states Dr Ross. She points to Prof. Cnossen's analyses of the availability of tobacco products in the new EU member states, including some recent studies, which suggest that smoking would become unaffordable for the citizens of those countries if duties were to be raised. According to Dr Ross, this finding is not confirmed by other research.

Dr Ross contends that Prof. Cnossen has been selective in his use of the research data on tobacco duties. Prof. Cnossen himself believes that smokers in many countries, including the Netherlands, already pay too much duty in that the income derived by the government is far greater than the actual social costs of smoking. Hana Ross disagrees. "It is telling that Prof. Cnossen completely ignores all studies which arrive at the opposite conclusion."

For his part, Prof. Cnossen maintains that smokers already pay enough. "In the analyses, you must allow for the fact that smokers generally die younger and therefore save society money," he states. "In many countries, including the Netherlands and Finland for example, there is solid research which reveals that the total net cost of smoking is lower than the revenue derived from tobacco duties, once the 'benefits' [shorter life expectancy] are also taken into account. This does not apply in the case of alcohol. This is the theoretical framework within which I structure my research in the area of duties, and from which I have never diverged."

Since 2001, Prof. Cnossen has also been a senior advisor to the *International Tax and Investment Center* (ITIC) in Washington D.C. Luk Joossens sees the ITIC as nothing more than a lobbying organization for companies which wish to promote the free market principle. The tobacco industry is particularly well represented, he points out. The ITIC's main sponsors include the major oil companies, big pharma, the alcohol industry and the tobacco industry. Prof. Cnossen has organized a number of seminars on tobacco duties in the European Union on behalf of the ITIC, held in The Hague, Pretoria and, in 2006, at the Grand Hotel Royal in Budapest.

A prominent item on the agenda of the Budapest conference was 'the balance between taxation and health policy in the EU'. The target audience comprised government officials from the Eastern European countries. Prof. Cnossen seems not to have suffered any budgetary constraints. He was able to invite David Merriman, Professor of Economics at Loyola University Chicago, as the keynote speaker. Prof. Merriman was promised a fee of 10,000 dollars, with all expenses paid by the ITIC. Prof. Cnossen has declined to discuss the role of the tobacco industry within the ITIC.

Wageningen researcher experimented with menthol in tobacco

In the 1980s and 1990s, the tobacco industry engaged the services of a Dutch researcher to examine ways in which the composition of tobacco products could be improved. Internal documents from Philip Morris and British American Tobacco, the two market leaders in the cigarette industry, reveal that the scientist at Wageningen University, whose main area of expertise is the psychology of diet and nutrition, was retained as a guest researcher in the industry's studies of tobacco ingredients and additives. Many additives are known to facilitate smoking and thus increase addiction.

Jan Frijters (64), then Professor of Sensory and Psychological Aspects of Food at Wageningen, contributed to the two manufacturer's research into the effects of natural and chemical menthol additives as a '*visiting scientist*.' Menthol masks the acidity of tobacco smoke and has an anaesthetic effect on the airways. The tobacco industry continues to conduct the same type of research undertaken by Prof. Frijters for Philip Morris and BAT to determine which flavourings will make smoking more attractive to certain target groups. Studies past and present have looked at additives which will make smoking more appealing for women, for example. It is well known that menthol made smoking more popular among African-Americans. Menthol cigarettes have traditionally been the most successful product in this target group, the number of smokers having shown a significant rise following the introduction of the menthol cigarette. The potential harmful effects of additives when combusted alongside tobacco have always been largely ignored.

Philip Morris was particularly satisfied with Prof. Frijters' input and decided to appoint him to an international lobbying organization set up by the tobacco industry, among others. Prof. Frijters' name was also added to the internal list of 21 scientists who could be called upon to give evidence on behalf of Philip Morris in the lawsuits brought by sick smokers, anywhere in the world. An internal document dated 1989 reveals that Philip Morris was particularly interested in Prof. Frijters because his expertise enabled him to conduct research into smokers' reaction and motivation when faced with smoking bans. In the late 1980s, an increasing number of government authorities began to introduce restrictions on smoking in the workplace, in public buildings and so forth.

In 2002, by which time he had left Wageningen, Prof. Frijters attracted media attention in the Netherlands for his damning report on the reliability of evidence gained through the use of sniffer dogs, as part of a prominent Dutch murder trial. His report led to changes in police procedures.

Prof. Frijters has declined to comment on recent disclosures. For many years he was an active member of *Arise* (Associates for Research into the Science of Enjoyment), a group of scientists assembled by the tobacco, alcohol and confectionery industries. Using funds provided by industry (the alcohol and chocolate industries also participated) this group organized conferences in Europe into the "Science of Enjoyment". In this role he represented Philip Morris at various conferences, including one held in the Netherlands in 1995. These meetings were intended to offer a response to the emerging trend whereby governments sought to prevent disease through lifestyle interventions and legislation (such as advertising restrictions and smoking bans).

Written with the assistance of Dominique Hamerlijnck, a tobacco control expert.

This is the last in a series of short articles examining tobacco policy in the last ten years. Previous articles were published in the newspaper on 10 and 21 December 2011, 3 January and 21 February 2012.

This project is co-sponsored by *KWF Kankerbestrijding* (the Dutch Cancer Society). This organization has had no editorial input and has not influenced the choice of topics.

From: Rumble, Phyllis
To: De Labouchere, Pierre; Hobson, Kaye K.
CC: Uittenbogaard, Jaap; Van Every, Peter J.; Wright, Jason; Fishel, David; Mozingo, Roger L.; Spainhour, Sheryl F.; Payne, Tommy J.
BCC:
Subject: May External Relations Worldwide Report
Primary Date: 6/3/1997 12:11:00 PM
Last Modified Date: 2001-Nov-20 16:57:33
Last Touched Date:
Sent Date: 1997-Jun-03 12:11:00
Received DateDate: 1997-Jun-03 12:11:00

Attachments:

ERMAY.DOC

53171 2442

INTEROFFICE MEMORANDUM

June 3, 1997

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of May External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE RELATIONS

- Annual RJR Scholarship Reception - Made all arrangements for CEO reception for employees' children who have won RJR scholarships.

BRAND ACTIVITIES

- Announced and responded to numerous media inquiries regarding the national launch of Winston's "No Bull" (no additives) repositioning.

ETS/ACCOMMODATION

- Participated in the 1997 National Restaurant Association Show in Chicago. We received commitments from the NRA, American Hotel & Motel Association, International Hotel & Restaurant Association, and HORECA to continue their support of policies that enable their members to accommodate smokers.
- The Maine Senate defeated legislation to ban smoking in restaurants.
- The Indiana Department of Corrections banned the use of tobacco products on all facilities effective August 1, 1997. This ban covers approximately 7,500 employees and 17,000 prison inmates. Authority to impose such a ban was authorized by the legislature.

ADVERTISING/MARKETING FREEDOMS

- A major advertising restriction bill was defeated on the House floor in Minnesota. The measure would have banned advertising of tobacco products on billboards and limited the types of advertising conducted at retail outlets.
- The Texas Senate concurred with House amendments on a bill that requires vendor assisted sales of tobacco products. The bill, which includes a 10% tax on billboard advertising, was sent to Governor Bush for final action.

LITIGATION

- Attorneys General in Montana, Missouri, South Carolina, Arkansas, Nevada, Oregon and Vermont filed law suits against the tobacco industry seeking to recover funds expended treating Medicaid patients for alleged smoking-related illnesses.
- There is considerable media interest in the Broin class action (flight attendants/ETS) trial. Dan Donahue did tape interviews with CNN and ABC. We also did interviews with the *LA Times*, the *Washington Post*, the *NY Times*, NPR, Monitor Radio, Bloomberg, the *Miami Herald* and Reuters, among others. The backgrounder has been approved by the other cigarette manufacturers and is ready for distribution to press attending Monday. Indications are that we will have a large press contingency with us as the trial starts; PM and B&W will have media relations staff on site as well. Rosenblatt has said that 1,000 flight attendants are winging their way to Miami for the trial start, so we anticipate numerous TV stories featuring them during the week.
- Connor Trial Verdict - Arranged interviews for attorneys and issued release to all networks and national print outlets. Media coverage intense and positive for 48 hours following the verdict. After the verdict, RJR attorneys met with press on-site, did follow-up phone interviews and appeared on Nightline and the ABC morning show and did live interviews for shows on CNN (two), CNBC and Fox TV, as well as a number of radio shows. We continued to handle follow-up media all week.
- We issued a statement - as did PM and B&W - on the Baltimore court dismissal of 9 of the state of Maryland's 13 claims in their AG suit. The opinion strongly rejects the legal theory under which the state sued, and because of its legal analysis is transportable to other states. Because of the lack of coverage in general media, we sent our statement out to all U.S. legal media.

REGULATORY ISSUES

- RJR's response to the Federal Trade Commission's vote to issue a complaint against Joe Camel went out 15 minutes before the FTC's news conference and was featured prominently in all news stories. We handled a huge volume of media calls. We are aware that several writers are looking at the possibility of doing editorials that may be critical of the FTC's theory.
- The Texas Senate concurred with House amendments on a bill to require disclosure of ingredients in tobacco products and nicotine yield ratings. The bill was sent to Governor Bush for final action.
- The Minnesota "youth marketing" bill, which includes a modified ingredients disclosure provision, was signed into law by Governor Carlson.

- The House Veterans' Affairs Benefits subcommittee held a hearing on a Veterans Administration (VA) Department proposal to prohibit the federal government from compensating and treating veterans with alleged "smoking-related" diseases. The legislation (not yet introduced) would overturn a 1993 opinion by VA attorneys that concluded the government could be held liable for medical care and compensation to veterans who used tobacco while on active duty and later became ill. The VA Dept. has an estimated 4,250 claims pending. Rep. Filner (D-CA) said Congress should not resolve any liability issue with tobacco companies without including the VA Dept. in a global settlement.

CIGARETTE EXCISE TAXES

- Senator Kennedy (D-MA), the American Cancer Society and the Children's Defense Fund announced the formation of a new coalition to lobby in support of the Hatch-Kennedy tobacco tax legislation to fund children's health care. The new group - The Campaign for Children's Health Now (CCHN) - has 150 local, state and national organizations, including the AARP, UAW and numerous church and health groups. CCHN began running radio and print ads in Alaska, Arizona, Hawaii, Louisiana, Maine, Iowa, Mississippi and North Dakota in support of the legislation.
- A South Carolina Senate floor amendment to increase the cigarette tax by 1¢ was defeated. Proceeds were to be used for tobacco-related youth education programs.
- The Connecticut Joint Finance Committee rejected a revenue bill amendment to increase the cigarette tax by 6¢/pack.
- An amendment to increase the cigarette tax 5¢ per pack was defeated in the Minnesota House Local Government Committee. Revenue generated by the increase would have assisted with the funding of the Twins baseball stadium.
- The Alaska House voted 23-17 in favor of a measure to increase the cigarette tax by 71¢, to \$1.00/pack. The Senate concurred with the House bill, and the legislation was sent to Governor Knowles for signature.
- An amendment to the Illinois budget that would increase the cigarette tax by 10¢/pack was defeated in committee.

LEGISLATIVE SESSIONS

- Florida completed its 1997 regular session on May 2. A youth access bill, supported by the industry, was approved and is expected to be signed by Governor Chiles. No other legislation having a significant impact on RJRT was enacted. Attempts to repeal the Medicaid/Third Party Act of 1994 were unsuccessful.

- Colorado, Alabama, Indiana and Kansas adjourned 1997 legislative sessions with no legislation passing that would negatively affect the company or the industry.

INTERNATIONAL

BRAND ACTIVITIES

- In Malaysia, Salem sponsored the nationwide premiere of the Bruce Willis movie, "The Fifth Element." Consumers have been invited to redeem their free tickets by presenting Salem's "The Fifth Element" press ad at redemption counters of selected cinema halls around the country. Salem is also sponsoring "The Making of The Fifth Element" and "The Fifth Element - A Preview" on television. To continue Salem's sponsorship of nationwide premiers of action-packed movies, on-line work is now in progress for "Con Air" starring Nicholas Cage, John Malkovich and John Cusack. TV promos for The Fifth Element, a Kenny G concert, and the ATP Tennis Tour launch Salem's "Magic Gate" campaign.
- As further reinforcement of Salem's dominance in music in Malaysia, work is in progress on the brand's next promo, "The Music Awards Blitz", featuring the 39th Grammy Awards, the 24th American Music Awards and the 1997 Billboard Music Awards. These tactical sponsorship programs elevate brand awareness, pending development of the new Salem thematic campaign.
- It was confirmed that consumer tests on new prototypes of Hi-Q, as announced to German Ministry of Health in a meeting in April, could be run as planned.
- Developed media relations and other PR activities related to the opening in St. Petersburg (June) and Moscow (September) of the Camel Memorabilia Exhibition. The dates coincide with important cultural events in both cities.
- Worked with Marketing to compose press release for the Miss Moscow beauty contest, to be held in Moscow on June 19 and sponsored by Salem Style.

MEDIA RELATIONS

- Broad publicity was generated by WHO's world no-tobacco day (May 31). For example, in Switzerland a quit-smoking contest offers trips to London, Paris and Budapest for people who prove that they stop smoking for at least one month.
- RJR gave an interview to the Companion, a Ukrainian business magazine gathering opinions of major tobacco companies regarding the current hurdles and breakthroughs in the Ukrainian tobacco market. The article is expected to appear in the June issue.

ETS/ACCOMMODATION

- A plan has been developed to present the Spanish-language version of the RJR ETS brochure ("Something in the Air") to media, opinion leaders and industry allies before the IARC ETS report is published.
- RJR is coordinating industry discussion of IARC in Canada. All companies have received information packages from their international headquarters.
- RJR-MI provided Ontario Restaurant Association (Canada) with provincial data on health-care costs associated with tobacco, for use in Kingston discussions.

YOUTH ISSUES

- At the May 12 meeting of the Spanish tobacco association (AET), the "minors non-smoking" follow-up program was approved for launch in September.
- RJR, PMI, BAT, Reemstma, Gallagher and Dos Santos (local manufacturers) finalized plans for minors non-smoking program, in mid-June in the Canary Islands.
- After one year, the Japanese retailers' union has more than 90% compliance on shutdown of vending machines (11pm-5am). To accomplish this, RJR field sales spent considerable time talking to retailers and setting timers on RJR owned machines.
- The "Right Decisions, Right Now, Youth Should Not Smoke" program initiated by RJR was launched under the industry banner by the Ministry of Education Malaysia on May 13. The program involves a poster campaign distributed throughout 1,500 lower secondary schools in Malaysia. The industry sponsors this program which is jointly carried out by the Jaycees and the Ministry of Education.
- The second phase of the German Cigarette Industry Association's (VdC) youth non-smoking campaign ("Cool Kids Can Wait") went on air on May 15. There are ongoing rumors that, based on pressure by three State Health Ministers, the city of Bonn prepares legal measures to stop the campaign because of allegedly seducing youngsters to smoke. VdC will defend the campaign.
- In Puerto Rico, developed RJR's Youth Awareness campaign under the logo: "Minors should not smoke and RJR agrees." Hope to implement during June. The third issue of the Puerto Rican tobacco industry's youth non-smoking program, "Aprende a Decidir," is ready for distribution at the beginning of the 97-98 school year. Working on testimonial video and media plan.

ADVERTISING/MARKETING FREEDOMS

- The Dutch and Belgian marketing teams are postponing proposed internet activities, pending issuance of a corporate RJRI position on the issue. ER, legal and marketing have been discussing RJRI's position on internet usage. Provisionally, RJRI has decided to refuse all requests for RJR marketing-related web pages. RJRI may choose to make something of this, to differentiate RJR from competitors.
- United Kingdom: After the landslide victory of the Labour party in the general elections, the new government committed itself to ban tobacco advertising and sport sponsorship. The planned bill will probably contain transitional measures to allow sport organizations to find alternative sponsors. The bill would be passed during the present Parliamentary session (within the next 18 months).

The Government will soon convene a seminar, involving national and international anti-tobacco experts, in order to discuss all possible avenues to reduce tobacco consumption. This should result in a White Paper, to be ready during the summer, which would contain a list of possible measures to address the issue. The advertising bill might be part of the paper or might be dealt with separately.

- Meetings held internally and with PMI to determine future action on advertising ban in Turkey. Agreed to move forward with economic impact study on an autumn schedule, by which time it is hoped that the current political instability will have been resolved. There are some opportunities to move the advertising issue forward, but they remain long term. Agreement secured to hire an ER professional in Istanbul.
- Regarding Bill C-71 (which restricts tobacco marketing in Canada), May 30, Madame Justice Grenier of the Quebec Superior court directed both parties to prepare for an October trial. Defendant admissions are due May 30 and document requests from both sides are due June 6. The final schedule will be determined on June 9.
- Tabling of tobacco control legislation in Quebec, Canada is delayed until the fall, after the required economic impact studies are completed. RJR has met and will seek further meetings with Quebec officials to present RJR's position on advertising and promotion bans. The industry is also discussing strategy.
- With a new Labor Government in the UK, CECCM (association of private European cigarette manufacturers) has continued coordination of contacts with other EU Member States in the blocking minority camp (Netherlands, Germany, Austria, Sweden, Denmark and Greece). Ad ban is not on the official agenda for the Health Council meeting on June 5, but will be discussed as an informal point over lunch. Adoption of a common position on June 5 is not expected. As for the Luxembourg Presidency in the second half of 1997, the industry will search for a compromise; re-defining "publicity" and excluding indirect advertising, has started. Lead NMA will be the VdC of Germany.

- During ongoing review of the Russian Law "On Advertising", a conference organized by the Adam Smith Institute took place in Moscow on May 26-27. One session entitled "Legal Basis for Advertising" included the Deputy Chief of the State Anti-Monopoly Committee and Deputy Chairman of the Committee on Economic Policy of the State Duma. Comments made by those officials indicate they feel there is no possibility that tobacco and alcohol advertising will return to television and that the "lobbying attempts of several tobacco and alcohol companies is a dangerous and unpredictable game" that may backfire, by leading to discussion of a total ban.

LITIGATION

- A tobacco litigation case (claiming failure to warn of alleged health risks) against Swedish Match will start end of May. Arguments of the anti-tobacco lawyer and of Swedish Match were reflected in the press.
- Canada's four Atlantic provinces have agreed to look into the possibility of suing for health-related costs of smoking. They will seek support from the remaining provinces at this year's annual premiers' conference. Rumors continue that the British Columbia government will table enabling legislation to permit the provincial government to sue the tobacco industry to recover medical costs associated with tobacco use. So far no news. Legal preparations are well underway.

REGULATORY ISSUES

- After long debate, the international tobacco companies operating in Ukraine and the Ukrainian Tobacco Association issued a letter to the Deputy Prime Minister requesting a joint meeting of the tobacco industry and various agencies involved in issuing and enforcing the regulations on tobacco packaging. The focus of the conference will be to summarize and unify packaging requirements that will remain stable and to avoid misinterpretation by any parties. Such a conference also enables RJR to establish a dialog with the government regarding decisions affecting the industry.

In the same letter, the industry requested to use non-Ukrainianized packaging for both domestic and imported products until such norms are finalized. RJR received permission to clear imported product with non-Ukrainianized packaging until August 1, 1997.

- The draft for a Federal Non-Smoker Protection law is still being debated in the German Parliament (Bundestag). As reported last month, the Committee of Agriculture rejected the draft. However, this month, the Committee of Family carried the draft by a majority of votes. Roland Sauer, one of the initiators of the draft, announced that the responsible Committee of Health would pass this draft before the

summer recess. This was contradicted by the chairman of the Committee of Health, who said that this is not likely.

- In Puerto Rico, Governor Rosello filed an administration bill (PS 520/PC 742) that would order store owners to require any person who appears younger than 27 years to produce a photo identification to buy cigarettes. Retailers who sell cigarettes to minors risk losing their cigarette license for up to a year with a \$10,000 fine for each incident. Cigarette machines can only be located in places where minors are not allowed. Self-service displays will also be prohibited. The bill has gotten a very favorable reception in the House and Senate. RJR is supporting cigarette machine operators in their efforts to modify bill so that cigarette machines can be located in areas within a store that are not accessible to minors.
- The Pharmacy Bill, presented by the president of the Health Commission in Puerto Rico, includes a prohibition on the sale of cigarettes and alcohol in drug stores. The issues it addresses are quite complicated and there is no time for a complete evaluation during this legislative session.
- At the public hearings for PS 159 (proposing one tobacco/alcohol warning billboard for every 5 billboards), RJR's presentation focused on the amount of tobacco legislation in Puerto Rico. The members of the Health Commission agreed that there were enough laws already; that they needed to work on enforcement.

TRADE ISSUES

- Facing the upcoming new law for the reorganization of the Spanish Tobacco Sector, the Spanish tobacco industry met to assess the situation (a liberalization of remaining monopolies with the exception of the monopoly on retail distribution and the set-up of a new National Commission on the Tobacco Market). It was agreed to produce an industry paper with the basic principles that the industry considers any reorganization must contain, and to request a meeting with the Finance Ministry to present the industry position.
- RJR met with the Ukrainian Chairman of State Food Committee, the official agency governing the industry, to discuss Prima, a brand formerly shared by competitors but now claimed by Reemtsma. Although the arbitration court made a negative decision on the joint RJR/BAT action against Reemtsma, the company insists that production of Prima should continue for a fairly long period that will allow us to reassess strategies. We discussed possible steps to suspend the Prima licensing deadlock until final resolution of the issue.
- RJR's involvement in the Intra-Community Duty Free (IDFC) campaign has continued. Consumer mobilization campaign started at Heathrow airport in London. Political contacts at national level (particularly Germany and Ireland) produced strong support from local and regional authorities. IDFC strategy was updated with emphasis on EP and national governments.

TAXATION

- The Belgian/Luxemburg NMA (Fedetab) has written letters to the Belgian and Luxemburg Finance Ministers, asking for an increase of the specific tax element for cigarettes to 15% of total tax. This should be compensated by an equivalent lowering of ad valorem excise, which may lead to an end of the price war in Luxemburg.
- Work continues on the proposed new excise tax system in Romania, recently presented to the government. The proposed system favors local production, to the benefit of manufacturers and the country as a whole. If accepted, the Romanian budget benefits by an estimated \$150 million. BAT has made a counter-proposal and is rumored to have bid for the local monopoly.
- On April 9, the Ukrainian Parliament approved the Government's proposal to cancel tax and customs duties exemptions for businesses with foreign investments in Ukraine effective July 1, 1997. A separate article of the bill requests the Cabinet of Ministers to prepare a list of JVs involved in production requiring tax benefits. Following requests of the international business community (including RJR), President Kuchma sent a letter to Parliament proposing to amend the bill canceling tax benefits for joint ventures, retaining tax benefits for the JVs except those engaged in intermediary/ agency operations or certain other non-productive activities. The President proposes to reschedule any tax amendments to January 1, 1998.
- Although several minority legislators have suggested an increase in cigarette taxes in Puerto Rico to create revenues for the Governor's Health Reform, the Governor, the President of the Senate and the PDP Minority Speaker in the House have voiced opposition.
- Discussions between EU Commissioner Monti and DG XXI regarding EU excise tax minimum incidence were postponed twice, now scheduled for June 5.
- The new Russian excise tax structure that came into effect this year differentiates between different types of tobacco products based on Russian State Standards (GOST) specifications. Anything that was not a traditionally-made Russian cigarette was taxed at a higher rate (including imports and American blend products made in Russia, like *North Star* and *Peter Ist*). Russia is now moving to fully reform the cigarette classification and standardization system, and thus get rid of the GOST cigarette class system. BAT has gone to the highest level at the Duma (the Speaker), a Communist, and has appealed to his nationalistic leanings to save the local industry from the foreign hordes. Under the aegis of the International Tax and Investment Center (ITIC) in Moscow, we are meeting with PMI this week to map out a response strategy, which may include a new campaign to protect the gains of the current system, while at the same time capitalizing on the opportunity of GOST reforms to further simplify the existing system.

CORPORATE PUBLIC RELATIONS

- Announced contract for BAT to manufacture RJR brands in South Africa.
- German media broadly picked up our press release on the upcoming Berlin factory close-down. The articles were fair and mostly using our facts.

STAFF & ADMINISTRATIVE

- Mrs. Claude Sönmez joined RJRI on June 2 as Director of EU Affairs in Brussels.

COMMUNITY RELATIONS

- The ceremony to celebrate the opening of the new primary operation in Romania will be held June 4. Government officials will be invited. The purpose is to boost the company's public image and reinforce tax messages.
- RJR was recognized for its support to the arts and culture in Puerto Rico during a press conference and inaugural gala on May 22. The Governor and all key government officials, key business leaders and prominent artists attended.
- Met with representatives of the Fabergé Arts Foundation in preparation for the large RJRI corporate sponsorship of a prominent Fabergé exhibition, to be held at the world-famous Hermitage Museum in St. Petersburg. The exhibition's gala opening will coincide with the visit to St. Petersburg of the full RJR Nabisco Board of Directors in early October of this year.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Jaap Uittenbogaard
Peter Van Every
Jason Wright

From: Smith, Jan Fulton
To: Smith, Mark D.
CC:
BCC:
Primary Date: 3/18/1997 1:26:20 PM
Last Modified Date: 2001-Nov-20 16:48:35
Last Touched Date:
Sent Date: 1997-Mar-18 13:26:20
Received Date: 1997-Mar-18 13:26:20
Subject: IMF--Taxes{F}

Attachments:

Mark,
Thanks for the update.
Angela Prather of ITIC attended the "tax conference" we had here for Russian visitors. If she's someone you would like to talk with, let me know and I'll give you her phone number.
Jan

From: Smith, Mark D.
To: Smith, Jan Fulton
Cc: Griscom, Tom C.; Hyde, Timothy N.; Griscom, Tom C. (MSM USA)
Subject: IMF--Taxes
Date: Tuesday, March 18, 1997 11:36AM

FYI...

Just participated in a conference call with Wilfried Dembach, Tony Maggiore (TI-Tax) and Mary Carol Holbert (TI-Tax)... discussion on Tony attending the International Tax and Investment Center -- International Monetary Fund meeting on March 25 in Washington. (Rick Connor of Seagrams will be attending as well.) Wilfried is providing Tony with technical info on taxes. I've provided Tony with information from Rod Stamler on worldwide tobacco contraband (root cause being high taxes and unfair market restrictions).

I suggested to Tony that he urge ITIC/IMF to address the contraband problem -- perhaps to form a study group, or ask for a report to be prepared for IMF consideration. Objective: the IMF is doing a grave injustice to emerging Democracies and third-world countries when it advises them to raise cigarette taxes -- as this will only encourage organized criminal groups to get into trafficking contraband. These countries need to build a tax base -- not encourage an underground economy.

Mark

52904 9258

From: Smith, Jan Fulton
To: Smith, Mark D.
CC:
BCC:
Primary Date: 3/18/1997 2:21:47 PM
Last Modified Date: 2001-Nov-20 16:48:35
Last Touched Date:
Sent Date: 1997-Mar-18 14:21:47
Received Date: 1997-Mar-18 14:21:47
Subject: IMF--Taxes{F}

Attachments:

I think it would be good for you two to talk, get to know each other.

Angela Prather

Director of Programs

International Tax and Investment Center

Washington, DC

Phone 202-942-7601

Fax 202-942-7678

From: Smith, Mark D.
To: Smith, Jan Fulton
Subject: RE: IMF--Taxes
Date: Tuesday, March 18, 1997 1:43PM

Yes, give me her number. It probably wouldn't hurt for me to give her a call. I could send her some news clips and Stamler stuff. What do you think?

From: Smith, Jan Fulton
To: Smith, Mark D.
Subject: RE: IMF--Taxes
Date: Tuesday, March 18, 1997 1:26PM

Mark,
Thanks for the update.

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Jan

From: Smith, Mark D.
To: Smith, Jan Fulton
Cc: Griscom, Tom C.; Hyde, Timothy N.; Griscom, Tom C. (MSM USA)
Subject: IMF--Taxes

52904 9260

Date: Tuesday, March 18, 1997 11:36AM

FYL...

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Mark

52904 9261

From: Rumple, Phyllis
To: De Labouchere, Pierre; Hobson, Kaye K.
CC: Uittenbogaard, Jaap; Van Every, Peter J.; Fishel,
David; Mozingo, Roger L.; Spainhour, Sheryl F.; Sorensen,
Ove; Payne, Tommy J.; Wright, Jason
BCC:
Subject: External Relations November Report
Primary Date: 12/3/1996 8:26:01 AM
Last Modified Date: 2001-Nov-20 15:11:57
Last Touched Date:
Sent Date: 1996-Dec-03 08:26:00
Received DateDate: 1996-Dec-03 08:26:01

Attachments:

ERNOV.DOC

53144 5061

INTEROFFICE MEMORANDUM

December 3, 1996

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of November External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE COMMUNICATIONS

- Wrote and coordinated shooting of RJR Diversity video.
- Assisted in preparations for United Way victory celebration, including preparation of remarks for Andy Schindler; coordinated with Community Affairs regarding governor's award reception for employees involved in community activities; coordinated RJR participation in Farm Broadcasters national convention.
- Prepared fourth quarter Forum publication for production, as well as the December and year-end editions of Caravan employee publication.

BRAND ACTIVITIES

- Developed public relations plan regarding the distribution of "Winston Just Got Naked" banner/one-sheets at retail and mobile billboards in Florida. Responded to various media calls regarding Winston's Florida test market of no-additives product.
- Drafted statement regarding "Simon Says" publication, which included a Moonlight ad, being included in the Soho Arts Festival Internet site. Publication was loaded onto the Internet by Simon Watson, head of the Soho Arts Festival, without RJR's permission. Responded to *USA Today's* inquiry about Moonlight on the Internet.

MEDIA RELATIONS

- Conducted interviews with *New York Times* and the *Village Voice* regarding our use of the Internet, pointing out that RJRT home page restricted itself to public policy issues, such as youth non-smoking programs, that were of interest to the public, and that RJRT (US) does not use the Internet for marketing purposes.

- Media contacts on legal issues included: (1) *The American Bar Association Journal* accepted an opinion piece from an RJR attorney; (2) Issued a statement on the court's dismissing some of the claims brought by the state of Washington; and (3) Gave general overview and historical perspective on tobacco litigation to the *Tampa Tribune* for story on the amount of cigarette litigation in Florida.

ETS/ACCOMMODATION

- The Department of Transportation issued a proposed rule regarding air travel by handicapped persons. Part of the proposal is seeking comments on whether airports should be required to protect individuals from ETS. If granted, the petitions would lead to a proposal that carriers and airports ensure that an individual with a severe respiratory disability "triggered" by exposure to tobacco smoke have available a path of access from the terminal entrance to the aircraft free from exposure to tobacco smoke. According to the proposal, the Transportation Department "would not intend to ban smoking in all terminals" by providing a number of compliance options. Written comments on the rule are due by Jan. 30, 1997.
- The National Licensed Beverage Association announced the findings of a nationwide survey of restaurant and tavern owners and managers concerning OSHA's proposal to ban smoking in all workplaces. The survey showed that 83% of bar owners and 49% of restaurant operators anticipate at least a 5% loss in revenue should OSHA's proposal be implemented. Two-thirds of those surveyed predicted the rule would result in employee layoffs.
- The National Restaurant Association, National Licensed Beverage Association, Nevada Resort Association, and American Hotel & Motel Associations, have all stated their intention to continue their opposition to any federal rulemaking which will result in a virtual ban on smoking in hospitality and lodging locations.
- Smokers' Rights United filed a class-action lawsuit in the U.S. District Court on behalf of 50 million smokers. The suit charges that the U.S. Environmental Protection Agency (EPA) has no legal or scientific basis to classify ETS as a Group A carcinogen. According to the group, "the results of EPA's virtual falsification of data on secondhand smoke has been a rash of anti-smoker restrictions" and an unprecedented discrimination against smokers.

YOUTH NON-SMOKING

- Coordinated visit by actor Danny Glover to a Mississippi middle school. Four television stations and two daily newspapers covered this appearance.

- Three state attorneys general (from Nevada, New York and Connecticut) have endorsed the "We Card" youth non-smoking retail program. RJR has received orders for more than 312,000 retail kits. Working with the Outdoor Advertisers Association of America on billboard advertising campaign communicating the "We Card" message. Space is donated by individual outdoor advertising companies within each state.
K-Mart is incrementally fulfilling all of its 2,000 stores with a special order. Super K-Mart is also digitizing the program to go into a computer training program.

RESTRICTIONS

- In Mesa, Arizona, a City Council study concluded that the city has taken a five percent loss in tax revenue since a smoking ban took effect in July. Citizens have filed a petition to repeal the ban; and if 4100 of the 7500 signatures are registered voters, the City Council will have to consider the issue.
- In Honolulu, Hawaii, the City/County Council is considering a proposal to ban smoking in all public places, including bars, restaurants, and nightclubs.

COMMUNITY AND CORPORATE AFFAIRS

- The Community Affairs staff participated in the National Hispanic Corporate Council Institute, a four-day program designed to provide information regarding the \$300 billion U.S. Hispanic market.
- RJR hosted 40 teachers at the Tobacconville plant as part of the Teacher Workplace Learning project, to show teachers how business operates in today's global environment.
- During November, Community Affairs processed 46 Community Involvement requests for a total of \$11,500; 127 Education Matching Grants for a total of \$39,410; and 29 Arts Matching Grants for a total of \$6,212.

LITIGATION

- Illinois became the 17th state to sue the tobacco industry to recover Medicaid expenses for smoking related illnesses.
- The tobacco industry was denied a motion to move Connecticut's Medicaid liability lawsuit to federal court from a state superior court.

- The Arizona Attorney General amended the state's lawsuit against tobacco companies, accusing them of "contributing to juvenile delinquency," and seeking alleged profits from the sale of tobacco products to children, plus civil penalties of \$10,000 for every sale to a minor.

REGULATORY ISSUES

- Legislation introduced in Michigan would require manufacturers of tobacco products to disclose nicotine content and the ingredients of any products sold to Michigan consumers.
- FDA Commissioner Kessler resigned Nov. 25. According to media reports, Kessler will officially leave his post when a successor is named. No frontrunner candidates have emerged at this time to fill the vacancy.

FDA issued a final rule implementing the medical device recall authority provided in the Safe Medical Device Act (SMDA) of 1990 because of its potential applicability to tobacco. (The FDA stated in its final rule on tobacco that removing tobacco products from the market would cause more harm than good to public health and safety.) The SMDA says that if FDA finds a reasonable probability that a device intended for human use would cause serious, adverse health consequences or death, FDA would be required to issue an order to cease distribution of the device. A recall may occur only after FDA: (1) makes the requisite finding; (2) issues a cease distribution order to the manufacturer; (3) gives the manufacturer an opportunity for a regulatory hearing; and (4) determines that recalling the device will not present a greater health risk than not recalling it from use. The final rule will become effective May 19, 1997. Public comment on the rule's information collection requirements are due Jan. 2, 1997.

- Sent letter to head of Coalition for Tobacco-Free Kids regarding the misrepresentation of RJR documents in its advertisements.

MILITARY SALES

- The Pentagon raised the price of cigarettes Nov. 1 at military-base stores by \$4 a carton to discourage smoking.

CIGARETTE EXCISE TAXES

- Oregon voters approved a measure to increase cigarette taxes by 30 cents per pack. Massachusetts tax revenues are down 8.5 percent since July 1 due to a 50 cent a pack cigarette tax increase that took effect Oct. 1. The Maryland governor proposed to double the current state excise tax rate of 36 cents per pack.

ELECTION RESULTS

- The Republicans lost several seats in the House of Representatives, but still maintain a majority. They also increased their advantage in the Senate.

House Republicans and Democrats recently met to elect their party leaders for the next Congress. Despite several rumblings that there would be a challenge to Speaker Gingrich, it never materialized and the leaders from the last Congress were unanimously reelected. The tone of the week was "cooperation," with both sides promising a conciliatory approach to governing with the other party. This is in sharp contrast to the combative tone between Republicans and Democrats during most of the last session of Congress.

INTERNATIONAL

BRAND ACTIVITIES

- Salem's year-end "Celebration of Dance and Music" in Malaysia will feature the current top act in dance music, "La Bouche", with "Snap", "Frente", and "Freebee" in one giant dance concert on Dec. 27. 8,000 free invitations will be given for this event to the winners of Salem's car sticker contest. Salem will also throw a series of New Year's Eve parties in major cities, complemented by a series of dance and music performances running from mid to late December in the country's leading disco clubs. The shows will feature a range of entertainment from hip hop to ballroom dancing; from pop and alternative music to Latin sounds.
- During a session of the Federal Tobacco Commission in Switzerland on Nov. 7, a representative of the Anti Tobacco Lobby (AT) announced that they will initiate a media campaign denouncing the "cynical" advertising methods used by RJR. AT falsely claims the Camel Lights Animal Game promotion is focused on children. The claims will of course be refuted.

MEDIA/PUBLIC RELATIONS

- Interview on November 21 with the Moscow daily *Segodnya* focused on the excise tax debate in Russia; interview with the Moscow trade publication *Kynok* focused on manufacturing sites for RJRI products in the FSU.
- Held media training sessions for General Managers and/or ER staff in Spain, Turkey, Malaysia and Japan; additional training sessions with RJRI executive committee members completed. Virgil Scudder is scheduled for January 22 sessions in Cologne and Geneva.

- A NASCAR race was held in Suzuka Circuitland in November, with Team Camel participating in the race with a Japanese driver. The combination of American Team (Camel) and a Japanese driver attracted Japanese and US media. Two magazines and three TV programs did pre-race publicity on the race and Camel driver. During the NASCAR race, RJR-Japan distributed 4,500 portable ashtrays for adult smokers.
- Responses were prepared for a Czech magazine inquiring about the prospects for tobacco companies in a hostile environment.

ETS/ACCOMMODATION

- Press briefings were held in Amsterdam and Madrid with Biff Naylor, Chairman of the US National Restaurant Association (NRA), presenting results of survey on preferences of restaurant clientele. Positive media coverage in both countries, including the aspect of smoking accommodation in restaurants. Next step: discussion with Biff Naylor and RJRT to set strategy for activities in 1997.
- The recent announcement by the Minister of Health in Malaysia on the inclusion of another eleven non-smoking zones triggered a local town council to formally inform tobacco firms to remove and refrain from placing posters outside retail premises. The industry has initiated activities to defend against and limit proposed smoking restrictions by the Ministry of Health. Potential allies include Ministry of Tourism, the media and assorted associations of restaurants, pubs, etc. that will be directly impacted by the new regulations. We are hopeful that the collective voice will limit the severity of the proposed regulations and delay any further initiatives.
- Tobacco Institute Of Japan conducted a smoking courtesy campaign in November using TV, radio and magazines.
- On Nov. 12-13, two draft bills were tabled in the Bonn (Germany) Federal Parliament to protect non-smokers rights. The first bill, by 136 MPs from the ruling CDU/CSU/FDP-coalition as well as the Social Democrat's opposition, proposes to ban smoking in public buildings, workplaces and on public transport. Another bill, by the oppositional Green Party, calls for a general ban in most public areas and pubs/hotels, and a ban on cigarette vending machines. Compared to an earlier bill, the interparty motion does not cover a smoking ban in restaurants and hotels. Under this bill, smokers might be fined up to DM 100 and employees up to DM 5000 if a smoking ban is not enforced. These bills were broadly covered by German media. Germany's biggest daily "Bild Zeitung" conducted a telephone survey among some 30,000 readers in which 74.8% were against a smoking ban in the workplace. The industry will defend against passage of either of these bills.

- In the Aargau Canton (Switzerland), after two years of discussions between RJR and political parties, a new law was passed that does not include mandatory non-smoking areas in restaurants. Wettingen is the largest town in Canton Aargau, where for two years it has been forbidden to smoke in the City Hall. According to the Mayor of Wettingen, this had led to a "noticeable deterioration of the working climate." RJR proposed alternative measures to the community council on Nov. 7, 1996, which voted to cancel the ban, assign smoking areas on every floor, and permit smoking in those offices where all inhabitants agree to it.

YOUTH NON-SMOKING

- Continuation of youth non-smoking program preparation for priority markets. A retail program in Spain now includes RJR, PM, BAT, Tabacalera and the Tobacconists' Association. A meeting is being held with PMI on Dec. 5, to discuss possible joint programs in Hungary, the Czech Republic and Poland. Our goal is a program that will be led by PMI, who would also bear the bulk of the cost.
- The Canadian industry is placing an ad on the back page of the publication *Your Convenience Manager* (distributed directly to 45,000 convenience outlets nationally) in English and French. The ad will profile the "Operation ID" campaign, encouraging retailers to join in.
- Many of EU Commissioner Flynn's proposals focus on the youth issue, recommending a study on youth smoking initiation, a charter for children's right to a smoke-free environment, and banning vending and self-service counters except in "secure areas."
- Fedetab has launched a pilot youth access project in Belgium, involving 16 retailers on a voluntary basis in Gent (Flanders). A second pilot project in Namur (Wallonia) will follow soon. If successful, it will gradually be spread throughout the country. Initial press and political reactions are positive.

LEGISLATION

- Canadian Health Minister Dingwall announced his intentions to table new tobacco control legislation covering four main areas:
 - ◊ further limits on youth access
 - ◊ restrict promotion of tobacco products
 - ◊ increase health information on tobacco packages
 - ◊ establish powers to regulate tobacco products.

Youth access provisions include prohibiting self-serve displays (except in duty-free stores); banning vending machine sales; banning mail-order distribution; and requiring photo-identification to confirm age. Restrictions on promotion of tobacco products include prohibiting tobacco advertising on broadcast, billboards, street signs, transit and point-of-sale displays; information about products and brands will be permitted in print publications with at least 85% adult readership, and in direct mail; and signs pertaining to availability and price will be permitted at retail.

Existing restrictions on free distribution, and the use of promotional gifts, cash rebates, contests, and lotteries remain in force. Use of tobacco brand names or logos on non-tobacco products that are youth-oriented or have lifestyle connotations is prohibited; format of sponsorship advertising will be regulated to restrict tobacco brand name and logos to bottom 10% of display surface; sponsorship advertising containing tobacco brand names will be prohibited in all media except print publications with primarily adult readership, direct mail, and onsite at event; on-site promotional materials will be restricted in size and duration; and broadcasting of events is permitted.

Tobacco packaging rules include prohibiting false or misleading claims; requiring prominent health messages; requiring increased information about toxic substances in the product and smoke; and requiring information on health impact of those substances.

This legislation gives government power to regulate tobacco products and smoke constituents. As information grows and the market evolves, control measures will be put in place. Enforcement provisions include tougher fines and penalties. Tax changes include a federal excise tax increase of 70 cents per carton, with matching provincial-level increases in Ontario, Quebec, Nova Scotia and New Brunswick; and the surtax on profits is extended at same rate for another 3 years.

- In Puerto Rican elections, incumbent Governor Pedro Roselló was re-elected. This pediatric surgeon was responsible for the anti-smoking legislative package approved in 1993. He is reportedly working on legislation to further limit cigarette advertising and promotions. In the Legislature, the newly elected President of the House and the new President of the Senate, Rep. Charlie Rodríguez, are avid anti-smokers. Rep. Rodríguez urged Governor Roselló to sue the tobacco industry to recoup medical expenses related to smoking, just before the elections. The new Mayors of San Juan and Yabucoa, and several other elected legislators, have a good relationship with RJR.
- In 1997, Ukraine is joining the EAN system of bar codes. Beginning July 1, 1997, it will be required to have bar codes on all exported and imported products.

LITIGATION

- The Secretary of the Justice Department is investigating the possibility of having Puerto Rico join 17 states and the City of New York in a legal challenge against tobacco companies claiming to recoup millions of dollars spent on treating smoking-related diseases. The Spanish press in Puerto Rico has not picked up on this information and no media inquiries have been received to date.

ADVERTISING/MARKETING FREEDOMS

- Debate continues, as Russian and foreign advertising experts argue for self-regulation, and claim the Russian Law "On Advertising" has revealed its shortcomings. Government participants from the State Anti-Monopoly Committee counter that strong regulations must be in place as a "backstop" to any attempts at self-regulation in an "unruly" industry. Video International (VI), one of the largest Russian advertising and media-buying organizations, seeks a more liberal advertising regime but believes that the only way to obtain this is by offering public service ads paid for by the industry. We are not encouraging a legally mandated percentage of advertising outlays (as VI favors) but a flexible approach based on the Industry Advertising Code, where youth smoking and youth access messages could be produced under our editorial control. Parliamentary hearings on advertising on TV will be December 15 in Moscow.
- The industry's Position Paper on Tobacco Advertising was approved by the Spanish tobacco association (AET).
- An advertising ban was passed in Turkey late in November, coming as a surprise to all companies. We probably need to look at our monitoring capabilities. The ban is total, though out-of-home advertising is given a year's grace. We are now assessing the situation and preparing a strategy for challenging the legislation.

RJR Turkey will hire a new PR agency and prepare a detailed media plan.

- The Health Council adopted a resolution on the reduction of smoking in the EU. It urges the member states to continue to promote strategies to reduce the prevalence of smoking and calls upon the Commission to carry out surveys on best practices conducted in the member states and their impact. Commissioner Flynn has tabled a draft communication on the proposed EU-role in combating tobacco consumption. It contains a detailed list of recommended actions largely based on the EU-cancer experts committee's recommendations. Commissioner Flynn's proposal contains the following elements: increase in size and improvement of visibility of health warnings; "generic packaging"; in-pack cessation leaflet; compulsory declaration of additives; and banning "light" or "low" claims. The industry continues its contacts with other Commissioners. The industry advertising working group will update its strategy to fight the ad ban directive under the upcoming Dutch Council presidency on Dec. 3.

TRADE

- In an interview for a local business magazine in Spain, Pablo Isla, Director of the State Patrimony (the entity which holds the Government's TSA shares) made comments regarding the privatization of Tabacalera (TSA):
 - ◊ The possibility of the State retaining some share (following the French model) exists, but the percentage to be sold has not yet been defined.
 - ◊ The future and privatization of Tabaqueira (Portugal) will directly affect Tabacalera.
 - ◊ There is not yet a fixed date for the sale of Tabacalera.
 - ◊ Employees and retailers are being encouraged to participate in the company's capital, as a part of the privatization process.

Also, Josep Pique, Minister of Industry, has stated in the press that the privatization of the State tobacco company may be delayed until 1998.

- In the second week of November, the Government of Portugal delayed the decision on the privatization of Tabaqueira and ordered a report on how the sale would affect the competition. RJR sent a letter to the Council of Competition, with copy to the Minister of Economy, to express RJR's opposition to PMI winning the privatization. The Minister of Economy has commissioned a study from Portugal's competition council that is expected to lead to conditions designed to safeguard fair competition. Everything points to a Government decision by mid-December.

GOVERNMENT RELATIONS

- Messrs. Goldstone and Langner visited Spain (Nov. 20) to review the business, and met with Mr. Rodrigo Rato, Vice President of the Spanish Government. Mr. Goldstone also met with Mr. César Alierta, Chairman of Tabacalera.
- RJR executives met with Congressman Angel Martinez, the influential Vice President of the Economic Commission of the PSOE (Socialist Political Party) in Spain and an elected member of the Parliament from La Rioja.
- Technical issues pertaining to the application of tax control stamps when APET is used, were reviewed with the Spanish monopoly government delegate and the head of the Tribute Department.
- There is some dissent within the Opposition Party in Azerbaijan about RJR's new joint venture. An advertising ban is being considered; the industry is meeting to discuss. A new excise tax structure is also under consideration; we have been asked for input by the government.

We sponsored a dinner for the UK Ambassador of Azerbaijan, in London. In Azerbaijan, we will spotlight the fact that RJR is supporting Azerbaijan's attempts to gain greater international recognition.

TAR AND NICOTINE

- The Russian domestic tobacco industry attempts to delay the implementation of new, more stringent T&N norms scheduled to come into force on January 1, 1997. Professor David G. Zaridze of the Oncological Scientific Center in Moscow will play a key role in preparing recommendations to the government as to how to implement new T&N norms for Russia. Zaridze participated in the recent European Tobacco and Health conference in Helsinki, where new EU-wide norms were discussed, including one option which would see maximums fall to 12 mg/1 mg by December 31, 1997, and by 10% every year thereafter, until 5 mg/0.5 mg levels are reached. He was confident that these norms will become policy in the EU, and that they should also be applied to Russia as well. There likely will be a conciliation commission created to iron out differences; but for the moment, the Russian domestic industry proposal and the Zaridze proposal will be submitted to Government separately.
- In response to the EU directive reducing maximum "tar" levels by January 1, 1998, to 12 mg, a meeting with the German Health Ministry will occur on Dec. 4 to agree on a voluntary adjustment (reduction) of the tar figures of the Lights segment by the industry.

TAXATION

- The debate between specific excise versus ad valorem excise tax calculation in Russia has left parliamentary committee and will now be taken to the State Duma floor, as discussions over the 1997 budget continue. Since our last report, the Ministry of Finance has come around to the arguments in favor of a specific taxation system, a position defended by RJRI, PMI and Rothmans.

In late January 1997, Duke University and the International Tax and Investment Center (ITIC) will host an RJRI-sponsored taxation conference on Russia, which will take place at Duke University in Durham (NC). Key Russian decision-makers in the legislative and executive branches, including Deputy Finance Minister Sergei Shatalov, are expected to take part. One day of the conference program will take place in Winston-Salem.

- The National Tobacco Board of Malaysia has decided to set up a committee to recommend changes required in view of Asean Free Trade Agreement (AFTA) regarding reduction of Asean tobacco tariffs, as well as reduction in Malaysian tobacco prices to make it competitive. The committee will include representatives from three Ministers, curers, manufacturers and the National Tobacco Board.

- Federal tax authorities in Switzerland unilaterally decided to increase tobacco tax by CHF 0.20 per pack as of March 1, 1997. A meeting between the members of the NMA and the tax authorities was held to try to re-negotiate this decision and to seek that future tax increase proposals will be discussed with manufacturers.
- The Ukrainian Tobacco Committee proposed to increase import duties for cigarettes. The stated aim of the increase is to protect the domestic brands that, according to the Tobacco Committee, have price disadvantage compared to imported product. However, the major issue is that tax compliance of importers is quite low, and increase of duties will not stimulate better compliance of importers. RJR will provide its viewpoint on this issue at the upcoming meeting of the Ukrainian tobacco industry with government and parliament officials.
- The Ukrainian government resolved to introduce new excise banderoles for domestic and imported cigarettes. New banderoles, apparently with better protection against forgery, are available as of Dec. 1. Imports of cigarettes with old-type banderoles will stop on April 1, 1997. On June 1, 1997, sale of imported products with old-type banderoles will be banned. RJR-Ukraine will take steps to sell out the product stock with old banderoles.
- Commissioner Flynn proposes that EU member states should annually increase the price of tobacco products in real terms and that the EU Council should work towards "a closer upward convergence" in tobacco taxation.

CONTRABAND

- Posters for the Spanish tobacco association's anti-contraband advertising campaign are close to being accepted by all the members. The message focuses on the loss of industry jobs as a result of contraband.
- The EP-committee on transit fraud heard testimony from Rothmans and the European tobacco retailers association. PM originally refused, but had to reverse its decision because of heavy criticism. It will be heard on Dec. 17, possibly together with the Confederation of European Community Cigarette Manufacturers (CECCM). The EU Commission's anti-fraud unit (UCLAF) heard the retailers and GITES. A Tabacalera spokesperson accused the multinationals of allegedly being implicated in contraband. The official GITES position contains a similar accusation in more diplomatic wording. CECCM will prepare a written submission for the EP-committee.

EMPLOYEE COMMUNICATIONS

- The first issue of the Ukrainian RJR newsletter for employees will be finalized by mid-December.

SPONSORSHIPS & CONTRIBUTIONS

- Recent Russian contributions include a one-time contribution of RUR 1 million (US\$ 181) to the Russian Red Cross office in St. Petersburg; one year contribution program of RUR 72 million (US\$ 13,057) to the Russian School" in Yelets (the only institution where the English language is taught in Yelets); and a one-time contribution of US\$ 500 to the Disabled Children Fund in St. Petersburg.

INDUSTRY RELATIONSHIPS

- BAT surprised its foreign "colleagues" and joined the new Russian National Manufacturers Association (NMA). The remaining members of the informal International Tobacco Companies Operating in Russia group (PMI, Rothmans, Reemtsma and RJRI) will meet in Moscow next week to consider future action, which may include the creation of a rival association.
- Rafael Malavé, spokesperson for Yabucoa's Committee for Quality of Life, wrote to request information on our new primary manufacturing process, claiming that a smell is affecting neighbors of our plant in Puerto Rico. We will meet with Mr. Malavé Dec. 10 to identify the source of the issue and more details on their concerns.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Ove Sorenson
Jaap Uittenbogaard
Peter Van Every
Jason Wright

Weekly Highlights for week of June 12, 2000

ANCAM
COSTA RICA

PUBLIC SMOKING

The Costa Rican Congress rejected a proposal to ban smoking in all public venues, based on the fact that the courtesy of choice program, backed by the industry and the Hotel and Restaurant Association, has been addressing the public smoking issue effectively for almost 5 years. As a result, Congress concluded that government intervention was not appropriate.

MEXICO

PUBLIC SMOKING, INDUSTRY, YOUTH

As anticipated and at the request of the Mexican Government, PM and BAT voluntarily signed a local tobacco marketing code, which will become effective on July 25. The new code is based largely on PMI's Cigarette Marketing Code and supports, among other things, designated smoking and non-smoking areas as well as youth smoking prevention programs. The public signing was attended by various government officials and received extensive media coverage.

MEXICO

INDUSTRY, RETAIL, YOUTH

Separately, on June 8, Philip Morris and BAT expanded their youth access prevention campaign called "No excuses, I do not sell cigarettes to minors" to Monterrey. The program has already been introduced in Mexico City and Guadalajara, and will reach 90,000 outlets by year-end. The Mexican Chamber of Commerce and the Secretary of Health sponsor the campaign.

ASIA
HONG KONG

PACK INTEGRITY

A bill, proposed by a Hong Kong legislator, Dr. Leung Chi-hong, that would allow the government mandated health warning to be a combination of words, pictures and graphics has been withdrawn from consideration.

KOREA

FISCAL POLICY

The Ministry of Education is reportedly reviewing measures to increase the education tax by an average of 27%. (The education tax is levied on a number of products, including cigarettes, gasoline and luxury appliances.) This could lead to an overall tobacco tax increase and the possibility of an industry-wide price increase. Currently, the education tax on cigarette is 40% of the tobacco excise tax, amounting to 184 Won per pack. In order for the increase to take effect in January 2001, the Ministry of Finance and Economy (MOFE) has to agree to the change and a bill has to be passed by the National Assembly. MOFE currently opposes any tobacco tax increase.

MALAYSIA

YOUTH

The industry youth smoking prevention campaign led by Philip Morris was presented to the Minister of Youth and Sports on June 9 for endorsement. The overall response from the Minister was positive. Some changes were required by the Minister which are in the process of being implemented. The campaign is expected to be launched in July.

PHILIPPINES

INDUSTRY, LEGAL

Solicitor General Ricardo Gálvez has recommended to President Estrada the filing of a suit in the US courts against international tobacco companies operating in the Philippines. He added that Latin American governments as well as US Attorney General Janet Reno have filed similar suits in the US courts, and that the Philippines will not be the first country to take this action.

SINGAPORE

PRESS COVERAGE, FISCAL POLICY

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	News of tobacco regulation changes in Europe was featured in the Singapore Straits Times.
TAIWAN	<p>ADVOCACY, MARKETING</p> <p>The Sanitary, Environment Protection and Social Welfare committee of the Legislative Yuan is reviewing an amendment to further restrict the marketing freedoms for tobacco products. Several legislators are pushing for a total ban on consumer promotions.</p>
AUSTRALIA	
AUSTRALIA	<p>AGRICULTURE, INDUSTRY</p> <p>Philip Morris has notified Australian tobacco growers that, from 2002, Philip Morris intends to reduce the price it pays for Australian leaf by 6% per annum until an internationally competitive price has been achieved. Thereafter, Philip Morris intends to maintain prices at levels comparable with similar quality offshore leaf. (Presently, Australian tobacco sells at a premium of about 30% above international prices.) The decision is in line with the commitments Philip Morris made when the local industry was deregulated in 1994 and has been widely communicated to both Federal and State politicians as negotiations on the future of the tobacco growers are likely to ensue.</p>
NEW ZEALAND	<p>FISCAL POLICY</p> <p>The New Zealand Budget brought down on 15 June did not include tobacco tax increases. (However, on May 9 there was a 22.8% increase in tobacco excise. However, NZ\$4 million has been provided for quit smoking programs focussed on lower socio-economic groups and NZ\$20 million for quit smoking programs focussed on the Maori population. Both allocations are for a four year period.</p>
CEMA	
GCC	<p>ADVOCACY</p> <p>The GCC Health Ministers Council concluded its 49th Conference in Geneva on May 17, 2000. There were no resolutions or recommendations made with regards to tobacco control.</p>
GCC	<p>PRESS COVERAGE, LEGAL</p> <p>The GCC print media reported on Michael Szymanczyk's and other industry executives' testimonies in the Florida Engle case.</p>
HUNGARY	<p>PRESS COVERAGE, PACK INTEGRITY</p> <p>Hungarian dailies reported on the votes in the European Parliament on tobacco product regulation, focusing on the health warning label issue.</p>
JORDAN	<p>ADVOCACY, MARKETING</p> <p>The Ministry of Health is conducting an anti-tobacco retail drive. All the retail outlets carrying any form of branding related to cigarettes have been issued with fines and warranties.</p>
KUWAIT	<p>PUBLIC SMOKING</p> <p>Kuwait Airlines Corporation banned smoking on its routes to and from USA destinations.</p>
POLAND	<p>PRESS COVERAGE, LEGAL</p> <p>The second hearing in the Lubicz-Sieniecki against PM/Seita case took place in the plaintiff's absence and received negligible media coverage. The third hearing is scheduled for 25 July.</p>
SWITZERLAND	<p>PRESS COVERAGE, MARKETING</p>

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	<p>The Geneva Cantonal Parliament passed a new outdoor advertising law, applicable as of June 2002. Billboard advertising for tobacco and alcohol (spirits) will be banned on public grounds and in public buildings, with the exception of shopping centers. The ban will also affect billboards on private property to the extent to which they are visible from public locations. Press reports suggest that this decision may be challenged through a referendum.</p>
SWITZERLAND	<p>PRESS COVERAGE, YOUTH</p> <p>A tobacco prevention center was opened in the Canton of Neuchâtel. In a radio interview, a cantonal representative mentioned that the center will focus on youth smoking prevention and highlighted PM's commitment to this effort. Concurrently, a daily newspaper quoted the PM spokesperson on our position regarding youth smoking.</p>
UNITED ARAB EMIRATES	<p>PUBLIC RELATIONS</p> <p>At a ceremony presided over by the Undersecretary of Labour and Social Affairs, PM presented the Philip Morris Award for Charitable Organisation to the Handicapped Guardians' Association of the UAE. The Undersecretary thanked PM and held our company up as an example to be followed by other private sector companies. In addition to the cash award, PM will run a series of ads in the UAE and Pan-Arab press that seek to raise public awareness and encourage contributions to that Association. The UAE is the fourth GCC country in which the Award has been made.</p>
UNITED ARAB EMIRATES	<p>FISCAL POLICY</p> <p>The Food Control Division of Dubai Municipality launched a campaign against smuggling cigarettes from neighboring states. The campaign will reportedly cover retail outlets, and measures will be taken to prevent repeat violations.</p>
EASTERN EUROPE	
AZERBAIJAN	<p>PRESS COVERAGE, YOUTH</p> <p>A 20-minute programme on Philip Morris' Youth Smoking Prevention activities in Azerbaijan was broadcast on national TV. PM-sponsored YSP TV commercials, currently running on national and regional TV channels, were presented as a positive and influential part of the initiative.</p>
BELARUS	<p>PUBLIC RELATIONS, YOUTH</p> <p>Last week, Area contributed USD 20,000, within the framework of YSP activities in Belarus, to the educational authorities of Gomel Municipality to create a shelter for temporary homeless children.</p>
BELARUS	<p>INDUSTRY, PACK INTEGRITY, RETAIL, YOUTH</p> <p>Local cigarette manufacturer Tabak-Invest announced this week its decision to place an "Underage Sale Prohibited" notification on cigarette packs as their commitment to the Belarussian industry YSP Campaign, using PM's USP notification as an example. The company is the third largest cigarette manufacturer in Belarus. Area is working with the largest local producer Grodno Factory to encourage them to place the same notification on their cigarette packs.</p>
ESTONIA	<p>PUBLIC RELATIONS, YOUTH</p> <p>As part of PM's Youth Smoking Prevention programme in Estonia, a street basketball match, 'Instead of Smoke,' took place on June 11, 2000, on two basketball grounds renovated by Philip Morris.</p>
GEORGIA	<p>FISCAL POLICY</p> <p>Area, together with 8 Georgian Parliament and Government officials, participated last week in a U.S. Study Tour devoted to tax and customs enforcement, organised by the International tax and Investment Centre</p>

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(ITIC). During the visit, meetings and seminars were organised to exchange experience and practices on combating contraband with the Bureau of Alcohol, Tobacco and Firearms, the Federal Bureau of Investigation, the Internal Revenue Service, the U.S. Customs Service, the IMF, Barents Group, and National Security Council officials and experts.

KAZAKHSTAN

RETAIL, YOUTH

An assessment was made of the pilot retail access programme launched last month in Almaty. Over 2,600 retail outlets are participating in the programme (75 per cent). Area is scheduling a follow-up meeting with the coalition partners and the City Administration of Almaty to discuss monitoring and enforcement measures.

LATVIA

PUBLIC RELATIONS

This week, Area organised a visit to the Klaipeda factory with, members of parliament, government officials, journalists and major PM customers to reassure them on the quality of PM products produced in Lithuania. Media coverage in major newspapers was extensive.

LITHUANIA

MARKETING, PACK INTEGRITY, RETAIL

On June 15, 2000, Parliament rejected a proposal to amend the ad ban, imposed on May 1, 2000 as part the Tobacco Control Law. According to the current law, only limited information is allowed at point of sale: the brand name, the name / address of the manufacturer, the sales price, tar & nicotine deliveries and the health warning.

MONGOLIA

PUBLIC RELATIONS, YOUTH

On June 13, 2000, Area organised and hosted an informal reception for 20 journalists representing culture, sponsorship and social departments of Russia's major newspapers and magazines. The journalists were briefed on PM's sponsorship activities and Industry YSP programmes in Russia and reacted positively to the projects presented.

RUSSIA

FISCAL POLICY

On June 9, 2000, Area participated in the first meeting of the working group on tobacco issues set up within the framework of the State Duma Expert Council on Alcohol, Beer and Tobacco. The aim of the meeting was to review the situation on excise tax. The working group, headed by the deputy chairman of the State Duma Budget Committee, will support a proposal to keep the current excise tax system for the next year with an across the board 20% increase of all tiers as of January 1, 2001.

RUSSIA

PUBLIC RELATIONS

On June 13, 2000, Area participated in a conference on "International and Domestic Investments in Russia" organised by the Russian Ministry of Economic Development and Trade in Volgograd. Attendees included investors in the Russian economy, senior officials of the Ministry on Economic Development, several Deputies of the State Duma as well as representatives of the business community, insurance and finance companies. Area attended round-table meetings and informal events to present PM's business and social activities in Russia.

RUSSIA

PUBLIC RELATIONS

On June 7, 2000, the International Art Festival, "Master Class," began in St.Petersburg. Area participated in the press conference devoted to the festival and in the official opening ceremony. Organisers and participants of the festival praised PM for its contribution to the event.

UKRAINE

YOUTH

This week, Area received a letter from the Dnipropetrovsk City Education Department confirming the City's support for Philip Morris' Dialogue

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education programme, which is the next step following the distribution in April of 'Smoking? No Time for it!' posters in local schools. The City selected and recommended eleven pilot schools to start the implementation programme in the new 2000-2001 academic year. The City Administration issued a press release informing the public about the joint initiative.

UKRAINE

FISCAL POLICY

This week, Area met with members of the Parliament of Ukraine, Government officials and non-governmental organisations to discuss the implementation of the anti-contraband Law in Ukraine. The Law which will become effective from July 10, 2000, requires the adoption of a special department under the State Tax inspection, responsible for fighting contraband and counterfeit. The effective procedure for the destruction of confiscated products still needs to be determined.

UKRAINE

ADVOCACY

A letter signed by six members of Parliament was submitted to the Prime Minister's office in order to create a special working group in the Ukraine on the FCTC, to include the participation of tobacco industry representatives.

EUROPEAN UNION

ALL EUROPEAN UNION

PRESS COVERAGE, FISCAL POLICY, GOVERNMENTAL ISSUES, PACK INTEGRITY, PRODUCT INTEGRITY, RETAIL

As part of the legislative process relating to the draft EU Directive on the manufacture and sale of tobacco products, the European Parliament adopted its report on the draft Directive on 14 June. EU Health Ministers will meet on 29 June to consider the draft Directive and the Parliament's recommendations.

The recommendations include the following:

- A delay in implementation of export restrictions until end 2006 at the latest;
- Fully harmonised standards for ingredient disclosure;
- Proposals by the European Commission for harmonised EU standards for provision of toxicological data and testing for ingredients by end 2003;
- EU standards for smoke constituent testing by end 2001;
- A common positive list of permitted ingredients by the end of 2004;
- Industry involvement in a newly-formed Tobacco Control Working Group to advise the Commission on harmonised standards; methodologies for assessment and regulation of toxic exposure; reduced harm products; health warning labels; criteria for smoke constituent testing. This Group would include EU Member State scientists, WHO representatives, toxicological experts and representatives of non-governmental organisations;
- Permission for manufacturers to continue selling products not in compliance with the directive for two years after implementation at national level;
- Larger health warning labels - 35% on the front of the back, 45% on the back, 30% on the side, and a series of new texts for both general and additional warnings;
- A ban on the use of ammonia and ammonia compounds from 1 Jan 2004; and
- A ban on the use of descriptors.

The Parliament rejected a proposal for pictures on cigarette packs depicting the health effects of smoking.

Media stories about the Parliament's deliberations included comments by Philip Morris spokespeople stressing the need for balanced and reasonable regulation, particularly with regard to exports, descriptors and health warnings.

The EU Commissioner for Health and Consumer Protection, David Byrne, told Parliament he wants the tobacco industry to be involved in the process of regulation and expressed the hope that "a constructive dialogue can be built with industry experts in order to develop Community legislation in full knowledge of technical data." Following the progress made with the EP and

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the Commission on a number of key issues, Philip Morris will work with the industry, suppliers and unions to engage in constructive dialogue with national government representatives to find solutions to the outstanding issues.

ALL EUROPEAN UNION

MARKETING

The Advocate General of the European Court of Justice recommended that the European Court annul the European Union's Directive banning tobacco advertising and sponsorship. In an opinion issued on 15 June, the Advocate General concluded that the EU is not competent to enact the ad ban on the basis of certain provisions in the EU Treaty related primarily to the functioning of the internal market. The Directive is being challenged in the European Court by the German government and U.K. tobacco companies. A ruling by the European Court is expected in the autumn. The Court is not bound by the Advocate General's opinion.

BELGIUM

PUBLIC RELATIONS, YOUTH

On 8 June, Philip Morris was invited by the United Business Institutes (UBI), a Brussels based Business School, to talk about the company's corporate responsibility programme to MBA students. The presentation covered our new approach to business, and a description of the PM Web site with our positions, our initiatives to prevent youth smoking (a presentation of the Portuguese ads for the "You can be cool and not smoke" campaign), and our corporate citizenship program across the EU. The presentation was followed by two hours of Q&A.

BELGIUM

PRESS COVERAGE, RETAIL, YOUTH

Philip Morris Belgium's spokesperson conducted interviews with some daily newspapers and participated in two radio talkshows about a minimum age law in Belgium. PM's spokesperson explained the position of the company on youth smoking prevention and the company's support for a minimum age law.

FRANCE

INDUSTRY, LEGAL, PACK INTEGRITY

On 9 June, a civil Court in the French city of Beziers ruled that it would hear the case filed by the family of Suzanne Berger, who died of lung cancer after years of smoking Gauloises. The plaintiffs argued that Seita did not carry any health warnings when Berger began smoking. Seita, which will appeal the Court's decision, reportedly argued that because it was state-owned at the time, it was the cigarette-making arm of the government, and therefore the case should be heard by the Administrative Court in Paris, rather than the district Court in Beziers.

GERMANY

PUBLIC RELATIONS

On 8 June, the Technical University of Munich in collaboration with the Philip Morris Foundation held a forum discussion on the subject of "Life + Science = LifeScience." The event also marked the inauguration of the new Center for Life Science of the University. Two Philip Morris Science Award alumni and two representatives of the University took part in the discussion moderated by a well-known radio presenter. About 800 guests attended the event. Prof. Arnulf Melzer, vice president of the University, acknowledged the outstanding and supportive role of Philip Morris. There was broad media coverage of the event. Elfie Buben, Head of Contribution Programs PMG, said in interviews that Philip Morris stands for dialogue with society and that the company's corporate citizenship includes promoting innovation and communication.

GREECE

PRESS COVERAGE, PUBLIC RELATIONS

The Sunday supplement of the Greek newspaper Eleftherotipia, "Epsilon" (11/6/2000) reported extensively on the upcoming Donna Ferrato photo exhibition, which is organized by Philip Morris Hellas. Philip Morris is

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referred to as an active supporter of international programs against domestic violence.

ITALY

PUBLIC RELATIONS

The Associazione Philip Morris Progetto Cinema (Philip Morris Cinema Project Association) supported the restoration of a major Italian feature film, "La prima notte di quiete", directed by Valerio Zurlini. This is the 12th film restored since 1992 by the Association, whose aim is to support the standing of the Italian cinema by preserving its heritage and increase public awareness of its cultural contribution. The film was presented at a press conference attended by more than 100 journalists where Mr. Tullio Kezich, a leading Italian cinema journalist and critic, praised the Association for its long-term commitment to Italy's cinema culture. The restored film was presented at a Gala evening. Guests included the leading actor in the film Alain Delon, the Minister of Labor Cesare Salvi, the General Secretary of the Green Party Grazia Francescato, the Undersecretary of Health Ministry Ombretta Fumagalli Carulli and the Secretary of the Italian Communist Party Fausto Bertinotti. The restoration of the film and the Gala generated substantial media coverage.

NORWAY

PRESS COVERAGE, INDUSTRY, PRODUCT INTEGRITY

On 14 June, Norway's largest newspaper, Verdens Gang, published an article about Philip Morris' submission to the Tobacco Damage Board on ingredients disclosure. The report said that Philip Morris' submission constitutes a break-through in the Board's efforts to obtain information from the tobacco industry about the ingredients used in cigarettes sold in Norway. "The fact that Philip Morris has done this, will make other tobacco companies follow suit. All the important players in the Norwegian market say they will give the council similar information," Arne M. Falck, head of the NMA commented. Falck gave the Philip Morris "Norway Ingredients report" to the Board at the end of May.

NORWAY

PRESS COVERAGE, INDUSTRY, LEGAL

The Kjønstad report on possible health cost recovery actions will be presented to the Norwegian MoH on 28 June. On 29 June a seminar will be held to discuss the report. The tobacco industry has been invited to give their viewpoints. Jan Robert Kvam from the local manufacturer Tidemanns will be present at the seminar in his capacity as chairman of the NMA.

SPAIN

ADVOCACY, PRESS COVERAGE, LEGAL

Spanish regional newspaper "Levante" published an article signed by the Secretary of the Valencia Association of people with throat illnesses. The article explained why his association decided not to join conciliation procedures filed on 31 May by Spanish Throat Cancer Associations. The article said that tobacco consumption is a free choice and that the only aim of the legal action appears to be to receive compensation.

SPAIN

INDUSTRY

Santiago Cid, the Tobacco Market Commissioner, reportedly has announced his resignation. Mr Cid has been hired as Board Secretary of San Jose, a Spanish construction company. The new Tobacco Market Commissioner is expected to be named during the next week.

SPAIN

PUBLIC SMOKING

The regional Horeca Association in the Spanish Asturias region has adopted the accommodation program "Traditional Hospitality", sponsored by the Spanish Hospitality Federation (FEHR). A spokesperson of the Association is quoted as saying that the hospitality industry is increasingly aware and sensitive to the need to offer customers smoke-free areas, but is against measures imposed by law.

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SPAIN

ADVOCACY, INDUSTRY, MARKETING, RETAIL, YOUTH

A constructive dialogue has been initiated by the Spanish NMA with the MoH on various tobacco issues, such as the EU ad ban implementation, the draft EU Directive on the manufacture and sale of tobacco products, the WHO Framework Convention on Tobacco Control and Youth Smoking Prevention. In a meeting with the Deputy Minister of Health, Sanchez Fierro, and the Director General of Health, Dolores Flores, on June 8, the NMA was told that the industry's opinion will be taken into account.

SWEDEN

INDUSTRY

The annual meeting of the Swedish NMA on 14 June decided to split the NMA in two organisations - a tobacco organization, the "Swedish Tobacco Trade Association" which will serve as an Information Bureau for general tobacco issues, and a cigarette association, the "Swedish Cigarette Trade Association" with a broader scope. Austria Tabak, BAT, House of Prince, JTI and Philip Morris will be members of both associations. Swedish Match, which sold its cigarette manufacturing business to Austria Tabak, will be a member only of the Swedish Tobacco Trade Association.

UNITED KINGDOM

PUBLIC SMOKING, FISCAL POLICY, GOVERNMENTAL ISSUES, INDUSTRY, MARKETING, PACK INTEGRITY, PRODUCT INTEGRITY, YOUTH

The cross-party Health Select Committee of the UK Parliament published on 14 June the final report of its "Inquiry into the tobacco industry and the health risks of smoking". The Inquiry, which began in November 1999, received written evidence from a large number of organisations including Philip Morris Europe SA and heard oral evidence from David Davies, Vice President Corporate Affairs Philip Morris EU Region, and other tobacco industry executives. The committee's report is available on the internet at: <http://www.publications.parliament.uk/pa/cm199900/cmselect/cmhealth/27/2702.htm#evidence>

The 643-page report details the Committee's opinions on the evidence it received and contains numerous recommendations. The report is critical of UK-based tobacco companies, singling out BAT, Gallaher and Imperial for specific allegations and criticism. Reference to Philip Morris is limited and tends to focus on factual reporting of Mr. Davies' responses to questions and written submissions. The Philip Morris website is referred to throughout the report and PM's statements about "health issues for smokers" and "addiction" are reproduced verbatim, together with the opinions of industry competitors.

The Committee urges the Secretary of State for Trade and Industry to launch an investigation into the international conduct of BAT in relation to allegations of smuggling.

The 58 principal recommendations and observations of the report deal with Measures Against Smoking including YSP, Marketing Restrictions, ETS, Product Safety, Reduction and Deterrents to Consumption; Nicotine Addiction and Regulation; Expanding into New Markets; Tobacco Archives, the latter specifically referring to the accessibility or otherwise of documents from Gallaher, Imperial and BAT. The Committee calls for: the establishment of a Tobacco Regulatory Authority, modelled on the Food Standards Agency empowered to assess and restrict tobacco marketing activity. The report also supports current proposals in the EU to ban descriptors and introduce larger health warnings.

Regarding youth smoking, the Committee recognises that they "have not found any explicit evidence to suggest that tobacco companies specifically and knowingly target children." The Committee calls for the Government to endorse proof-of-age schemes, such as the PM supported CitizenCard, and urges greater efforts to resolve youth smoking issues. In relation to product development, the Committee "strongly supports" the industry view that objective scientific appraisal should be the basis for product regulation decisions and acknowledges that development of "safer" cigarettes has been "stymied" by the regulatory framework. The Committee is critical of BAT

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tactics regarding WHO but supports "constructive" dialogue regarding the FCTC.

Media coverage of the report focussed on the recommendation for a Tobacco Regulatory Authority. Media also linked the report's recommendations to the European Parliament's vote on 14 June on the draft EU Directive on the manufacture and sale of tobacco products. Public Health Minister Yvette Cooper welcomed the report and said, "It shows clearly that when it comes to the tobacco industry voluntary agreements just don't work." She claimed this justifies the legislative program "at a European level".

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Agenda (U.S. version)
WINSTON-SALEM VISIT AND DUKE TAX CONFERENCE
Revised 1-23-97

*(See pages 7-10 for a list of all meeting participants
and phone numbers for meeting coordinators and key contacts).*

MONDAY, JANUARY 27, 1997

10:00 RJR staff meets to review plans and materials for visit/conference.
(10:00 a.m.) Meeting will be in Reynolds Building, 17th floor conference room.

17:00 Mr. Paul Neumann arrives Greensboro airport On January 26, 1997 from
(5:00 p.m.) Atlanta at 04:58 p.m. on Delta flight 730.
 (Driver meets him at airport; transports to Brookstown Inn in Winston-Salem.)

TUESDAY, JANUARY 28, 1997

10:15 Aeroflot SU Flight 315 departs Moscow for New York.
(10:15 a.m.)

13:00 Aeroflot SU Flight 315 arrives at JFK airport in New York.
(1:00 p.m.)

Flight passengers:

1. Ms. Galina Ismailova (RJR)
2. Mr. Irakli Kopaleishvili (Georgia)
3. Mr. Merab Kuckveskiri (Georgia)
4. Ms. Ms. Olha Ponedelkova (Ukrainian guest)
5. Mr. Sergei Shatalov (Russian guest)
6. Ms. Tamara Sofrina (Russian guest)
7. Mr. Vladimir A. Vanokevich (Russian guest)
8. Mr. Cevanshir Veliyev (Azeri guest)

(RJR Flight Operations is arranging ground transportation from JFK terminal to General Aviation terminal.)

Note: Mr. Vasiunyk will not be coming to Winston-Salem. He will be attending the Ukrainian-American Investment Forum in New York. Then he will rejoin the RJR and Duke groups in Durham later on January 29th.

14:00 RJR private plane departs JFK airport in New York for Winston-Salem.
(2:00 p.m.)

14:18 Ms. Prather arrives at Greensboro airport on flight from Washington.
(2:18 p.m.) *(She is renting a car and will drive to Brookstown Inn.)*

15:20 RJR private plane arrives at Smith Reynolds airport in Winston-Salem.
(3:20 p.m.) -- Interpreters hired by RJR will meet Gary Woolman at Brookstown Inn (and remain with group throughout the rest of the day and evening).
-- Drivers with 2 vans meet plane at airport; transport guests to Brookstown Inn in Winston-Salem for hotel check-in.

Room Reservations at Brookstown Inn (reservations made by RJR):

Ms. Galina Ismailova	Mr. Sergei Shatalov
Mr. Irakli Kopaleishvili	Ms. Tamara A. Sofrina
Mr. Merab Kuckveskiri	Mr. Vladimir Vanokevich
Mr. Michael Newcity	Mr. Cevanshir Veliyev
Mr. Alexander Pochinok	
Ms. Olha Ponedelkova	
Ms. Angela Prather	

TUESDAY, JANUARY 28, 1997 (continued)

18:15 **Drivers and vans pick up all guests and interpreters at Brookstown Inn;**
(6:15 p.m.) and transport them to Graylyn Conference Center for dinner.

18:30 **Cocktails and buffet dinner at Graylyn Conference Center**
(6:30 p.m.) Hosted by Mr. Kenneth J. Lapiejko,
Senior Vice President and Chief Financial Officer
R.J. Reynolds Tobacco Company (Winston-Salem)

Cocktails - Seminar Breezeway Dinner - Seminar Room

(Drivers to wait at Graylyn during dinner; transport guests back to Brookstown Inn hotel when dinner ends. Drop off others as needed.)

WEDNESDAY, JANUARY 29, 1997

08:00 **Check out of Brookstown Inn hotel;**
(8:00 a.m.) baggage should be given to drivers to load into vans.

08:15 **Continental Breakfast at Brookstown Inn**
(8:15 a.m.) Interpreters join group for breakfast; and remain with them until they depart for Durham at the end of the afternoon.

08:45 **Drivers pick up guests at hotel; transport to Reynolds Building.**
(8:45 a.m.)

08:55 **Arrive at Reynolds Building. (Jan and Sheryl greet them in lobby,**
(8:55 a.m.) escort to large Conference Room, 10th floor Reynolds Building.)

09:00 **Opening remarks:**
(9:00 a.m.) ????

09:10 **Brief overview presentation on RJR's U.S. and International companies.**
(9:10 a.m.) To be given by David Fishel and Jan Smith, RJR External Relations.

09:30 **Presentations by RJR Tax Department:**
(9:30 a.m.) John Millar, Director - Domestic Tax Law and Regulatory Affairs
Steve Gentry, Manager - Federal Excise & Domestic Tax

10:30 **Presentations by Bureau of Alcohol, Tobacco and Firearms:**
(10:30 a.m.) Clifford A. Mullen, Alcohol, Tobacco, Firearms Specialist, Washington, DC;
Daniel J. Hiland, Alcohol, Tobacco, Firearms Specialist, Washington, DC
James Fowler, Area Supervisor

WEDNESDAY, JANUARY 29, 1997 (continued)

11:30 **Question & Answer Session**
(11:30 a.m.)

11:45 **Lunch.** (10th floor dining room, Reynolds Building)
(11:45 a.m.)

12:45 **Drivers and van pick up guests at Reynolds Building;**
(12:45 p.m.) **transport to Tobaccoville for factory tour.**

13:15 **Arrive at RJR's Tobaccoville manufacturing complex for tour.**
(1:15 p.m.) Before tour, group will be shown a 10-minute film in Russian about the Tobaccoville complex. The guests will be split into three groups for the tour (need someone to interpret in each group). Tours to be conducted by:

Mr. Roy Sizemore	Manager, manufacturing training
Mr. Tony Adams	Training coordinator, primary processing
Ms. Joie Scales	Training coordinator, cigarette division
Mr. Jim Carros	Senior operations analyst

14:30 **Drivers pick up guests at Tobaccoville and transport to CDC.**
(2:30 p.m.) **(Please ensure that this group departs Tobaccoville by 2:30 p.m.)**

14:45 **Arrive at RJR's Central Distribution Center (CDC) for tour.**
(2:45 p.m.) The guests will split into 3 groups for the tour (need someone to interpret in each group). Tours to be conducted by:

Mr. Benny Myers	Operations Manager - RJR Central Distribution Center
Mr. Harold Elmore	Operations Manager Systems
Mr. Harold Brown	Maintenance Manager

16:00 **Depart Central Distribution Center.**
(4:00 p.m.) **Drivers transport guests and luggage to Durham, North Carolina, for Duke University conference.**

Note: Before departing for Durham, drivers will drop off anyone who needs to go back to Reynolds Building or to hotel.

WEDNESDAY, JANUARY 29, 1997 (continued)

18:00 Arrive at Regal University Hotel in Durham.

(6:00 p.m.) 2800 Campus Walk Avenue
Durham, North Carolina
Telephone 919-383-8575
Fax Number: 919-383-8495
(Hotel contact: Mr. Mark Rosoff)

Room Reservations at Regal Hotel (check-in January 29; check-out February 1):

Mr. Andre Benoit
Mr. Steve Gentry - may can
Ms. Mary Carol Holbert
Ms. Galina Ismailova
Mr. Irakli Kopaleishvili
Mr. Merab Kuckveskiri
Mr. Anthony Maggiore
Mr. John Millar - may can
Mr. Paul Neumann

Mr. Alexander Pochinok may need extra night
Ms. Olha Ponedelkova
Mr. Sergei Shatalov
Ms. Tamara Sofrina
Mr. Vladimir A. Vanokevich
Mr. Ivan Vasiunyk
Mr. Cevanshir Veliyev

THURSDAY, JANUARY 30 AND FRIDAY, JANUARY 31

DUKE CONFERENCE: Tax Reform in Russia

Duke University
Durham, North Carolina

(Arrangements and schedule handled by Duke hosts)

SATURDAY, FEBRUARY 1, 1997

09:00 a.m. Guests depart Regal University hotel in hotel vans for transportation to Piedmont Aviation Terminal in Raleigh.

Flight passengers:

- | | |
|-------------------------------|-------------------|
| 1. Ms. Galina Ismailova | (RJR) |
| 2. Mr. Irakli Kopaleishvili | (Georgian guest) |
| 3. Mr. Merab Kuckveskiri | (Georgian guest) |
| 4. Mr. Anthony Maggiore | (RJR) |
| 5. Mr. Paul Neumann | (RJR) |
| 6. Ms. Olha Ponedelkova | (Ukrainian guest) |
| 7. Mr. Sergei Shatalov | (Russian guest) |
| 8. Ms. Tamara Sofrina | (Russian guest) |
| 9. Mr. Vladimir A. Vanokevich | (Russian guest) |
| 10. Mr. Ivan V. Vasiunyk | (Ukrainian guest) |
| 11. Mr. Cevanshir Veliyev | (Azeri guest) |

Note: Mr. John TerBeek from Flight Operations Department is handling arrangements for private plane (the GulfStream IV).

10:00 a.m. RJR private plane departs Piedmont Aviation Terminal in Raleigh.

11:10 a.m. RJR private plane arrives at General Aviation terminal in New York.

(RJR Flight Operations is arranging ground transportation from General Aviation terminal to JFK terminal.)

15:00 SU Flight 316 departs JFK airport in New York for Moscow.
(3:00 p.m.)

Passenger list

- | | |
|----------------------------|-------------------|
| Mr. Irakli Kopaleishvili | (Georgian guest) |
| Mr. Merab Kuckveskiri | (Georgian guest) |
| Ms. Olha Ponedelkova | (Ukrainian guest) |
| Ms. Tamara Sofrina | (Russian guest) |
| Mr. Vladimir A. Vanokevich | (Russian guest) |
| Mr. Ivan V. Vasiunyk | (Ukrainian guest) |

19:50 SR Flight 111 departs JFK airport in New York for Geneva.
(7:50 p.m.)

Passenger List

- Ms. Galina Ismailova
Mr. Anthony Maggiore
Mr. Paul Neumann
Mr. Cevanshir Veliyev

PARTICIPANTS AND KEY CONTACTS

Russian Guests

Mr. Alexander Pochinok

Chairman of Subcommittee on Budget and Taxation,
The State Duma of the Russian Federation
MOSCOW

Mr. Sergei Shatalov

Deputy Minister of Finance for Tax Policy
Ministry of Finance of the Russian Federation
MOSCOW

Ms. Tamara Alexeyevna Sofrina

Deputy Head
Department of Indirect Taxation
Ministry of Finance
MOSCOW

Mr. Vladimir (Anatolievich) Vanokevich

Head, Tax Section
Committee Staff
State Duma Committee on Budget, Taxes, Banks and Finances
Federation Council - Parliament of the Russian federation
State Duma
MOSCOW

Azerbaijan Guest

Mr. Cevanshir Veliyev

Chief Adviser and Administrator
Head Government
Tax Inspectorate
Government of Azerbaijan
BAKU

53097 1359

Ukrainian Guests

Ms. Olha Ponedelkova

Chief Expert
Department of Finance and Credit Policy
Cabinet of Ministers of Ukraine

Mr. Ivan V. Vasiunyk, Ph.D.

Head of Economic Reform
Advisory Board to the Vice Prime Minister of Ukraine
KIEV

Georgian Guests

Mr. Irakli Kopakishvili

Deputy Head of Taxation Department

Mr. Merab Krekveshkiri

Head of Finance in the Treasury

R. J. Reynolds (RJR)

Mr. André Benoit

Director - External Relations
R.J. Reynolds International (Moscow office)

Mr. David Fishel

Senior Vice President - External Relations
R.J. Reynolds Tobacco Company (Winston-Salem)

Mr. Steve Gentry

Manager - Federal Excise & Domestic Tax
R.J. Reynolds Tobacco Company (Winston-Salem)
(Telephone 910-741-5380)

Ms. Mary Carol Holbert

Director - International Taxes
R.J. Reynolds International (Geneva)

Ms. Galina Ismailova

Director and Senior International Counsel - for Former Soviet Union
R.J. Reynolds International (Geneva office)

Mr. Kenneth J. Lapiejko

Senior Vice President and Chief Financial Officer
R.J. Reynolds Tobacco Company (Winston-Salem)

Mr. Anthony Maggiore

Senior Director - Tax Planning and Compliance
R.J. Reynolds International (Geneva office)

Mr. John Millar

Director - Domestic Tax Law and Regulatory Affairs
R.J. Reynolds Tobacco Company (Winston-Salem)
(Telephone 910-741-3602)

Mr. Paul Neumann

Vice President and Chief Financial Officer - Former Soviet Union
R.J. Reynolds International (Geneva office)

Ms. Jan Smith

Director - External Issues
R.J. Reynolds Tobacco Company (Winston-Salem)
Office phone: 910-741-6995; Office fax: 910-741-1725. (Home phone 765-0763)
Or contact Phyllis Rumples, office phone 910-741-3951. (Home phone 764-9550)

Ms. Kay Smith

Flight Operations - Flight Dispatcher
R.J. Reynolds Tobacco Company (Winston-Salem)
(Telephone: 910-741-7016)

Ms. Sheryl Spainhour

Executive Assistant, External Relations Department
R.J. Reynolds Tobacco Company (Winston-Salem)
Office phone: 910-741-5496; Office fax: 910-741-5607. (Home phone 945-4669)

Mr. John TerBeek

Flight Operations - Flight Dispatcher
R.J. Reynolds Tobacco Company (Winston-Salem)
(Telephone: 910-741-7015)

Bureau of Alcohol, Tobacco and Firearms (BATF)

Mr. James A. Fowler

Area Supervisor - Charlotte Field Office
BATF (Bureau of Alcohol, Tobacco and Firearms)
Charlotte, NC

Mr. Daniel J. Hiland

Alcohol, Tobacco and Firearms Specialist
BATF (Bureau of Alcohol, Tobacco and Firearms)
Washington, DC

53097 1361

Mr. Clifford A. Mullen
Alcohol, Tobacco and Firearms Specialist
BATF (Bureau of Alcohol, Tobacco and Firearms)
Washington, DC

Duke University

Mr. Michael Newcity
Coordinator
Center for Slavic, Eurasian and East European Studies
Duke University
Durham, North Carolina, USA
(Telephone 919-660-3157; Fax 919-660-3188)

International Tax and Investment Center (ITIC)

Ms. Angela Prather
Director of Programs
International Tax and Investment Center
Washington, D.C., USA
(Telephone: 202-942-7601; Fax: 202-942-7678)

Interpreters in Winston-Salem (Hired by RJR)

Mr. Oleg Ordinartsev
(Telephone 910-765-7665)

Alex & Irina Kapitanovsky
(Telephone 910-945-6707)

Winston-Salem Hotel

Brookstown Inn
200 Brookstown Avenue
Winston-Salem, North Carolina 27101
Telephone: 910-725-1120; Fax 910-773-0142

Duke / Durham Hotel

Regal University Hotel
2800 Campus Walk Avenue
Durham, North Carolina
Telephone 919-383-8575
Fax Number: 919-383-8495
(Hotel contact: Mr. Mark Rosoff)

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Winston-Salem Transportation (driver hired by RJR)

Gary Woolman

Office telephone: 910-768-6060

Pager number: 910-717-6517

(At the tone, enter a telephone number where he can call you back.)

(End of document)

53097 1363

From: Soguel, Denise
To: Smith, Jan Fulton; Spainhour, Sheryl F.
CC:
BCC:
Primary Date: 1/15/1997 5:44:03 AM
Last Modified Date: 2001-Nov-20 16:48:07
Last Touched Date:
Sent Date: 1997-Jan-15 05:43:00
Received Date: 1997-Jan-15 05:44:03
Subject:

Attachments:
DENISE.DOC

Jan/Sheryl

We have problems with our cc:mail, so I am sending you it
back to you

52904 9130



R.J. REYNOLDS TOBACCO INTERNATIONAL S.A.

INTER-OFFICE CORRESPONDENCE

Date: January 15, 1997

To: Jan Fulton

cc: Andre Benoit
Kent Brown
A. Krivosheyev
T. Maggiore
J. Millar
P. Neumann
A. Haytaoglu (RJR - Baku)

From: Denise Soguel

Subject: TAX CONFERENCE ARRANGEMENTS

Jan,

Following our phone conversation and referring to your memo of January 9, enclosed please find a maximum of answers to your questions.

Some information are to be given by Messrs. Brown, Benoit, Millar and Krivosheyev.

I am sending you this morning by fax a note from Mrs. Angela Prather addressed to Mr. Brown and some correspondence sent to Ms. O. Ilchenko, Mr. Benoit's assistant and to Mr. A. Haytaoglu by Mr. Roland Stephen (Duke University) raising some confusion. I am going to answer Mr. Stephen with a copy to you.

I am out of this office this afternoon, but will call you tomorrow.

Thank you for your help and best regards.

Denise Soguel

PARTICIPANTS IN DUKE TAX CONFERENCE AND VISIT TO WINSTON-SALEM**RUSSIAN GUESTS**

Tamara Alexeyevna Sofrina OK
Deputy Head
Department of Indirect Taxation
Ministry of Finance
MOSCOW

Sergei Shatalov OK
Deputy Minister of Finance for Tax Policy
Ministry of Finance of the Russian Federation
MOSCOW

Alexander Pochinok OK
Chairman of Subcommittee on Budget and Taxation,
The State Duma of the Russian Federation
MOSCOW

Vladimir (Anatolievich) Vanokevich OK
Head, Tax Section
Committee Staff
State Duma Committee on Budget, Taxes, Banks (??) and Finances
Federation Council - Parliament of the Russian federation
State Duma
MOSCOW

AZERBAIJAN GUEST

Mr. Djavanchir Veliev Correct Spelling: CEVANSHIR VELIYEV
Chief Adviser and Administrator,
Head Government
Tax Inspectorate,
Government of Azerbaijan,
BAKU

UKRAINIAN GUESTS

Mr. Mykola J. Azarov WAITING FOR ANSWER
FROM A. KRIVOSHEYEV
Head of state Tax Administration of Ukraine
KIEV

Mr. (Dr.???) Ivan V. Vaslunyk, Ph.D. OK
A.. KRIVOSHEYEV TO ADVISE WHETHER DR. OR MR.
Head of Economic Reform
Advisory Board to the Vice Prime Minister of Ukraine
KIEV

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GEORGIA GUEST**Mr. Kent Brown to advise****RJR PARTICIPANTS**

André Benoit

Director - External Relations

R.J. Reynolds International (Moscow office)

Mary Carol Holbert (*participating in Winston-Salem; not going to Duke*)

Director - International Taxes

R.J. Reynolds International (Geneva)

Galina Ismailova

Director and Senior International Counsel

(responsible for Former Soviet Union)

R.J. Reynolds International (Geneva office)

Alexander Krivoshejev

Title:

PUBLIC RELATIONS COORDINATOR

R.J. Reynolds International (Kiev office)

Mr. Kenneth J. Lapiejko (*participating in Winston-Salem; not going to Duke*)

Senior Vice President and Chief Financial Officer

R.J. Reynolds Tobacco Company (Winston-Salem)

Anthony Maggiore

Senior Director - Tax Planning and Compliance

R.J. Reynolds International (Geneva office)

John Millar

Director - Excise Tax

R.J. Reynolds Tobacco Company (Winston-Salem)

STEVE GENTRY***For more information please contact Mr. John Millar***

Paul Neumann

Vice President and Chief Financial Officer - Former Soviet Union

R.J. Reynolds International (Geneva office)

Jan Smith (*participating in Winston-Salem; not going to Duke*)

Director - External Issues

R.J. Reynolds Tobacco Company (Winston-Salem)

David Fishel (*participating in Winston-Salem; not going to Duke*)

Senior Vice President - External Relations

R.J. Reynolds Tobacco Company (Winston-Salem)

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Sheryl Spainhour (*participating in Winston-Salem; not going to Duke*)
Executive Assistant, External Relations Department
R.J. Reynolds Tobacco Company (Winston-Salem)

Question:

*Are there others from RJRT Tax Dept. participating – in Winston-Salem and/or at Duke conference?
If so, please provide names and titles.*

MR. STEVE GENTRY

BATF

Who is participating? Name and title??? Travel, lodging, transportation arrangements?

FOR MORE INFORMATION PLEASE CONTACT MR. JOHN MILLAR

DUKE UNIVERSITY

Mr. Michael Newcity

(Please insert job title????) **Mr. K. Brown to advise**

Center for Slavic, Eurasian and East European Studies

Duke University

Durham, North Carolina, USA

Telephone 919-660-1157

Fax 919-660-3188

Anyone else from Duke participating? If so, I need name(s) and title(s).

INTERNATIONAL TAX AND INVESTMENT CENTER (ITIC)

Ms. Angela Prather

Director of Programs

International Tax and Investment Center

Washington, D.C., USA

RUSSIAN INTERPRETERS

Mr. Oleg Ordinartsev

(law student at Wake Forest University)

Telephone 910-765-7665

+ 1 more, name yet to come

52904 9134

WINSTON-SALEM HOTEL

Brookstown Inn
200 Brookstown Avenue
Winston-Salem, North Carolina 27101
Telephone: 910-725-1120; Fax 910-773-0142

DUKE/DURHAM HOTEL

Regal University Hotel
2800 Campus Walk Avenue
Durham, North Carolina
Telephone 919-383-8575
Fax Number: 919-383-8495
(Hotel contact: Mr. Mark Rosoff)

WINSTON-SALEM TRANSPORTATION *(transportation hired by RJR)*

Gary Woolman
Office phone: 910-768-6060
Pager number: 910-717-6517 *(At the tone, enter a telephone number
where he can call you back.)*

52904 9135

DRAFT AGENDA – PENDING APPROVAL
WINSTON-SALEM VISIT AND DUKE CONFERENCE

SUNDAY, JANUARY 19, 1997

Anthony Maggiore arrives in Winston-Salem; checks into Brookstown Inn.
**NO NEED FOR DRIVER TO PICK HIM UP, MR. MAGGIORE WILL BE HIRING
A CAR AT THE AIRPORT.**

WEDNESDAY, JANUARY 22, 1997

8:00 p.m. Andre Benoit arrives Greensboro airport via Delta Flight #882 from Atlanta.
Driver meets him at airport; transports to Brookstown Inn in Winston-Salem.

SUNDAY, JANUARY 26, 1997

05:00 p.m. ***Mr. Paul Neumann's arrives Greensboro airport On January 26, 1997 from
Atlanta at 04:58 p.m. on Delta flight 730.
Need driver to meet him at Airport to Brookstown Inn in Winston-Salem.***

????

Ms. Prather

***As agreed, after your conversation with K. Brown,
Could you please contact her from Winston-Salem
Please see the fax, I have sent you this morning.***

52904 9136

TUESDAY, JANUARY 28, 1997

10:15 SU Flight 315 departs Moscow for New York.

13:00 SU Flight 315 from Moscow arrives at JFK airport in New York.

Flight has (9 or 10?) passengers:

1. Galina Ismailova	(RJR)	OK
2. Alexander Krivoshejev	(RJR)	OK
3. Tamara Sofrina	(Russian guest)	OK
4. Alexander Pochinok	(Russian guest)	OK
5. Sergei Shatalov	(Russian guest)	OK
6. Vladimir A. Vanokevich	(Russian guest)	OK
7. Cevanshir Veliyev	(Azeri guest)	OK
8. Ivan V. Vasiunyk	(Ukrainian guest)	OK
9. Mr. Mykola J. Azarov	(Ukrainian guest)	???
10. One guest from Georgia????	(Georgian guest)	???

(RJR Flight Operations is arranging ground transportation from JFK terminal to General Aviation terminal.)

14:00 RJR private plane departs JFK for Winston-Salem.

15:20 RJR private plane arrives at Smith Reynolds airport in Winston-Salem.

Drivers with 2 vans meet plane at airport; transport guests to Brookstown Inn in Winston-Salem for hotel check-in.

Interpreters also meet group at airport, and remain with them until evening ends.

NOTE: Gifts for guests to be waiting in hotel rooms upon their arrival.

18:15 Driver and vans pick up guests at Brookstown Inn; transport to Graylyn Conference Center for dinner.

18:30 Cocktails and buffet dinner at Graylyn Conference Center to be hosted by Mr. Kenneth J. Lapiejko, Senior Vice President and Chief Financial Officer R.J. Reynolds Tobacco Company (Winston-Salem)

Mr. Lapiejko makes short, informal welcoming remarks when dinner begins.
(Need to provide Mr. Lapiejko with background information on this visit, and suggestions for comments to make during welcome.)
(Mr. Kent Brown or Mr. A. Benoit)

Drivers to wait at Graylyn during dinner; transport guests back to Brookstown Inn hotel when dinner ends.

52904 9137

WEDNESDAY, JANUARY 29, 1997

08:15 Check out of hotel; baggage should be given to drivers to load into vans.

08:30 Breakfast at Brookstown Inn???

Yes, if you can have a private room

Interpreters join group for breakfast; and remain with them until they depart for Durham at the end of the afternoon.

09:30 Drivers and vans pick up guests at hotel; transport to Reynolds Building.

09:40 Arrive at Reynolds Building. Guests are greeted in lobby by Sheryl Spainhour or Jan Smith, and escorted to meeting room (Large Conference Room, 10th floor Reynolds Building.)

09:45 15-minute overview presentation on RJR's U.S. and international companies. To be given by Jan Smith or David Fishel of the External Relations Department?

10:00 45-minute presentation by John Millar, RJR Tax Department.

10:45 45-minute presentation by BATF. *(Presenter's name and title??? -*
Mr. J. Millar to advise

Question: What AV equipment is needed by Millar and BATF?
Overhead projector? 35mm slides? Flip charts?

11:30 Break

11:45 Lunch is served. (10th floor dining room)

12:45 Drivers and van pick up guests at Reynolds Building and transport to Tobaccoville for factory tour. *(Question: Howmany RJR people will take the Tobaccoville tour? To be checked on the spot*

52904 9138

WEDNESDAY, JANUARY 29, 1997 (continued)

13:15 Arrive at RJR's Tobaccoville manufacturing complex. Tour.
Before tour, group will be shown a 10-minute film in Russian about the Tobaccoville complex.

Since there are four interpreters on hand, the guests will be split into four groups for the tour. The tours will be conducted by:

Mr. Roy Sizemore	Manager, manufacturing training
Mr. Tony Adams	Training coordinator, primary processing
Ms. Joie Scales	Training coordinator, cigarette division
Mr. Jim Carros	Senior operations analyst

Question: Is it necessary (or appropriate) to have the plant manager greet and welcome the group briefly when they arrive at Tobaccoville?

14:30 Drivers and vans pick up guests at Tobaccoville and transport to CDC.

15:00 Arrive at RJR's Central Distribution Center. Tour.

(names of CDC tour guides to be inserted).

16:00 Depart Central Distribution Center; drivers transport guests and luggage to Durham, North Carolina, for Duke University conference.

18:00 Arrival in Durham at Regal University Hotel/

10 Room Reservations (check-in January 29; check-out February 1):

Mr. Mykola Azarov	Confirmation #
Mr. Andre Benoit	Confirmation #
Ms. Galina Ismailova	Confirmation #
Mr. Anthony Maggiore	Confirmation #
Mr. Alexander Krivosheyev	Confirmation #
Mr. John Millar	Confirmation #
Mr. Paul Neumann	Confirmation #
Mr. (Dr.???) Ivan Vasiunyk	Confirmation #
Mr. Cevanshir Veliyev	Confirmation #
+ another from Millar's staff????	Confirmation #

What about the four Russian guests?

Tamara Sofrina
Alexander Pochinok
Sergei Shatalov
Vladimir A. Vanokevich

52904 9139

THURSDAY, JANUARY 30 AND FRIDAY, JANUARY 31

DUKE CONFERENCE: Tax Reform in Russia

Duke University
Durham, North Carolina

(Arrangements and schedule made by Duke hosts)

SATURDAY, FEBRUARY 1, 199708:00 a.m. Guests depart Regal University hotel in hotel vans for transportation to
Piedmont Aviation Terminal in Raleigh.**Flight passengers:**

1. Galina Ismailova	(RJR)	OK
2. Alexander Krivoshejev	(RJR)	OK
3. Tamara Sofrina	(Russian guest)	OK
4. Alexander Pochinok	(Russian guest)	OK
5. Sergei Shatalov	(Russian guest)	OK
6. Vladimir A. Vanokevich	(Russian guest)	OK
7. Cevanshir Veliyev	(Azeri guest)	OK
8. Ivan V. Vasiunyk	(Ukrainian guest)	OK
9. Mr. Mykola J. Azarov	(Ukrainian guest)	???
10. <i>One guest from Georgia</i> ????	(Georgian guest)	???
11. Paul Neumann		OK
12. A. Maggiore		OK

**Please note that I have contacted Mr. J. TerBeek from Flight Operations Department
The GulfStream IV has 12 to 14 seats available.**

10:00 a.m. RJR private plane departs Piedmont Aviation Terminal in Raleigh.

11:10 a.m. RJR private plane arrives at General Aviation terminal in New York.

(RJR Flight Operations is arranging ground transportation from
General Aviation terminal to JFK terminal.)

15:00 SU Flight 316 departs JFK airport in New York for Moscow.

Passenger list

Alexander Krivoshejev	(RJR)	OK
Tamara Sofrina	(Russian guest)	OK
Alexander Pochinok	(Russian guest)	OK
Sergei Shatalov	(Russian guest)	OK
Vladimir A. Vanokevich	(Russian guest)	OK
Ivan V. Vasiunyk	(Ukrainian guest)	OK
Mr. Mykola J. Azarov	(Ukrainian guest)	???

52904 9140

19:50 SR Flight 111 departs JFK airport in New York for Geneva.

Passenger List

G. Ismailova

C. Veliyev

P. Neumann

A. Maggiore

Time? Andre departs Raleigh/Durham airport for Montreal. *(Is he arranging his own ground transportation from hotel to airport?)*

52904 9141

Additional Questions and Notes:

- Are we still holding an advance planning meeting in Winston-Salem??? If so, what time and date is convenient for those who wish to participate? (If you give me a time, I'll obtain a conference room in the Reynolds or Plaza building.)

***Mr. Millar to be contacted. Meetings already organized by him with A. Benoit
T. Maggiore***

- Who will be attending the planning meeting? Names, please. (At one point, I got a note saying that Angela Prather will attend the Winston-Salem conference, and she's asked about the planning meeting. Why would she attend the planning meeting?)

Mr. Kent Brown to advise

- Gifts to be placed in guests' hotel rooms are yet to be determined; Sheryl Spainhour and Andre are discussing gift selection.
- Menus for meals in Winston-Salem are yet to be selected, based on advice to come from Andre, Alexander and Kent regarding food preferences for visitors.
Choice is up to you, but please do not forget to serve "Vodka" (check with A. Benoit)
- Reservations at Brookstown Inn have been made by Sheryl Spainhour in Winston-Salem. We will provide confirmation numbers for the reservations in the final agenda.
- Jan Smith will send pages for a potential RJR overview presentation to Andre Benoit, and to anyone else interested in seeing it. Can we get the overhead transparencies translated into Russian in advance?

Mr. A. Benoit to advise

- When this agenda is finalized, do you want copies to be placed in the hotel rooms in Winston-Salem, waiting for check-in? Could someone translate the agenda into Russian?

Mr. A. Benoit to advise

(End of document)

52904 9142

From: Soguel, Denise
To: Smith, Jan Fulton; Spainhour, Sheryl F.
CC:
BCC:
Primary Date: 1/15/1997 5:44:03 AM
Last Modified Date: 2001-Nov-20 16:48:07
Last Touched Date:
Sent Date: 1997-Jan-15 05:43:00
Received Date: 1997-Jan-15 05:44:03
Subject:

Attachments:
DENISE.DOC

Jan/Sheryl

We have problems with our cc:mail, so I am sending you it
back to you

52904 9143



R.J. REYNOLDS TOBACCO INTERNATIONAL S.A.

INTER-OFFICE CORRESPONDENCE

Date: January 15, 1997
To: Jan Fulton
cc: Andre Benoit
Kent Brown
A. Krivosheyev
T. Maggiore
J. Millar
P. Neumann
A. Haytaoglu (RJR - Baku)
From: Denise Soguel

Subject: TAX CONFERENCE ARRANGEMENTS

Jan,

Following our phone conversation and referring to your memo of January 9, enclosed please find a maximum of answers to your questions.

Some information are to be given by Messrs. Brown, Benoit, Millar and Krivosheyev.

I am sending you this morning by fax a note from Mrs. Angela Prather addressed to Mr. Brown and some correspondence sent to Ms. O. Ilchenko, Mr. Benoit's assistant and to Mr. A. Haytaoglu by Mr. Roland Stephen (Duke University) raising some confusion. I am going to answer Mr. Stephen with a copy to you.

I am out of this office this afternoon, but will call you tomorrow.

Thank you for your help and best regards.

Denise Soguel

PARTICIPANTS IN DUKE TAX CONFERENCE AND VISIT TO WINSTON-SALEM**RUSSIAN GUESTS**

Tamara Alexeyevna Sofrina OK
Deputy Head
Department of Indirect Taxation
Ministry of Finance
MOSCOW

Sergei Shatalov OK
Deputy Minister of Finance for Tax Policy
Ministry of Finance of the Russian Federation
MOSCOW

Alexander Pochinok OK
Chairman of Subcommittee on Budget and Taxation,
The State Duma of the Russian Federation
MOSCOW

Vladimir (Anatolievich) Vanokevich OK
Head, Tax Section
Committee Staff
State Duma Committee on Budget, Taxes, Banks (??) and Finances
Federation Council - Parliament of the Russian federation
State Duma
MOSCOW

AZERBAIJAN GUEST

Mr. Djavanchir Veliev Correct Spelling: CEVANSHIR VELIYEV
Chief Adviser and Administrator,
Head Government
Tax Inspectorate,
Government of Azerbaijan,
BAKU

UKRAINIAN GUESTS

Mr. Mykola J. Azarov WAITING FOR ANSWER
FROM A. KRIVOSHEYEV
Head of state Tax Administration of Ukraine
KIEV

Mr. (Dr.???) Ivan V. Vaslunyk, Ph.D. OK
A. KRIVOSHEYEV TO ADVISE WHETHER DR. OR MR.
Head of Economic Reform
Advisory Board to the Vice Prime Minister of Ukraine
KIEV

52904 9145

GEORGIA GUEST**Mr. Kent Brown to advise****RJR PARTICIPANTS**

André Benoit

Director - External Relations
R.J. Reynolds International (Moscow office)Mary Carol Holbert (*participating in Winston-Salem; not going to Duke*)Director - International Taxes
R.J. Reynolds International (Geneva)

Galina Ismailova

Director and Senior International Counsel
(responsible for Former Soviet Union)
R.J. Reynolds International (Geneva office)

Alexander Krivoshejev

Title: **PUBLIC RELATIONS COORDINATOR**
R.J. Reynolds International (Kiev office)Mr. Kenneth J. Lapiejko (*participating in Winston-Salem; not going to Duke*)Senior Vice President and Chief Financial Officer
R.J. Reynolds Tobacco Company (Winston-Salem)

Anthony Maggiore

Senior Director - Tax Planning and Compliance
R.J. Reynolds International (Geneva office)

John Millar

Director - Excise Tax
R.J. Reynolds Tobacco Company (Winston-Salem)**STEVE GENTRY*****For more information please contact Mr. John Millar***

Paul Neumann

Vice President and Chief Financial Officer - Former Soviet Union
R.J. Reynolds International (Geneva office)Jan Smith (*participating in Winston-Salem; not going to Duke*)Director - External Issues
R.J. Reynolds Tobacco Company (Winston-Salem)David Fishel (*participating in Winston-Salem; not going to Duke*)Senior Vice President - External Relations
R.J. Reynolds Tobacco Company (Winston-Salem)

52904 9146

Sheryl Spainhour (*participating in Winston-Salem; not going to Duke*)
Executive Assistant, External Relations Department
R.J. Reynolds Tobacco Company (Winston-Salem)

Question:

*Are there others from RJRT Tax Dept. participating – in Winston-Salem and/or at Duke conference?
If so, please provide names and titles.*

MR. STEVE GENTRY

BATF

Who is participating? Name and title??? Travel, lodging, transportation arrangements?

FOR MORE INFORMATION PLEASE CONTACT MR. JOHN MILLAR

DUKE UNIVERSITY

Mr. Michael Newcity
(*Please insert job title????*) **Mr. K. Brown to advise**
Center for Slavic, Eurasian and East European Studies
Duke University
Durham, North Carolina, USA
Telephone 919-660-1157
Fax 919-660-3188

Anyone else from Duke participating? If so, I need name(s) and title(s).

INTERNATIONAL TAX AND INVESTMENT CENTER (ITIC)

Ms. Angela Prather
Director of Programs
International Tax and Investment Center
Washington, D.C., USA

RUSSIAN INTERPRETERS

Mr. Oleg Ordinartsev
(law student at Wake Forest University)
Telephone 910-765-7665

+ 1 more, name yet to come

52904 9147

WINSTON-SALEM HOTEL

Brookstown Inn
200 Brookstown Avenue
Winston-Salem, North Carolina 27101
Telephone: 910-725-1120; Fax 910-773-0142

DUKE/DURHAM HOTEL

Regal University Hotel
2800 Campus Walk Avenue
Durham, North Carolina
Telephone 919-383-8575
Fax Number: 919-383-8495
(Hotel contact: Mr. Mark Rosoff)

WINSTON-SALEM TRANSPORTATION *(transportation hired by RJR)*

Gary Woolman
Office phone: 910-768-6060
Pager number: 910-717-6517 *(At the tone, enter a telephone number
where he can call you back.)*

52904 9148

DRAFT AGENDA – PENDING APPROVAL
WINSTON-SALEM VISIT AND DUKE CONFERENCE

SUNDAY, JANUARY 19, 1997

Anthony Maggiore arrives in Winston-Salem; checks into Brookstown Inn.
**NO NEED FOR DRIVER TO PICK HIM UP, MR. MAGGIORE WILL BE HIRING
A CAR AT THE AIRPORT.**

WEDNESDAY, JANUARY 22, 1997

8:00 p.m. Andre Benoit arrives Greensboro airport via Delta Flight #882 from Atlanta.
Driver meets him at airport; transports to Brookstown Inn in Winston-Salem.

SUNDAY, JANUARY 26, 1997

**05:00 p.m. Mr. Paul Neumann's arrives Greensboro airport On January 26, 1997 from
Atlanta at 04:58 p.m. on Delta flight 730.
Need driver to meet him at Airport to Brookstown Inn in Winston-Salem.**

????

Ms. Prather

**As agreed, after your conversation with K. Brown,
Could you please contact her from Winston-Salem
Please see the fax, I have sent you this morning.**

52904 9149

TUESDAY, JANUARY 28, 1997

10:15 SU Flight 315 departs Moscow for New York.

13:00 SU Flight 315 from Moscow arrives at JFK airport in New York.

Flight has (9 or 10?) passengers:

1. Galina Ismailova	(RJR)	OK
2. Alexander Krivoshejev	(RJR)	OK
3. Tamara Sofrina	(Russian guest)	OK
4. Alexander Pochinok	(Russian guest)	OK
5. Sergei Shatalov	(Russian guest)	OK
6. Vladimir A. Vanokevich	(Russian guest)	OK
7. Cevanshir Veliyev	(Azeri guest)	OK
8. Ivan V. Vasiunyk	(Ukrainian guest)	OK
9. Mr. Mykola J. Azarov	(Ukrainian guest)	???
10. One guest from Georgia????	(Georgian guest)	???

(RJR Flight Operations is arranging ground transportation from JFK terminal to General Aviation terminal.)

14:00 **RJR private plane departs JFK for Winston-Salem.**

15:20 RJR private plane arrives at Smith Reynolds airport in Winston-Salem.

Drivers with 2 vans meet plane at airport; transport guests to Brookstown Inn in Winston-Salem for hotel check-in.

Interpreters also meet group at airport, and remain with them until evening ends.

NOTE: Gifts for guests to be waiting in hotel rooms upon their arrival.

18:15 Driver and vans pick up guests at Brookstown Inn; transport to Graylyn Conference Center for dinner.

18:30 **Cocktails and buffet dinner at Graylyn Conference Center to be hosted by Mr. Kenneth J. Lapiejko, Senior Vice President and Chief Financial Officer R.J. Reynolds Tobacco Company (Winston-Salem)**

Mr. Lapiejko makes short, informal welcoming remarks when dinner begins.
(Need to provide Mr. Lapiejko with background information on this visit, and suggestions for comments to make during welcome.)
(Mr. Kent Brown or Mr. A. Benoit)

Drivers to wait at Graylyn during dinner; transport guests back to Brookstown Inn hotel when dinner ends.

52904 9150

WEDNESDAY, JANUARY 29, 1997

08:15 Check out of hotel; baggage should be given to drivers to load into vans.

08:30 Breakfast at Brookstown Inn???

Yes, if you can have a private room

Interpreters join group for breakfast; and remain with them until they depart for Durham at the end of the afternoon.

09:30 Drivers and vans pick up guests at hotel; transport to Reynolds Building.

09:40 Arrive at Reynolds Building. Guests are greeted in lobby by Sheryl Spainhour or Jan Smith, and escorted to meeting room (Large Conference Room, 10th floor Reynolds Building.)

09:45 15-minute overview presentation on RJR's U.S. and international companies. To be given by Jan Smith or David Fishel of the External Relations Department?

10:00 45-minute presentation by John Millar, RJR Tax Department.

10:45 45-minute presentation by BATF. (*Presenter's name and title???* - **Mr. J. Millar to advise**)

Question: What AV equipment is needed by Millar and BATF?
Overhead projector? 35mm slides? Flip charts?

11:30 Break

11:45 Lunch is served. (10th floor dining room)

12:45 Drivers and van pick up guests at Reynolds Building and transport to Tobaccoville for factory tour. (*Question: How many RJR people will take the Tobaccoville tour? To be checked on the spot*)

52904 9151

WEDNESDAY, JANUARY 29, 1997 (continued)

13:15 Arrive at RJR's Tobaccoville manufacturing complex. Tour.
Before tour, group will be shown a 10-minute film in Russian about the Tobaccoville complex.

Since there are four interpreters on hand, the guests will be split into four groups for the tour. The tours will be conducted by:

Mr. Roy Sizemore	Manager, manufacturing training
Mr. Tony Adams	Training coordinator, primary processing
Ms. Joie Scales	Training coordinator, cigarette division
Mr. Jim Carros	Senior operations analyst

Question: Is it necessary (or appropriate) to have the plant manager greet and welcome the group briefly when they arrive at Tobaccoville?

14:30 Drivers and vans pick up guests at Tobaccoville and transport to CDC.

15:00 Arrive at RJR's Central Distribution Center. Tour.

(names of CDC tour guides to be inserted).

16:00 Depart Central Distribution Center; drivers transport guests and luggage to Durham, North Carolina, for Duke University conference.

18:00 Arrival in Durham at Regal University Hotel/

10 Room Reservations (check-in January 29; check-out February 1):

Mr. Mykola Azarov	Confirmation #
Mr. Andre Benoit	Confirmation #
Ms. Galina Ismailova	Confirmation #
Mr. Anthony Maggiore	Confirmation #
Mr. Alexander Krivosheyev	Confirmation #
Mr. John Millar	Confirmation #
Mr. Paul Neumann	Confirmation #
Mr. (Dr.???) Ivan Vasiunyk	Confirmation #
Mr. Cevanshir Veliyev	Confirmation #
+ another from Millar's staff????	Confirmation #

What about the four Russian guests?

Tamara Sofrina
Alexander Pochinok
Sergei Shatalov
Vladimir A. Vanokevich

52904 9152

THURSDAY, JANUARY 30 AND FRIDAY, JANUARY 31**DUKE CONFERENCE: Tax Reform in Russia**

Duke University
Durham, North Carolina

(Arrangements and schedule made by Duke hosts)

SATURDAY, FEBRUARY 1, 1997

08:00 a.m. Guests depart Regal University hotel in hotel vans for transportation to Piedmont Aviation Terminal in Raleigh.

Flight passengers:

1. Galina Ismailova	(RJR)	OK
2. Alexander Krivoshejev	(RJR)	OK
3. Tamara Sofrina	(Russian guest)	OK
4. Alexander Pochinok	(Russian guest)	OK
5. Sergei Shatalov	(Russian guest)	OK
6. Vladimir A. Vanokevich	(Russian guest)	OK
7. Cevanshir Veliyev	(Azeri guest)	OK
8. Ivan V. Vasiunyk	(Ukrainian guest)	OK
9. Mr. Mykola J. Azarov	(Ukrainian guest)	???
10. One guest from Georgia????	(Georgian guest)	???
11. Paul Neumann		OK
12. A. Maggiore		OK

**Please note that I have contacted Mr. J. TerBeek from Flight Operations Department
The GulfStream IV has 12 to 14 seats available.**

10:00 a.m. **RJR private plane departs Piedmont Aviation Terminal in Raleigh.**

11:10 a.m. RJR private plane arrives at General Aviation terminal in New York.

(RJR Flight Operations is arranging ground transportation from General Aviation terminal to JFK terminal.)

15:00 SU Flight 316 departs JFK airport in New York for Moscow.

Passenger list

Alexander Krivoshejev	(RJR)	OK
Tamara Sofrina	(Russian guest)	OK
Alexander Pochinok	(Russian guest)	OK
Sergei Shatalov	(Russian guest)	OK
Vladimir A. Vanokevich	(Russian guest)	OK
Ivan V. Vasiunyk	(Ukrainian guest)	OK
Mr. Mykola J. Azarov	(Ukrainian guest)	???

52904 9153

19:50 SR Flight 111 departs JFK airport in New York for Geneva.

Passenger List

G. Ismailova

C. Veliyev

P. Neumann

A. Maggiore

Time? Andre departs Raleigh/Durham airport for Montreal. *(Is he arranging his own ground transportation from hotel to airport?)*

52904 9154

Additional Questions and Notes:

- Are we still holding an advance planning meeting in Winston-Salem??? If so, what time and date is convenient for those who wish to participate? (If you give me a time, I'll obtain a conference room in the Reynolds or Plaza building.)
Mr. Millar to be contacted. Meetings already organized by him with A. Benoit T. Maggiore
- Who will be attending the planning meeting? Names, please. (At one point, I got a note saying that Angela Prather will attend the Winston-Salem conference, and she's asked about the planning meeting. Why would she attend the planning meeting?)
Mr. Kent Brown to advise
- Gifts to be placed in guests' hotel rooms are yet to be determined; Sheryl Spainhour and Andre are discussing gift selection.
- Menus for meals in Winston-Salem are yet to be selected, based on advice to come from Andre, Alexander and Kent regarding food preferences for visitors.
Choice is up to you, but please do not forget to serve "Vodka" (check with A. Benoit)
- Reservations at Brookstown Inn have been made by Sheryl Spainhour in Winston-Salem. We will provide confirmation numbers for the reservations in the final agenda.
- Jan Smith will send pages for a potential RJR overview presentation to Andre Benoit, and to anyone else interested in seeing it. Can we get the overhead transparencies translated into Russian in advance?
Mr. A. Benoit to advise
- When this agenda is finalized, do you want copies to be placed in the hotel rooms in Winston-Salem, waiting for check-in? Could someone translate the agenda into Russian?
Mr. A. Benoit to advise

(End of document)

52904 9155

From: Spainhour, Sheryl F.
To: Carter, Peggy C.; Ellis, Maura P.; Haver, Donald G.;
Meyne, Rob W.; Moskowitz, Seth W.
CC:
BCC:
Subject: ER October Monthly Report
Primary Date: 11/5/1996 5:26:14 AM
Last Modified Date: 2001-Nov-20 02:23:40
Last Touched Date:
Sent Date: 1996-Nov-05 05:26:00
Received DateDate: 1996-Nov-05 05:26:14

Attachments:

EROCT.DOC

53172 9726

INTEROFFICE MEMORANDUM

November 4, 1996

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of October External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE COMMUNICATIONS

- Produced three publications this month: Forum, Caravan, and Performance Update.
- Began initial planning for issues seminar for marketing, sales and other affected departments in November-December.

BRAND ACTIVITIES

- Camel - Reviewed POS materials, made recommendations on ad executions, and finalized plans for Grooveblender event in Las Vegas Nov. 22-24.
- Winston MM - Began working on a PR plan to address any potential report from contract lab hired by the state of Florida to evaluate the no-additive Winston product being marketed there.

ETS/ACCOMMODATION

- The US Court of Appeals for the District of Columbia heard oral arguments in Action on Smoking or Health (ASH) vs. US Department of Labor. The suit by ASH requests the Court to order the Occupational Safety and Health Administration (OSHA) to issue an emergency rule to ban smoking in workplaces. (In April 1994, OSHA proposed regulations on indoor air quality and environmental tobacco smoke, but the agency has not yet promulgated a final rule.)

Indications are that OSHA may be gearing up to move forward on an indoor air quality rule early next year. Strong possibility a new proposed rule will be written, supplanting the existing proposal. The information we have suggests the rule-making procedure involving second-hand smoke will be a top OSHA priority. Working with a number of RJR departments in preparation.

- Working with RJR-Macdonald to present a seminar on the economic impact of smoking bans on the hotel, motel, bar and restaurant industries, and on related issues.

- Attended the annual meeting of the International Hotel and Motel Association in Mexico City. It is hoped that the IHMA will merge within the next year or two with HORECA, the leading international restaurant organization, and will therefore be better positioned to effectively promote the continued international accommodation of smokers in the hospitality industry.
- Continue to assist Host Marriott in reducing ETS in bars and restaurants. Working closely with Host Marriott's Detroit General Manager on upgrading air conditioning and installing air cleaning devices in a number of locations at Detroit Metropolitan Airport.
- The National Restaurant Association conducted research into customer attitudes and opinions in the UK, Spain, the Netherlands, and Canada. Will do media tours in the European markets in November, and be joined by hospitality industry leaders in each of them. All of the public opinion research shows strong support for accommodation of smokers and non-smokers.

YOUTH NON-SMOKING

- RJR met with one of the National PTA officers to pursue their participation in the "We Card" program. They will consider being involved and will notify us after the first of the year.
- To date, 291,491 "We Card" kits have been ordered. Fayetteville (NC) Police Dept. ordered 1,000 kits to distribute to retailers in their community outreach program. Maine Grocers Association is sending mailing to state police chiefs including "We Card" kit to encourage police departments to work with MGA in educating the retail community on tobacco state law. Super K-Mart's corporate offices sent a memo to store owners promoting the "We Card" program; the American Cancer Society requested permission to reprint samples of "We Card" materials in a new program manual called "Stop Illegal Tobacco Sales."
- Working to produce booklet called "Influencing Your Child's Lifestyle Choices" for our youth non-smoking campaign.
- The New Jersey Health Commissioner is urging cigarette retailers in the state to begin "rigid" enforcement of a law that took effect January 1 that increases the fines for sale to underage youth. As part of the program enforcement, the commissioner revealed undercover teenagers this summer were able to purchase cigarettes 44 percent of the time in scattered sting operations. The new retailer fine schedule is \$250 first offense, \$500 second offense, \$1,000 third or subsequent offense. However, after the second offense, local authorities can recommend a vendor's license be revoked.

COMMUNITY AND CORPORATE AFFAIRS

- Continued to work with local boards and committees including Community Services Research Group, Forsyth Early Childhood Partnership, Today's Woman's Health and Wellness Center, United Way, WSSU Foundation, Chamber Education Committee, Piedmont Park Task Force, and NC Business Committee for Education.
- During October Community Affairs processed 30 Community Involvement requests for a total of \$7,500; 75 Education Matching Grants for a total of \$21,187.40; and 46 Arts Matching Grants for a total of \$6,086.50.

LITIGATION

- Provided articles on the development of the AG lawsuit concept and other background information for article in *Business Week* magazine about lawyers suing the tobacco industry.
- Responded to Alabama media on a second-hand smoke suit filed there.
- Provided additional information on the Mangini suit for two *LA Times* reporters, including the one writing about an early Camel illustrator. That story ran on page 1 with a headline that included: "...adman recalls R.J. Reynolds rejecting youth slants."
- In New Mexico, Attorney General Tom Udall appeared before the Legislative Finance Committee requesting \$200,000 for the current fiscal year and \$800,000 per year for the next four fiscal years for use in hiring attorneys and financing the cost of litigation against the tobacco industry. The committee chose to take no action at the present time.
- Arizona Governor Symington ordered the state to drop the lawsuit filed to recover Medicaid costs. The acting Director of AHCCCS (Arizona Health Care Cost Containment System), who was a plaintiff in the suit, also demanded their name be removed. In a letter to the Attorney General, the Governor wrote, "After reviewing the complaint and the contingency fee agreement with the trial lawyers, both I and Acting Director Kelly believe that you have put the state and AHCCCS in a very bad position." The Attorney General has said he will go forward with the suit.
- Ten counties in California and the City of San Jose have joined Los Angeles and San Francisco in their suits against the tobacco industry, for recovery of "tobacco-related" health care costs.

REGULATORY ISSUES

- Sent letters to the editor from Dan Donahue to the Greensboro and Durham newspapers regarding the misleading stories they filed on FDA. Letter to the editor sent to the Jackson, Mississippi newspaper correcting misrepresentations of the industry's positions made by Mike Moore in a speech at the University of Southern Mississippi, as reported in that paper.
- Only the *Wall Street Journal* and CNN initially asked for a reaction to the "Science" news release on research claiming to have found a lung cancer and smoking link; R&D helped turn around a quick review and response. After news stories ran the next day, and we put out a fuller response, handled numerous calls regarding potential impact on litigation.
- The Minnesota Medical Association has voted in favor of phasing out nicotine in cigarettes over a five-year period. Delegates voted unanimously for the resolution to call on the American Medical Association to lobby Congress for the nicotine phase-out.

LEGISLATION

- The 104th Congress has officially adjourned. Anti-tobacco bills introduced in the final days included:
 - ◇ Senator Lautenberg (D-NJ) introduced the "Tobacco-Free Children's Internet Act," which would require the FDA Commissioner to issue regulations limiting the advertising of cigarettes and smokeless tobacco products over the Internet in a manner consistent with the FDA final rule on tobacco. The bill was referred to the Senate Commerce, Science, and Transportation Committee.
 - ◇ Rep. Lewis (D-GA) introduced a bill to prohibit smoking in any transportation facility that receives federal financial assistance. The bill was referred to the Transportation and Infrastructure Committee.

The next formal session of Congress will be the noon swearing-in of the 105th Congress on January 7, 1997.

- A New Jersey Republican Assemblyman has introduced a cigarette ingredients disclosure and nicotine regulation bill patterned after legislation enacted this year by Massachusetts.

CIGARETTE EXCISE TAXES

- Massachusetts cigarette retailers located along the border of New Hampshire are reporting a 45-60 percent decline in cigarette sales since a state cigarette tax increase took effect October 1. The new Massachusetts tax is 76 cents per pack plus sales tax. The rate in New Hampshire is 25 cents and no sales tax. Retailers say a carton of name brand cigarettes sold in Massachusetts is \$26 per carton. In New Hampshire, the retail price is \$16. State fiscal specialists are acknowledging revenue from the new tax will be far less than the sponsors of the tax increase legislation estimated. The Tobacco Institute is sponsoring a study of the cross-border impact of the tax increase.

INTERNATIONAL

BRAND ACTIVITIES

- Launched Salem's 'Romance on the Cool Planet' campaign in Malaysia. This is a mini music blitz to maintain continued high visibility and novel marketing support behind the brand to stage for revitalized growth in 1997. This will be followed by year-end Salem Celebration campaign and Salem's sponsorship of multiple Grammy winner, Alanis Morissette.
- Preparation for Salem's year-end "Salem Celebration" in Malaysia is underway. Program will be "celebration of dance and music" with a mega dance party as the anchor event. Awaiting confirmation of top act Los Del Rio (who sang the year's biggest hit and started the dance craze 'Macarena') for this function.
- Winston's movie roadshow series will complete its last leg this month in Malaysia. The program, designed as a field marketing vehicle to target value brand adult smokers in non-urban locations, will have screened a total of 100 shows during its 5-month run.
- "Thank you Party" for Augsburg Hi.Q smokers took place. Local press attended.

ETS/ACCOMMODATION

- The "Bienvenidos" program logo has been included in The San Juan City Magazine restaurant listing to identify all restaurants participating in our program.
- In Vancouver, the Restaurant and Food Services Association of British Columbia is challenging the smoking ban in B.C. Supreme Court on the basis that it discriminates between establishments.

- ETS discussion group meeting took place in New York, including presentation of status on exposure studies. Reached agreement on usefulness of forum for open discussion and determination of common strategies. Next meeting to be held in January in Bonn, Germany, hosted by VdC.
- Contact has been established with the President and the Secretary of the FER (Spanish Federation of Restaurants) to jointly plan the presentation to the media on the survey conducted by NRA on consumers' attitudes. Presentation to be done jointly by the Presidents of FER and NRA on November 22.

YOUTH NON-SMOKING

- Operation I.D. successfully launched October 21 in Canada. Media response was very positive despite antis' criticism of program as a "PR gesture."
- Still awaiting launch date for youth non-smoking program in Malaysia.
- Presentation of international youth program strategy given to RJRI executive committee.
- Hong Kong test is ongoing, with results to be reviewed jointly between School Teachers Association, JC, and RJRI in November or December. Materials then to be finalized and produced; full program to be launched in 1997.
- The National Association of Tobacconists in Spain confirmed that RJR's youth smoking program had been approved by its Board. Retail program ready to be launched November 18.
- Met with PM in Lausanne. Agreement on joint approach to youth programs, beginning with countries in East & Central Europe (Czech Republic, Poland, Hungary). This strategy is supported by regional management locally. Meeting to be arranged ASAP with local management of PM and RJRI to explain strategy and ensure understanding, support, and funding.

SMOKING RESTRICTIONS

- The Federal Tobacco Commission is preparing a survey of existing smoking restrictions in the EU-Member States in order to make proposals for "stronger regulations" to the Swiss authorities.

CONTRABAND

- The Ministry of Finance in Spain has told the industry that a task force is preparing a series of measures to more aggressively fight contraband. More detailed information will be disclosed in November.

ADVERTISING/MARKETING FREEDOMS

- Freedom of Commercial Speech Symposium - The Chamber of Commerce will present the results of the Puerto Rico Impact Study on Advertising during January 1997.
- Extensive discussions resulted in significant "improvements" to the voluntary code in Canada, particularly in the area of sponsorship advertising, and clarifications applicable to in-store promotional activities. Amendments to be announced publicly early November. Code changes are important to perceptions of industry as marketing in a responsible manner and being sensitive to political and social environment, with "blueprint" regulatory proposals pending.
- Although Taiwan's Smoking Hazard Prevention Act (SHPA) remains on the agenda, it now looks like it will not be addressed by parliament until December, and the local Tobacco Institute is optimistic that at least product display, point of sale and art/cultural sponsorship (but no sports/pop music) can be preserved. The local tobacco institute continues to talk with legislators, including letter-writing campaigns from affected retailers and appeals from sports and arts personalities directly hit by the proposed sponsorship ban.
- Government in Gibraltar continues to maintain its discredited policy of restrictive quotas on RJR's, and other U.S. brands, in favor of British brands. The policy has artificially distorted the market, and had very harmful effects on RJR's sales. Despite a regional sales management/ER meeting with the Chief Minister, and the subsequent provision of a written proposal, little real progress has been made. New tactics to persuade the Government to action are now being considered. These could involve RJR being a member of a coalition of international companies able to advise the Government on sensible commercial and trading policies.
- The Minister of Health (Zuma) in South Africa continues to threaten stringent legislation, perhaps even a ban. Recently in a Senate debate, Zuma accused tobacco companies in South Africa of being involved in the smuggling of illegal cigarettes. Rembrandt, market leader in S.A., reacted angrily with an open letter to Zuma signed by Johann Rupert, Chairman, denying any involvement and accusing Zuma of avoiding numerous requests for meetings to find a solution to a problem which is getting out of hand. The tobacco industry association (TISA) also refuted the accusation. RJR plays a full role as member of a government-approved anti customs fraud caucus. A meeting of a newly formed coalition of the tobacco industry and parties with interests in seeing commercial freedoms protected is addressing these issues.

- We are witnessing a definite increase in efforts by different groups in Russia to allow tobacco and alcohol advertising to return to TV, in some form or another. As previously reported, the Russian Law "On Advertising" prescribed a total tobacco advertising ban on TV effective January 1, 1996. However, as state subsidies to Russian television companies have decreased in the overall fall in Government revenues and expenses, broadcasters are looking for new sources of income. In parallel, Russian ad agencies and media buyers are riding this wave of discontent for obvious reasons.

The preferred route for a loosening of the TV ban is not an actual amendment to the Law that would permit a full return of "lifestyle" advertising with pack shots, but rather, to seek and obtain clarification of the existing legislation, in terms of the use of trademarks on TV (a Camel logo, for example, as part of a *Camel Rocks* ad). This is a more realistic target, since an actual change in the Law would require much time and effort, coupled with an uncertain outcome because of the volatility of the legislative process. Along with a legal consultant retained specifically for this issue, we are participating in a strategy meeting with the allies on this issue.

- The Irish presidency has drafted a Council resolution on the reduction of smoking in the EU. Attempts by the industry to convince the blocking minority governments to oppose the resolution unless a clear reference to the tobacco advertising directive were included are unlikely to succeed. The major negative consequence of the resolution, if passed, would be that it would provide a justification for Commissioner Flynn's plans to propose new anti-smoking measures.
- Commissioner Flynn has announced a Commission communication, clamping down on smoking in the EU. These recommendations propose to regulate additives and ingredients, lay down a maximum nicotine content, further reduce the maximum tar content, strengthen health warnings, introduce plain packaging, ban self-service displays and vending, ban advertising, raise taxes, ban duty-free sales and increase smoking restrictions. Commissioner Flynn's draft communication will be discussed by the Commission on November 7. The industry is in contact with member states and relevant commissioners regarding these proposals. The industry is concentrating its efforts to find two or three member states opposing it because unanimity is required for such a resolution. However, we face the obstacle of the negative climate created by PMI's ETS ad campaign this summer.
- Four EU member states have sent detailed objections to the Belgian government regarding its ad ban bill. The Commission also sent some comments. As a result, Belgium cannot adopt the bill before January 14, 1997. During this extra three-month period, Belgium will discuss the issues raised with the other member states and the Commission.

- The International Duty Free Confederation (IDFC) launched an advertising campaign, "Focus 99", in view of the Ecofin decision of '91 to abolish intra-Community duty-free by June 30, 1999. The issue has an OCC impact for RJR. The intention is to request a report from the Commission on the economic implications of an abolition of EU duty-free, hoping that the economic data and the related employment figures provide a strong argument for the continuation of duty-free.

MEDIA/PUBLIC RELATIONS

- There was wide coverage in the Spanish media regarding the scientific study released in the USA linking the carcinogen B(a)P and lung cancer.
- Yomiuri Osaka TV (Japan) requested an interview about how Eclipse works and its difference versus conventional cigarettes. External Relations met a reporter from TV station for about an hour; segment will be aired in early November.
- With the help of Legal Dept. (Messrs. Stettler and Donahue), RJR Japan provided information on Carter/Rogers cases and Liggett settlement to a professor of Sophia University who was contacted by Japanese TV station for comments on these cases and U.S. product liability law as a neutral professional. The TV station decided it was not worth producing its "Tobacco PL Law - US and Japan" program.
- Since RJR's partnership with the Government of Tanzania at Tanzania Cigarette Company (TCC) commenced early this year, improvements in all aspects of the business operation have been made. A PR plan is being jointly prepared by ER and the local TCC management to exploit the "good news" stories through the press and other channels. Government decision-makers and "influentials" will see the benefits which RJR has brought to TCC, and the Tanzanian economy as a whole.
- Steve Goldstone visited RJRI Russia & Baltics. The visit included calls on St. Petersburg Governor Vladimir Yakovlev and Minister of the Economy Evgueny Yasin. Pre-arranged sit-down 45-minute interview for Mr. Goldstone on October 8 in Moscow with the Moscow business paper *Kommersant-Daily*. Parts of the interview were picked up by other media.
- Began working with Russia, Turkey and Poland to prepare media plans for 1997. Plan to visit Russia at the end of November, and am meeting newly appointed PR agency in the middle of November. At the request of a number of senior executives, will prepare a brief Media Guide for all spokespeople.

TAXATION

- No taxation was imposed for cigarettes for year 1997 by Malaysian government during the budget announcement on October 25, 1996.

- Saudi & the Gulf - Gulf Cooperation Council (GCC) Health Ministers have made their decision to increase further the cigarette tariffs from 50% to 70% during this year, and to 100% by 1997. Further increases in tariffs across the GCC states will erode margins even more, and negatively affect pricing competitiveness. Attempts to find a common industry position on taxation have failed amongst the members of the industry association, META. RJR is now engaged in drafting plans to take unilateral action on this issue, or to form an alliance with one other competitor which shares a similar interest on this issue. Proposals for a lobbying program will be presented to management within the next week.
- This was a month of intense activity on our part (RJR-Russia), in conjunction with RJRI Geneva, PMI, the Moscow office of the International Tax and Investment Center (ITIC), and Deloitte & Touche Moscow, to push for a universal specific excise tax rate for cigarettes. BAT remains adamantly opposed to a specific rate and prefers either the status quo or a universal ad valorem rate with low specific minimums. The local tobacco factories without foreign investment have sided with BAT.

The Duma members and Ministry of Finance, although convinced on a philosophical level of the advantages of a specific system, expressed two overriding concerns: potential lower revenues to the State, and the risk of unacceptably large increases in retail prices for cheaper cigarettes. The required numbers were produced by Deloitte & Touche, and early soundings reveal that the material has been persuasive and Duma members are now convinced that "specific is better." Ministry of Finance continues to review the material; chances the specific system will prevail are seen to be 50/50.

- Mr. K. Schweri, owner of Denner, one of the most important discount-chains in Switzerland, officially announced his intention to launch a people's initiative, supporting the fact that cigarettes and other tobacco products should be heavily taxed in the future. The text of the initiative also mentions that the trade should be granted a minimum, but fixed trade margin of 15% of the retail selling price (base March 1 - 1995). According to information from the Federal Chancellery, such an initiative would be refused since it would not be in line with the constitutional rules.
- The Spanish Club of Smokers in favor of tolerance has announced the results of a survey, generating coverage in most of the Spanish media. The results show that most smokers think that the tax increase was excessive and is damaging for smokers and non-smokers. Public opinion also suggests that possible solutions could be strengthening the fight against contraband and tax fraud.
- A meeting was held between RJR executives and a key official at the Ministry of Finances in Spain. Taxation and pricing issues were discussed. The tone of the meeting was productive and should lead to follow-up sessions in the near future. A meeting was also held between RJR and the General Director of Excise Taxes to present the APET wrap and discuss the best way of including the tax-stamp and legal marks to assure its clearance for upcoming launches.

Representatives from the industry held a meeting with the Secretary of State of the Treasury, to voice concerns about the last tax increase and the manner it was decreed, and also to request legislative steps to alleviate fiscal pressure.

- Following the "overnight" tax increase imposed by the Spanish government, a revision of the excise tax rates is politically impossible for face-saving reasons. Industry efforts are now concentrated on a lift of the additional VAT-like tax, called "recargo de equivalencia."
- A CECCM/GITES delegation met with civil servants within the EU Commission (Directorate General Tax) to present their common proposal to review the minimum tobacco excise incidence. The Commission welcomed the approach but requested several clarifications. The compromise will be re-submitted to the Commission. RJR has been instrumental in seeking closer cooperation for the monopoly countries, represented by GITES. The tax issue has always divided the industry. If this issue can be resolved in a satisfactory manner, closer cooperation on other issues will be possible at European level.
- The Central European Tax Task Force met again to discuss a common strategy for those countries having applied for membership in the EU (ten countries in Central & Eastern Europe). The Working Group is concentrating on Poland, the Czech and Slovak Republics, Hungary and Slovenia. The companies represented agreed that the primary objective is to avoid an early implementation of a 57% minimum incidence in Central & Eastern Europe.

MARKET ACCESS

- President Aliiev of Azerbaijan went on national TV to "bless" the joint venture, and we now have access to the factory. The initial reception from factory employees was not positive, persuading us of the need for an ambitious employee communications program, and a steady stream of media events. News of the deal was picked up positively throughout Azerbaijan, and was also carried on major international wire services. It is still our intention to seek a broader FSU piece, using this deal as our "lead-in."
- Have begun work on a new licensing deal in Croatia; signing ceremony planned for November 20.
- The government-owned monopoly in Ethiopia, National Tobacco Enterprise (NTE) is up for sale. Ethiopia was formerly one of the largest Winston markets in sub-Saharan Africa. The market has been decimated recently by extremely high tariffs, resulting in two thirds of cigarette sales being smuggled in from neighboring countries. Government of Ethiopia is seeking partners to purchase a share of NTE. ER was part of a multi-functional project team which visited Ethiopia to assess the potential for a joint venture, and make key contacts.

REGULATORY ISSUES

- The full adoption of ISO standards for the testing of cigarettes in Russia - The issue here remains funding for the actual procedure of adoption, which entails editing, amending and updating of existing regulations.
- Implementation of regulations for new maximum allowable T&N levels in Russia - Dr. D. Zaridze of the State Committee for Sanitary and Epidemiological Supervision (SCSES), who ultimately will make the final decision on the length of the phasing-in period for new maximums, has shown a willingness to listen to the industry's arguments.
- New legislation possibly mandating the listing of shelf life on cigarette packs (Russia)
It appears that there is agreement within Russian regulatory circles on the principle that tobacco goods need not have to show shelf life or expiration dates on the pack. This will be confirmed shortly.
- Effectively, imports of tobacco products not bearing the Russian Government-mandated "mark of conformity" would be banned after January 1, 1997 for Russian-made brands, and July 1st for imported brands.
- The Autonomous Government of Catalonia has stated its intention to demand the health warning in both Catalan and Spanish languages. The AET will get in touch with the European Commission to address this proposal.

EMPLOYEE COMMUNICATIONS

- Completed first edition of new quarterly newsletter for employees, which is part of a wider-ranging employee communications initiative.
- Prepared three articles for World News - on Azerbaijan, Steve Goldstone's visit to Russia, Romania and Turkey, and the "new" External Relations function.

INDUSTRY RELATIONSHIPS

- Media training for Ontario Restaurant Association confirmed for November 4-5.
- PMI, RJR and Rothmans are working to revitalize the Asia Tobacco Council. ATC will be a information resource located in Hong Kong to provide support to the regional tobacco institutes and will be a vehicle for regional industry initiatives. We envision BAT and JTI membership, and hope that the new ATC can be packaged to make it attractive even to the state monopolies in the region, including China's.

- Met with new officer of Ministry of Finance, Tobacco Business Dept. and discussed current situation of worldwide tobacco industry and status of import cigarettes in Japan.
- ER Moscow has hired a Manager, Government Relations for Russia & Baltics. He reports on Monday, December 2, in Moscow.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Ove Sorenson

Jaap Uittenbogaard
Peter Van Every
Jason Wright

From: Spainhour, Sheryl F.
To: Carter, Peggy C.; Ellis, Maura P.; Haver, Donald G.;
Meyne, Rob W.; Moskowitz, Seth W.
CC:
BCC:
Subject: ER Monthly Report For May
Primary Date: 6/3/1997 11:41:01 AM
Last Modified Date: 1997-Jun-03 11:41:02
Last Touched Date:
Sent Date: 1997-Jun-03 11:41:01
Received DateDate: 1997-Jun-03 11:41:01

Attachments:

ERMAY.DOC

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INTEROFFICE MEMORANDUM

June 3, 1997

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of May External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE RELATIONS

- Annual RJR Scholarship Reception - Made all arrangements for CEO reception for employees' children who have won RJR scholarships.

BRAND ACTIVITIES

- Announced and responded to numerous media inquiries regarding the national launch of Winston's "No Bull" (no additives) repositioning.

ETS/ACCOMMODATION

- Participated in the 1997 National Restaurant Association Show in Chicago. We received commitments from the NRA, American Hotel & Motel Association, International Hotel & Restaurant Association, and HORECA to continue their support of policies that enable their members to accommodate smokers.
- The Maine Senate defeated legislation to ban smoking in restaurants.
- The Indiana Department of Corrections banned the use of tobacco products on all facilities effective August 1, 1997. This ban covers approximately 7,500 employees and 17,000 prison inmates. Authority to impose such a ban was authorized by the legislature.

ADVERTISING/MARKETING FREEDOMS

- A major advertising restriction bill was defeated on the House floor in Minnesota. The measure would have banned advertising of tobacco products on billboards and limited the types of advertising conducted at retail outlets.
- The Texas Senate concurred with House amendments on a bill that requires vendor assisted sales of tobacco products. The bill, which includes a 10% tax on billboard advertising, was sent to Governor Bush for final action.

LITIGATION

- Attorneys General in Montana, Missouri, South Carolina, Arkansas, Nevada, Oregon and Vermont filed law suits against the tobacco industry seeking to recover funds expended treating Medicaid patients for alleged smoking-related illnesses.
- There is considerable media interest in the Broin class action (flight attendants/ETS) trial. Dan Donahue did tape interviews with CNN and ABC. We also did interviews with the *LA Times*, the *Washington Post*, the *NY Times*, NPR, Monitor Radio, Bloomberg, the *Miami Herald* and Reuters, among others. The backgrounder has been approved by the other cigarette manufacturers and is ready for distribution to press attending Monday. Indications are that we will have a large press contingency with us as the trial starts; PM and B&W will have media relations staff on site as well. Rosenblatt has said that 1,000 flight attendants are winging their way to Miami for the trial start, so we anticipate numerous TV stories featuring them during the week.
- Connor Trial Verdict - Arranged interviews for attorneys and issued release to all networks and national print outlets. Media coverage intense and positive for 48 hours following the verdict. After the verdict, RJR attorneys met with press on-site, did follow-up phone interviews and appeared on Nightline and the ABC morning show and did live interviews for shows on CNN (two), CNBC and Fox TV, as well as a number of radio shows. We continued to handle follow-up media all week.
- We issued a statement - as did PM and B&W - on the Baltimore court dismissal of 9 of the state of Maryland's 13 claims in their AG suit. The opinion strongly rejects the legal theory under which the state sued, and because of its legal analysis is transportable to other states. Because of the lack of coverage in general media, we sent our statement out to all U.S. legal media.

REGULATORY ISSUES

- RJR's response to the Federal Trade Commission's vote to issue a complaint against Joe Camel went out 15 minutes before the FTC's news conference and was featured prominently in all news stories. We handled a huge volume of media calls. We are aware that several writers are looking at the possibility of doing editorials that may be critical of the FTC's theory.
- The Texas Senate concurred with House amendments on a bill to require disclosure of ingredients in tobacco products and nicotine yield ratings. The bill was sent to Governor Bush for final action.
- The Minnesota "youth marketing" bill, which includes a modified ingredients disclosure provision, was signed into law by Governor Carlson.

- The House Veterans' Affairs Benefits subcommittee held a hearing on a Veterans Administration (VA) Department proposal to prohibit the federal government from compensating and treating veterans with alleged "smoking-related" diseases. The legislation (not yet introduced) would overturn a 1993 opinion by VA attorneys that concluded the government could be held liable for medical care and compensation to veterans who used tobacco while on active duty and later became ill. The VA Dept. has an estimated 4,250 claims pending. Rep. Filner (D-CA) said Congress should not resolve any liability issue with tobacco companies without including the VA Dept. in a global settlement.

CIGARETTE EXCISE TAXES

- Senator Kennedy (D-MA), the American Cancer Society and the Children's Defense Fund announced the formation of a new coalition to lobby in support of the Hatch-Kennedy tobacco tax legislation to fund children's health care. The new group - The Campaign for Children's Health Now (CCHN) - has 150 local, state and national organizations, including the AARP, UAW and numerous church and health groups. CCHN began running radio and print ads in Alaska, Arizona, Hawaii, Louisiana, Maine, Iowa, Mississippi and North Dakota in support of the legislation.
- A South Carolina Senate floor amendment to increase the cigarette tax by 1¢ was defeated. Proceeds were to be used for tobacco-related youth education programs.
- The Connecticut Joint Finance Committee rejected a revenue bill amendment to increase the cigarette tax by 6¢/pack.
- An amendment to increase the cigarette tax 5¢ per pack was defeated in the Minnesota House Local Government Committee. Revenue generated by the increase would have assisted with the funding of the Twins baseball stadium.
- The Alaska House voted 23-17 in favor of a measure to increase the cigarette tax by 71¢, to \$1.00/pack. The Senate concurred with the House bill, and the legislation was sent to Governor Knowles for signature.
- An amendment to the Illinois budget that would increase the cigarette tax by 10¢/pack was defeated in committee.

LEGISLATIVE SESSIONS

- Florida completed its 1997 regular session on May 2. A youth access bill, supported by the industry, was approved and is expected to be signed by Governor Chiles. No other legislation having a significant impact on RJRT was enacted. Attempts to repeal the Medicaid/Third Party Act of 1994 were unsuccessful.

- Colorado, Alabama, Indiana and Kansas adjourned 1997 legislative sessions with no legislation passing that would negatively affect the company or the industry.

INTERNATIONAL

BRAND ACTIVITIES

- In Malaysia, Salem sponsored the nationwide premiere of the Bruce Willis movie, "The Fifth Element." Consumers have been invited to redeem their free tickets by presenting Salem's "The Fifth Element" press ad at redemption counters of selected cinema halls around the country. Salem is also sponsoring "The Making of The Fifth Element" and "The Fifth Element - A Preview" on television. To continue Salem's sponsorship of nationwide premiers of action-packed movies, on-line work is now in progress for "Con Air" starring Nicholas Cage, John Malkovich and John Cusack. TV promos for The Fifth Element, a Kenny G concert, and the ATP Tennis Tour launch Salem's "Magic Gate" campaign.
- As further reinforcement of Salem's dominance in music in Malaysia, work is in progress on the brand's next promo, "The Music Awards Blitz", featuring the 39th Grammy Awards, the 24th American Music Awards and the 1997 Billboard Music Awards. These tactical sponsorship programs elevate brand awareness, pending development of the new Salem thematic campaign.
- It was confirmed that consumer tests on new prototypes of Hi-Q, as announced to German Ministry of Health in a meeting in April, could be run as planned.
- Developed media relations and other PR activities related to the opening in St. Petersburg (June) and Moscow (September) of the Camel Memorabilia Exhibition. The dates coincide with important cultural events in both cities.
- Worked with Marketing to compose press release for the Miss Moscow beauty contest, to be held in Moscow on June 19 and sponsored by Salem Style.

MEDIA RELATIONS

- Broad publicity was generated by WHO's world no-tobacco day (May 31). For example, in Switzerland a quit-smoking contest offers trips to London, Paris and Budapest for people who prove that they stop smoking for at least one month.
- RJR gave an interview to the Companion, a Ukrainian business magazine gathering opinions of major tobacco companies regarding the current hurdles and breakthroughs in the Ukrainian tobacco market. The article is expected to appear in the June issue.

ETS/ACCOMMODATION

- A plan has been developed to present the Spanish-language version of the RJR ETS brochure ("Something in the Air") to media, opinion leaders and industry allies before the IARC ETS report is published.
- RJR is coordinating industry discussion of IARC in Canada. All companies have received information packages from their international headquarters.
- RJR-MI provided Ontario Restaurant Association (Canada) with provincial data on health-care costs associated with tobacco, for use in Kingston discussions.

YOUTH ISSUES

- At the May 12 meeting of the Spanish tobacco association (AET), the "minors non-smoking" follow-up program was approved for launch in September.
- RJR, PMI, BAT, Reemstma, Gallagher and Dos Santos (local manufacturers) finalized plans for minors non-smoking program, in mid-June in the Canary Islands.
- After one year, the Japanese retailers' union has more than 90% compliance on shutdown of vending machines (11pm-5am). To accomplish this, RJR field sales spent considerable time talking to retailers and setting timers on RJR owned machines.
- The "Right Decisions, Right Now, Youth Should Not Smoke" program initiated by RJR was launched under the industry banner by the Ministry of Education Malaysia on May 13. The program involves a poster campaign distributed throughout 1,500 lower secondary schools in Malaysia. The industry sponsors this program which is jointly carried out by the Jaycees and the Ministry of Education.
- The second phase of the German Cigarette Industry Association's (VdC) youth non-smoking campaign ("Cool Kids Can Wait") went on air on May 15. There are ongoing rumors that, based on pressure by three State Health Ministers, the city of Bonn prepares legal measures to stop the campaign because of allegedly seducing youngsters to smoke. VdC will defend the campaign.
- In Puerto Rico, developed RJR's Youth Awareness campaign under the logo: "Minors should not smoke and RJR agrees." Hope to implement during June. The third issue of the Puerto Rican tobacco industry's youth non-smoking program, "Aprende a Decidir," is ready for distribution at the beginning of the 97-98 school year. Working on testimonial video and media plan.

ADVERTISING/MARKETING FREEDOMS

- The Dutch and Belgian marketing teams are postponing proposed internet activities, pending issuance of a corporate RJRI position on the issue. ER, legal and marketing have been discussing RJRI's position on internet usage. Provisionally, RJRI has decided to refuse all requests for RJR marketing-related web pages. RJRI may choose to make something of this, to differentiate RJR from competitors.
- United Kingdom: After the landslide victory of the Labour party in the general elections, the new government committed itself to ban tobacco advertising and sport sponsorship. The planned bill will probably contain transitional measures to allow sport organizations to find alternative sponsors. The bill would be passed during the present Parliamentary session (within the next 18 months).

The Government will soon convene a seminar, involving national and international anti-tobacco experts, in order to discuss all possible avenues to reduce tobacco consumption. This should result in a White Paper, to be ready during the summer, which would contain a list of possible measures to address the issue. The advertising bill might be part of the paper or might be dealt with separately.

- Meetings held internally and with PMI to determine future action on advertising ban in Turkey. Agreed to move forward with economic impact study on an autumn schedule, by which time it is hoped that the current political instability will have been resolved. There are some opportunities to move the advertising issue forward, but they remain long term. Agreement secured to hire an ER professional in Istanbul.
- Regarding Bill C-71 (which restricts tobacco marketing in Canada), May 30, Madame Justice Grenier of the Quebec Superior court directed both parties to prepare for an October trial. Defendant admissions are due May 30 and document requests from both sides are due June 6. The final schedule will be determined on June 9.
- Tabling of tobacco control legislation in Quebec, Canada is delayed until the fall, after the required economic impact studies are completed. RJR has met and will seek further meetings with Quebec officials to present RJR's position on advertising and promotion bans. The industry is also discussing strategy.
- With a new Labor Government in the UK, CECCM (association of private European cigarette manufacturers) has continued coordination of contacts with other EU Member States in the blocking minority camp (Netherlands, Germany, Austria, Sweden, Denmark and Greece). Ad ban is not on the official agenda for the Health Council meeting on June 5, but will be discussed as an informal point over lunch. Adoption of a common position on June 5 is not expected. As for the Luxembourg Presidency in the second half of 1997, the industry will search for a compromise; re-defining "publicity" and excluding indirect advertising, has started. Lead NMA will be the VdC of Germany.

- During ongoing review of the Russian Law "On Advertising", a conference organized by the Adam Smith Institute took place in Moscow on May 26-27. One session entitled "Legal Basis for Advertising" included the Deputy Chief of the State Anti-Monopoly Committee and Deputy Chairman of the Committee on Economic Policy of the State Duma. Comments made by those officials indicate they feel there is no possibility that tobacco and alcohol advertising will return to television and that the "lobbying attempts of several tobacco and alcohol companies is a dangerous and unpredictable game" that may backfire, by leading to discussion of a total ban.

LITIGATION

- A tobacco litigation case (claiming failure to warn of alleged health risks) against Swedish Match will start end of May. Arguments of the anti-tobacco lawyer and of Swedish Match were reflected in the press.
- Canada's four Atlantic provinces have agreed to look into the possibility of suing for health-related costs of smoking. They will seek support from the remaining provinces at this year's annual premiers' conference. Rumors continue that the British Columbia government will table enabling legislation to permit the provincial government to sue the tobacco industry to recover medical costs associated with tobacco use. So far no news. Legal preparations are well underway.

REGULATORY ISSUES

- After long debate, the international tobacco companies operating in Ukraine and the Ukrainian Tobacco Association issued a letter to the Deputy Prime Minister requesting a joint meeting of the tobacco industry and various agencies involved in issuing and enforcing the regulations on tobacco packaging. The focus of the conference will be to summarize and unify packaging requirements that will remain stable and to avoid misinterpretation by any parties. Such a conference also enables RJR to establish a dialog with the government regarding decisions affecting the industry.

In the same letter, the industry requested to use non-Ukrainianized packaging for both domestic and imported products until such norms are finalized. RJR received permission to clear imported product with non-Ukrainianized packaging until August 1, 1997.

- The draft for a Federal Non-Smoker Protection law is still being debated in the German Parliament (Bundestag). As reported last month, the Committee of Agriculture rejected the draft. However, this month, the Committee of Family carried the draft by a majority of votes. Roland Sauer, one of the initiators of the draft, announced that the responsible Committee of Health would pass this draft before the

summer recess. This was contradicted by the chairman of the Committee of Health, who said that this is not likely.

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- In Puerto Rico, Governor Rosello filed an administration bill (PS 520/PC 742) that would order store owners to require any person who appears younger than 27 years to produce a photo identification to buy cigarettes. Retailers who sell cigarettes to minors risk losing their cigarette license for up to a year with a \$10,000 fine for each incident. Cigarette machines can only be located in places where minors are not allowed. Self-service displays will also be prohibited. The bill has gotten a very favorable reception in the House and Senate. RJR is supporting cigarette machine operators in their efforts to modify bill so that cigarette machines can be located in areas within a store that are not accessible to minors.
- The Pharmacy Bill, presented by the president of the Health Commission in Puerto Rico, includes a prohibition on the sale of cigarettes and alcohol in drug stores. The issues it addresses are quite complicated and there is no time for a complete evaluation during this legislative session.
- At the public hearings for PS 159 (proposing one tobacco/alcohol warning billboard for every 5 billboards), RJR's presentation focused on the amount of tobacco legislation in Puerto Rico. The members of the Health Commission agreed that there were enough laws already; that they needed to work on enforcement.

TRADE ISSUES

- Facing the upcoming new law for the reorganization of the Spanish Tobacco Sector, the Spanish tobacco industry met to assess the situation (a liberalization of remaining monopolies with the exception of the monopoly on retail distribution and the set-up of a new National Commission on the Tobacco Market). It was agreed to produce an industry paper with the basic principles that the industry considers any reorganization must contain, and to request a meeting with the Finance Ministry to present the industry position.
- RJR met with the Ukrainian Chairman of State Food Committee, the official agency governing the industry, to discuss Prima, a brand formerly shared by competitors but now claimed by Reemtsma. Although the arbitration court made a negative decision on the joint RJR/BAT action against Reemtsma, the company insists that production of Prima should continue for a fairly long period that will allow us to reassess strategies. We discussed possible steps to suspend the Prima licensing deadlock until final resolution of the issue.
- RJR's involvement in the Intra-Community Duty Free (IDFC) campaign has continued. Consumer mobilization campaign started at Heathrow airport in London. Political contacts at national level (particularly Germany and Ireland) produced strong support from local and regional authorities. IDFC strategy was updated with emphasis on EP and national governments.

TAXATION

- The Belgian/Luxemburg NMA (Fedetab) has written letters to the Belgian and Luxemburg Finance Ministers, asking for an increase of the specific tax element for cigarettes to 15% of total tax. This should be compensated by an equivalent lowering of ad valorem excise, which may lead to an end of the price war in Luxemburg.
- Work continues on the proposed new excise tax system in Romania, recently presented to the government. The proposed system favors local production, to the benefit of manufacturers and the country as a whole. If accepted, the Romanian budget benefits by an estimated \$150 million. BAT has made a counter-proposal and is rumored to have bid for the local monopoly.
- On April 9, the Ukrainian Parliament approved the Government's proposal to cancel tax and customs duties exemptions for businesses with foreign investments in Ukraine effective July 1, 1997. A separate article of the bill requests the Cabinet of Ministers to prepare a list of JVs involved in production requiring tax benefits. Following requests of the international business community (including RJR), President Kuchma sent a letter to Parliament proposing to amend the bill canceling tax benefits for joint ventures, retaining tax benefits for the JVs except those engaged in intermediary/ agency operations or certain other non-productive activities. The President proposes to reschedule any tax amendments to January 1, 1998.
- Although several minority legislators have suggested an increase in cigarette taxes in Puerto Rico to create revenues for the Governor's Health Reform, the Governor, the President of the Senate and the PDP Minority Speaker in the House have voiced opposition.
- Discussions between EU Commissioner Monti and DG XXI regarding EU excise tax minimum incidence were postponed twice, now scheduled for June 5.
- The new Russian excise tax structure that came into effect this year differentiates between different types of tobacco products based on Russian State Standards (GOST) specifications. Anything that was not a traditionally-made Russian cigarette was taxed at a higher rate (including imports and American blend products made in Russia, like *North Star* and *Peter Ist*). Russia is now moving to fully reform the cigarette classification and standardization system, and thus get rid of the GOST cigarette class system. BAT has gone to the highest level at the Duma (the Speaker), a Communist, and has appealed to his nationalistic leanings to save the local industry from the foreign hordes. Under the aegis of the International Tax and Investment Center (ITIC) in Moscow, we are meeting with PMI this week to map out a response strategy, which may include a new campaign to protect the gains of the current system, while at the same time capitalizing on the opportunity of GOST reforms to further simplify the existing system.

CORPORATE PUBLIC RELATIONS

- Announced contract for BAT to manufacture RJR brands in South Africa.
- German media broadly picked up our press release on the upcoming Berlin factory close-down. The articles were fair and mostly using our facts.

STAFF & ADMINISTRATIVE

- Mrs. Claude Sönmez joined RJRI on June 2 as Director of EU Affairs in Brussels.

COMMUNITY RELATIONS

- The ceremony to celebrate the opening of the new primary operation in Romania will be held June 4. Government officials will be invited. The purpose is to boost the company's public image and reinforce tax messages.
- RJR was recognized for its support to the arts and culture in Puerto Rico during a press conference and inaugural gala on May 22. The Governor and all key government officials, key business leaders and prominent artists attended.
- Met with representatives of the Fabergé Arts Foundation in preparation for the large RJRI corporate sponsorship of a prominent Fabergé exhibition, to be held at the world-famous Hermitage Museum in St. Petersburg. The exhibition's gala opening will coincide with the visit to St. Petersburg of the full RJR Nabisco Board of Directors in early October of this year.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Jaap Uittenbogaard
Peter Van Every
Jason Wright

From: Spainhour, Sheryl F.
To: Carter, Peggy C.; Ellis, Maura P.; Haver, Donald G.;
Meyne, Rob W.; Moskowitz, Seth W.
CC:
BCC:
Subject: ER October Monthly Report
Primary Date: 11/5/1996 5:26:03 AM
Last Modified Date: 2001-Nov-20 02:04:49
Last Touched Date:
Sent Date: 1996-Nov-05 05:26:00
Received DateDate: 1996-Nov-05 05:26:03

Attachments:

EROCT.DOC

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INTEROFFICE MEMORANDUM

November 4, 1996

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of October External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE COMMUNICATIONS

- Produced three publications this month: Forum, Caravan, and Performance Update.
- Began initial planning for issues seminar for marketing, sales and other affected departments in November-December.

BRAND ACTIVITIES

- Camel - Reviewed POS materials, made recommendations on ad executions, and finalized plans for Grooveblender event in Las Vegas Nov. 22-24.
- Winston MM - Began working on a PR plan to address any potential report from contract lab hired by the state of Florida to evaluate the no-additive Winston product being marketed there.

ETS/ACCOMMODATION

- The US Court of Appeals for the District of Columbia heard oral arguments in Action on Smoking or Health (ASH) vs. US Department of Labor. The suit by ASH requests the Court to order the Occupational Safety and Health Administration (OSHA) to issue an emergency rule to ban smoking in workplaces. (In April 1994, OSHA proposed regulations on indoor air quality and environmental tobacco smoke, but the agency has not yet promulgated a final rule.)

Indications are that OSHA may be gearing up to move forward on an indoor air quality rule early next year. Strong possibility a new proposed rule will be written, supplanting the existing proposal. The information we have suggests the rule-making procedure involving second-hand smoke will be a top OSHA priority. Working with a number of RJR departments in preparation.

- Working with RJR-Macdonald to present a seminar on the economic impact of smoking bans on the hotel, motel, bar and restaurant industries, and on related issues.

- Attended the annual meeting of the International Hotel and Motel Association in Mexico City. It is hoped that the IHMA will merge within the next year or two with HORECA, the leading international restaurant organization, and will therefore be better positioned to effectively promote the continued international accommodation of smokers in the hospitality industry.
- Continue to assist Host Marriott in reducing ETS in bars and restaurants. Working closely with Host Marriott's Detroit General Manager on upgrading air conditioning and installing air cleaning devices in a number of locations at Detroit Metropolitan Airport.
- The National Restaurant Association conducted research into customer attitudes and opinions in the UK, Spain, the Netherlands, and Canada. Will do media tours in the European markets in November, and be joined by hospitality industry leaders in each of them. All of the public opinion research shows strong support for accommodation of smokers and non-smokers.

YOUTH NON-SMOKING

- RJR met with one of the National PTA officers to pursue their participation in the "We Card" program. They will consider being involved and will notify us after the first of the year.
- To date, 291,491 "We Card" kits have been ordered. Fayetteville (NC) Police Dept. ordered 1,000 kits to distribute to retailers in their community outreach program. Maine Grocers Association is sending mailing to state police chiefs including "We Card" kit to encourage police departments to work with MGA in educating the retail community on tobacco state law. Super K-Mart's corporate offices sent a memo to store owners promoting the "We Card" program; the American Cancer Society requested permission to reprint samples of "We Card" materials in a new program manual called "Stop Illegal Tobacco Sales."
- Working to produce booklet called "Influencing Your Child's Lifestyle Choices" for our youth non-smoking campaign.
- The New Jersey Health Commissioner is urging cigarette retailers in the state to begin "rigid" enforcement of a law that took effect January 1 that increases the fines for sale to underage youth. As part of the program enforcement, the commissioner revealed undercover teenagers this summer were able to purchase cigarettes 44 percent of the time in scattered sting operations. The new retailer fine schedule is \$250 first offense, \$500 second offense, \$1,000 third or subsequent offense. However, after the second offense, local authorities can recommend a vendor's license be revoked.

COMMUNITY AND CORPORATE AFFAIRS

- Continued to work with local boards and committees including Community Services Research Group, Forsyth Early Childhood Partnership, Today's Woman's Health and Wellness Center, United Way, WSSU Foundation, Chamber Education Committee, Piedmont Park Task Force, and NC Business Committee for Education.
- During October Community Affairs processed 30 Community Involvement requests for a total of \$7,500; 75 Education Matching Grants for a total of \$21,187.40; and 46 Arts Matching Grants for a total of \$6,086.50.

LITIGATION

- Provided articles on the development of the AG lawsuit concept and other background information for article in *Business Week* magazine about lawyers suing the tobacco industry.
- Responded to Alabama media on a second-hand smoke suit filed there.
- Provided additional information on the Mangini suit for two *LA Times* reporters, including the one writing about an early Camel illustrator. That story ran on page 1 with a headline that included: "...adman recalls R.J. Reynolds rejecting youth slants."
- In New Mexico, Attorney General Tom Udall appeared before the Legislative Finance Committee requesting \$200,000 for the current fiscal year and \$800,000 per year for the next four fiscal years for use in hiring attorneys and financing the cost of litigation against the tobacco industry. The committee chose to take no action at the present time.
- Arizona Governor Symington ordered the state to drop the lawsuit filed to recover Medicaid costs. The acting Director of AHCCCS (Arizona Health Care Cost Containment System), who was a plaintiff in the suit, also demanded their name be removed. In a letter to the Attorney General, the Governor wrote, "After reviewing the complaint and the contingency fee agreement with the trial lawyers, both I and Acting Director Kelly believe that you have put the state and AHCCCS in a very bad position." The Attorney General has said he will go forward with the suit.
- Ten counties in California and the City of San Jose have joined Los Angeles and San Francisco in their suits against the tobacco industry, for recovery of "tobacco-related" health care costs.

REGULATORY ISSUES

- Sent letters to the editor from Dan Donahue to the Greensboro and Durham newspapers regarding the misleading stories they filed on FDA. Letter to the editor sent to the Jackson, Mississippi newspaper correcting misrepresentations of the industry's positions made by Mike Moore in a speech at the University of Southern Mississippi, as reported in that paper.
- Only the *Wall Street Journal* and CNN initially asked for a reaction to the "Science" news release on research claiming to have found a lung cancer and smoking link; R&D helped turn around a quick review and response. After news stories ran the next day, and we put out a fuller response, handled numerous calls regarding potential impact on litigation.
- The Minnesota Medical Association has voted in favor of phasing out nicotine in cigarettes over a five-year period. Delegates voted unanimously for the resolution to call on the American Medical Association to lobby Congress for the nicotine phase-out.

LEGISLATION

- The 104th Congress has officially adjourned. Anti-tobacco bills introduced in the final days included:
 - ◊ Senator Lautenberg (D-NJ) introduced the "Tobacco-Free Children's Internet Act," which would require the FDA Commissioner to issue regulations limiting the advertising of cigarettes and smokeless tobacco products over the Internet in a manner consistent with the FDA final rule on tobacco. The bill was referred to the Senate Commerce, Science, and Transportation Committee.
 - ◊ Rep. Lewis (D-GA) introduced a bill to prohibit smoking in any transportation facility that receives federal financial assistance. The bill was referred to the Transportation and Infrastructure Committee.

The next formal session of Congress will be the noon swearing-in of the 105th Congress on January 7, 1997.

- A New Jersey Republican Assemblyman has introduced a cigarette ingredients disclosure and nicotine regulation bill patterned after legislation enacted this year by Massachusetts.

CIGARETTE EXCISE TAXES

- Massachusetts cigarette retailers located along the border of New Hampshire are reporting a 45-60 percent decline in cigarette sales since a state cigarette tax increase took effect October 1. The new Massachusetts tax is 76 cents per pack plus sales tax. The rate in New Hampshire is 25 cents and no sales tax. Retailers say a carton of name brand cigarettes sold in Massachusetts is \$26 per carton. In New Hampshire, the retail price is \$16. State fiscal specialists are acknowledging revenue from the new tax will be far less than the sponsors of the tax increase legislation estimated. The Tobacco Institute is sponsoring a study of the cross-border impact of the tax increase.

INTERNATIONAL

BRAND ACTIVITIES

- Launched Salem's 'Romance on the Cool Planet' campaign in Malaysia. This is a mini music blitz to maintain continued high visibility and novel marketing support behind the brand to stage for revitalized growth in 1997. This will be followed by year-end Salem Celebration campaign and Salem's sponsorship of multiple Grammy winner, Alanis Morissette.
- Preparation for Salem's year-end "Salem Celebration" in Malaysia is underway. Program will be "celebration of dance and music" with a mega dance party as the anchor event. Awaiting confirmation of top act Los Del Rio (who sang the year's biggest hit and started the dance craze 'Macarena') for this function.
- Winston's movie roadshow series will complete its last leg this month in Malaysia. The program, designed as a field marketing vehicle to target value brand adult smokers in non-urban locations, will have screened a total of 100 shows during its 5-month run.
- "Thank you Party" for Augsburg Hi.Q smokers took place. Local press attended.

ETS/ACCOMMODATION

- The "Bienvenidos" program logo has been included in The San Juan City Magazine restaurant listing to identify all restaurants participating in our program.
- In Vancouver, the Restaurant and Food Services Association of British Columbia is challenging the smoking ban in B.C. Supreme Court on the basis that it discriminates between establishments.

- ETS discussion group meeting took place in New York, including presentation of status on exposure studies. Reached agreement on usefulness of forum for open discussion and determination of common strategies. Next meeting to be held in January in Bonn, Germany, hosted by VdC.
- Contact has been established with the President and the Secretary of the FER (Spanish Federation of Restaurants) to jointly plan the presentation to the media on the survey conducted by NRA on consumers' attitudes. Presentation to be done jointly by the Presidents of FER and NRA on November 22.

YOUTH NON-SMOKING

- Operation I.D. successfully launched October 21 in Canada. Media response was very positive despite antis' criticism of program as a "PR gesture."
- Still awaiting launch date for youth non-smoking program in Malaysia.
- Presentation of international youth program strategy given to RJRI executive committee.
- Hong Kong test is ongoing, with results to be reviewed jointly between School Teachers Association, JC, and RJRI in November or December. Materials then to be finalized and produced; full program to be launched in 1997.
- The National Association of Tobacconists in Spain confirmed that RJR's youth smoking program had been approved by its Board. Retail program ready to be launched November 18.
- Met with PM in Lausanne. Agreement on joint approach to youth programs, beginning with countries in East & Central Europe (Czech Republic, Poland, Hungary). This strategy is supported by regional management locally. Meeting to be arranged ASAP with local management of PM and RJRI to explain strategy and ensure understanding, support, and funding.

SMOKING RESTRICTIONS

- The Federal Tobacco Commission is preparing a survey of existing smoking restrictions in the EU-Member States in order to make proposals for "stronger regulations" to the Swiss authorities.

CONTRABAND

- The Ministry of Finance in Spain has told the industry that a task force is preparing a series of measures to more aggressively fight contraband. More detailed information will be disclosed in November.

ADVERTISING/MARKETING FREEDOMS

- Freedom of Commercial Speech Symposium - The Chamber of Commerce will present the results of the Puerto Rico Impact Study on Advertising during January 1997.
- Extensive discussions resulted in significant "improvements" to the voluntary code in Canada, particularly in the area of sponsorship advertising, and clarifications applicable to in-store promotional activities. Amendments to be announced publicly early November. Code changes are important to perceptions of industry as marketing in a responsible manner and being sensitive to political and social environment, with "blueprint" regulatory proposals pending.
- Although Taiwan's Smoking Hazard Prevention Act (SHPA) remains on the agenda, it now looks like it will not be addressed by parliament until December, and the local Tobacco Institute is optimistic that at least product display, point of sale and art/cultural sponsorship (but no sports/pop music) can be preserved. The local tobacco institute continues to talk with legislators, including letter-writing campaigns from affected retailers and appeals from sports and arts personalities directly hit by the proposed sponsorship ban.
- Government in Gibraltar continues to maintain its discredited policy of restrictive quotas on RJR's, and other U.S. brands, in favor of British brands. The policy has artificially distorted the market, and had very harmful effects on RJR's sales. Despite a regional sales management/ER meeting with the Chief Minister, and the subsequent provision of a written proposal, little real progress has been made. New tactics to persuade the Government to action are now being considered. These could involve RJR being a member of a coalition of international companies able to advise the Government on sensible commercial and trading policies.
- The Minister of Health (Zuma) in South Africa continues to threaten stringent legislation, perhaps even a ban. Recently in a Senate debate, Zuma accused tobacco companies in South Africa of being involved in the smuggling of illegal cigarettes. Rembrandt, market leader in S.A., reacted angrily with an open letter to Zuma signed by Johann Rupert, Chairman, denying any involvement and accusing Zuma of avoiding numerous requests for meetings to find a solution to a problem which is getting out of hand. The tobacco industry association (TISA) also refuted the accusation. RJR plays a full role as member of a government-approved anti customs fraud caucus. A meeting of a newly formed coalition of the tobacco industry and parties with interests in seeing commercial freedoms protected is addressing these issues.

- We are witnessing a definite increase in efforts by different groups in Russia to allow tobacco and alcohol advertising to return to TV, in some form or another. As previously reported, the Russian Law "On Advertising" prescribed a total tobacco advertising ban on TV effective January 1, 1996. However, as state subsidies to Russian television companies have decreased in the overall fall in Government revenues and expenses, broadcasters are looking for new sources of income. In parallel, Russian ad agencies and media buyers are riding this wave of discontent for obvious reasons.

The preferred route for a loosening of the TV ban is not an actual amendment to the Law that would permit a full return of "lifestyle" advertising with pack shots, but rather, to seek and obtain clarification of the existing legislation, in terms of the use of trademarks on TV (a Camel logo, for example, as part of a *Camel Rocks* ad). This is a more realistic target, since an actual change in the Law would require much time and effort, coupled with an uncertain outcome because of the volatility of the legislative process. Along with a legal consultant retained specifically for this issue, we are participating in a strategy meeting with the allies on this issue.

- The Irish presidency has drafted a Council resolution on the reduction of smoking in the EU. Attempts by the industry to convince the blocking minority governments to oppose the resolution unless a clear reference to the tobacco advertising directive were included are unlikely to succeed. The major negative consequence of the resolution, if passed, would be that it would provide a justification for Commissioner Flynn's plans to propose new anti-smoking measures.
- Commissioner Flynn has announced a Commission communication, clamping down on smoking in the EU. These recommendations propose to regulate additives and ingredients, lay down a maximum nicotine content, further reduce the maximum tar content, strengthen health warnings, introduce plain packaging, ban self-service displays and vending, ban advertising, raise taxes, ban duty-free sales and increase smoking restrictions. Commissioner Flynn's draft communication will be discussed by the Commission on November 7. The industry is in contact with member states and relevant commissioners regarding these proposals. The industry is concentrating its efforts to find two or three member states opposing it because unanimity is required for such a resolution. However, we face the obstacle of the negative climate created by PMI's ETS ad campaign this summer.
- Four EU member states have sent detailed objections to the Belgian government regarding its ad ban bill. The Commission also sent some comments. As a result, Belgium cannot adopt the bill before January 14, 1997. During this extra three-month period, Belgium will discuss the issues raised with the other member states and the Commission.

- The International Duty Free Confederation (IDFC) launched an advertising campaign, "Focus 99", in view of the Ecofin decision of '91 to abolish intra-Community duty-free by June 30, 1999. The issue has an OCC impact for RJR. The intention is to request a report from the Commission on the economic implications of an abolition of EU duty-free, hoping that the economic data and the related employment figures provide a strong argument for the continuation of duty-free.

MEDIA/PUBLIC RELATIONS

- There was wide coverage in the Spanish media regarding the scientific study released in the USA linking the carcinogen B(a)P and lung cancer.
- Yomiuri Osaka TV (Japan) requested an interview about how Eclipse works and its difference versus conventional cigarettes. External Relations met a reporter from TV station for about an hour; segment will be aired in early November.
- With the help of Legal Dept. (Messrs. Stettler and Donahue), RJR Japan provided information on Carter/Rogers cases and Liggett settlement to a professor of Sophia University who was contacted by Japanese TV station for comments on these cases and U.S. product liability law as a neutral professional. The TV station decided it was not worth producing its "Tobacco PL Law - US and Japan" program.
- Since RJR's partnership with the Government of Tanzania at Tanzania Cigarette Company (TCC) commenced early this year, improvements in all aspects of the business operation have been made. A PR plan is being jointly prepared by ER and the local TCC management to exploit the "good news" stories through the press and other channels. Government decision-makers and "influentials" will see the benefits which RJR has brought to TCC, and the Tanzanian economy as a whole.
- Steve Goldstone visited RJRI Russia & Baltics. The visit included calls on St. Petersburg Governor Vladimir Yakovlev and Minister of the Economy Evgueny Yasin. Pre-arranged sit-down 45-minute interview for Mr. Goldstone on October 8 in Moscow with the Moscow business paper *Kommersant-Daily*. Parts of the interview were picked up by other media.
- Began working with Russia, Turkey and Poland to prepare media plans for 1997. Plan to visit Russia at the end of November, and am meeting newly appointed PR agency in the middle of November. At the request of a number of senior executives, will prepare a brief Media Guide for all spokespeople.

TAXATION

- No taxation was imposed for cigarettes for year 1997 by Malaysian government during the budget announcement on October 25, 1996.

- Saudi & the Gulf - Gulf Cooperation Council (GCC) Health Ministers have made their decision to increase further the cigarette tariffs from 50% to 70% during this year, and to 100% by 1997. Further increases in tariffs across the GCC states will erode margins even more, and negatively affect pricing competitiveness. Attempts to find a common industry position on taxation have failed amongst the members of the industry association, META. RJR is now engaged in drafting plans to take unilateral action on this issue, or to form an alliance with one other competitor which shares a similar interest on this issue. Proposals for a lobbying program will be presented to management within the next week.
- This was a month of intense activity on our part (RJR-Russia), in conjunction with RJRI Geneva, PMI, the Moscow office of the International Tax and Investment Center (ITIC), and Deloitte & Touche Moscow, to push for a universal specific excise tax rate for cigarettes. BAT remains adamantly opposed to a specific rate and prefers either the status quo or a universal ad valorem rate with low specific minimums. The local tobacco factories without foreign investment have sided with BAT.

The Duma members and Ministry of Finance, although convinced on a philosophical level of the advantages of a specific system, expressed two overriding concerns: potential lower revenues to the State, and the risk of unacceptably large increases in retail prices for cheaper cigarettes. The required numbers were produced by Deloitte & Touche, and early soundings reveal that the material has been persuasive and Duma members are now convinced that "specific is better." Ministry of Finance continues to review the material; chances the specific system will prevail are seen to be 50/50.

- Mr. K. Schweri, owner of Denner, one of the most important discount-chains in Switzerland, officially announced his intention to launch a people's initiative, supporting the fact that cigarettes and other tobacco products should be heavily taxed in the future. The text of the initiative also mentions that the trade should be granted a minimum, but fixed trade margin of 15% of the retail selling price (base March 1 - 1995). According to information from the Federal Chancellery, such an initiative would be refused since it would not be in line with the constitutional rules.
- The Spanish Club of Smokers in favor of tolerance has announced the results of a survey, generating coverage in most of the Spanish media. The results show that most smokers think that the tax increase was excessive and is damaging for smokers and non-smokers. Public opinion also suggests that possible solutions could be strengthening the fight against contraband and tax fraud.
- A meeting was held between RJR executives and a key official at the Ministry of Finances in Spain. Taxation and pricing issues were discussed. The tone of the meeting was productive and should lead to follow-up sessions in the near future. A meeting was also held between RJR and the General Director of Excise Taxes to present the APET wrap and discuss the best way of including the tax-stamp and legal marks to assure its clearance for upcoming launches.

Representatives from the industry held a meeting with the Secretary of State of the Treasury, to voice concerns about the last tax increase and the manner it was decreed, and also to request legislative steps to alleviate fiscal pressure.

- Following the "overnight" tax increase imposed by the Spanish government, a revision of the excise tax rates is politically impossible for face-saving reasons. Industry efforts are now concentrated on a lift of the additional VAT-like tax, called "recargo de equivalencia."
- A CECCM/GITES delegation met with civil servants within the EU Commission (Directorate General Tax) to present their common proposal to review the minimum tobacco excise incidence. The Commission welcomed the approach but requested several clarifications. The compromise will be re-submitted to the Commission. RJR has been instrumental in seeking closer cooperation for the monopoly countries, represented by GITES. The tax issue has always divided the industry. If this issue can be resolved in a satisfactory manner, closer cooperation on other issues will be possible at European level.
- The Central European Tax Task Force met again to discuss a common strategy for those countries having applied for membership in the EU (ten countries in Central & Eastern Europe). The Working Group is concentrating on Poland, the Czech and Slovak Republics, Hungary and Slovenia. The companies represented agreed that the primary objective is to avoid an early implementation of a 57% minimum incidence in Central & Eastern Europe.

MARKET ACCESS

- President Aliiev of Azerbaijan went on national TV to "bless" the joint venture, and we now have access to the factory. The initial reception from factory employees was not positive, persuading us of the need for an ambitious employee communications program, and a steady stream of media events. News of the deal was picked up positively throughout Azerbaijan, and was also carried on major international wire services. It is still our intention to seek a broader FSU piece, using this deal as our "lead-in."
- Have begun work on a new licensing deal in Croatia; signing ceremony planned for November 20.
- The government-owned monopoly in Ethiopia, National Tobacco Enterprise (NTE) is up for sale. Ethiopia was formerly one of the largest Winston markets in sub-Saharan Africa. The market has been decimated recently by extremely high tariffs, resulting in two thirds of cigarette sales being smuggled in from neighboring countries. Government of Ethiopia is seeking partners to purchase a share of NTE. ER was part of a multi-functional project team which visited Ethiopia to assess the potential for a joint venture, and make key contacts.

REGULATORY ISSUES

- The full adoption of ISO standards for the testing of cigarettes in Russia - The issue here remains funding for the actual procedure of adoption, which entails editing, amending and updating of existing regulations.
- Implementation of regulations for new maximum allowable T&N levels in Russia - Dr. D. Zaridze of the State Committee for Sanitary and Epidemiological Supervision (SCSES), who ultimately will make the final decision on the length of the phasing-in period for new maximums, has shown a willingness to listen to the industry's arguments.
- New legislation possibly mandating the listing of shelf life on cigarette packs (Russia)
-
It appears that there is agreement within Russian regulatory circles on the principle that tobacco goods need not have to show shelf life or expiration dates on the pack. This will be confirmed shortly.
- Effectively, imports of tobacco products not bearing the Russian Government-mandated "mark of conformity" would be banned after January 1, 1997 for Russian-made brands, and July 1st for imported brands.
- The Autonomous Government of Catalonia has stated its intention to demand the health warning in both Catalan and Spanish languages. The AET will get in touch with the European Commission to address this proposal.

EMPLOYEE COMMUNICATIONS

- Completed first edition of new quarterly newsletter for employees, which is part of a wider-ranging employee communications initiative.
- Prepared three articles for World News - on Azerbaijan, Steve Goldstone's visit to Russia, Romania and Turkey, and the "new" External Relations function.

INDUSTRY RELATIONSHIPS

- Media training for Ontario Restaurant Association confirmed for November 4-5.
- PMI, RJR and Rothmans are working to revitalize the Asia Tobacco Council. ATC will be a information resource located in Hong Kong to provide support to the regional tobacco institutes and will be a vehicle for regional industry initiatives. We envision BAT and JTI membership, and hope that the new ATC can be packaged to make it attractive even to the state monopolies in the region, including China's.

- Met with new officer of Ministry of Finance, Tobacco Business Dept. and discussed current situation of worldwide tobacco industry and status of import cigarettes in Japan.
- ER Moscow has hired a Manager, Government Relations for Russia & Baltics. He reports on Monday, December 2, in Moscow.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Ove Sorenson

Jaap Uittenbogaard
Peter Van Every
Jason Wright

BAT RUSSIA *November*
MONTHLY REPORT ~~OCTOBER~~, 1996

Managing Director's Summary

- National corporate share rose to 7.8% in local brands. (Figures for imported brands not yet available, but Moscow share remained 1.7) Moscow retail showed recovered small share gains for Yava (0.1) LS (0.1) and Kent (0.1), Marlboro and Davidoff lost 0.2 each but L & M gained 0.3. But note trend:

	September	October	November
Yava family	15.5	13.5	13.6
L & M	15.9	16.4	16.7

- We have time (in the regions) to grow volume share by improving supply of Yava, and to use it to leverage the portfolio; but if the brand is to be fully exploited over time, lights and other product improvements are clearly essential. Despite the excellent support we receive from the regional and functional teams, **we need a full time Product Manager in Russia** (Hollywood, Yava lights, Tar-nic legislation, quality improvements, etc.).
- Production volumes at 1.527 met SOP (+58mns) Year-end 16.0 bns will be surpassed. Shipments at 1566 were 250 mns short of SOP but were caused by slow bank transfer and over-enthusiasm is signing forward orders by both the Army and regional distributors. Appropriate action has been taken and forward orders for December suggest we are well in sight of the 16,250 year-end shipments target.
- We were wrong to think the market could absorb the extra Evros / Demex import shipments. Evros, whose loyalty have begun 'unloading' at prices below those agreed with core customers is badly shaken and whose credit repayments, inevitably, are now suffering. A clearer demonstration of the need to manage supply according to market potential would be hard to find. The Credit meeting planned for Tuesday 10 in Moscow did not take place since the Hamburg delegates did not arrive.
The threat of specific excise appears to have been diverted for the time being. ITIC and their sponsors (PMI, RJR, Rothmans), although foiled on this occasion, will not give up. We will not be sure of the minimum, however, until the Duma actually votes. We are developing our follow-up strategy with the Centre.
- Weighted PQRS figures for the last four months show our encouraging progression:

August	September	October	November
67	72	75	77
- A 5.7% tobacco wastage figure for Saratov shows the benefits of new primary equipment, new cut tobacco storage and better quality leaf.

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- The Bates Saatchi tax investigation is far from over and is more serious than appears to be understood at Bates H.O. Alternative arrangements are being made to transfer (urgent) creative work to Grey.
- Permission to occupy Building 4 at Yava was finally granted on 10th of November. First wave of move will take place on Monday 16th.

R.Howe 12.12.96

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1. Key Performance Indicators

Cigarette Sales (mm)	November Actual	November Budget	Jan-Nov Actual	Jan-Nov Budget	Year End LE Budget
Total Russian Market	19983	19680	219817	216498	219800
Total Domestic Market Sales	11824	11670	130512	128333	140000
Own Domestic Market Sales	1566	1610	13219	19978	16265
Total Import Market Sales	8115	8010	89266	88165	97381
Own Import Market Sales		-na-	1900	-na-	3073
Key Brands					
Yaya	847.0	830	6632.4	7590	7540
Kosmos	136.7	115	1233.2	1098	1449
Prima	500.8	670	6146.3	6790	7443
Lucky Strike	45.0	-na-	506.0	-na-	582
Kent	14.0	-na-	301.0	-na-	313
Hollywood	24.0	-na-	435.0	-na-	442
Own Export Sales	-na-	-na-	-na-	-na-	-na-

Market Shares (%)	Month Actual	Month Budget	Cumulative Actual	Cumulative Budget	Year End Estimate Forecast	Year End Estimate Budget
Own Domestic Share	7.8%	8.2%	6.0%	7.4%	6.8%	8.6%
Domestic Brands	0.0%	-na-	0.9%	-na-	0.9%	2.2%
Import Brands	0.0%	-na-	2.1%	-na-	2.1%	5.4%
IB Segment	*	*	*	*	*	*
Lights Segment						
Own Export Share	-na-	-na-	-na-	-na-	-na-	-na-
Key Markets						

BAT RUSSIA
Business Indicators \$ 000's

	Cumulative		Month		Variance		Next Quarter		Variance		Year End Forecast	
	Forecast	Budget	Forecast	Budget	Forecast	Budget	Forecast	Budget	Forecast	Budget	Forecast	Budget
Trading Profit	2128	9995	-3867	3003	-1400	6403	-1400	6403	3003	6403	-1400	-1400
Operating Cash Flow												
Investable Cash Flow												
Net Cash Flow												
Capital Expenditure												

BAT RUSSIA
Trading Indicators

	Month		Cumulative		Variance		Year End Forecast	
	Forecast	Budget	Forecast	Budget	Forecast	Budget	Forecast	Budget
Trading Margin	44.6	5.2	39.5	1.3	-1.1	4.2	6.2	-2.0
Gross Contribution % NTO	52.8	48.3	4.5	49.6	0.4	49.8	49.1	0.7
Brand Contribution % NTO	49.6	42.2	7.4	43.9	5.7	44.1	38.1	6.0

2.1. Social / Political / Economic Environment

On the customs privileges there has been considerable uncertainty regarding the future of privileged imports under Moscow Patriarchy. It is quite clear that the scheme will be officially stopped. The question is when and under what circumstances. At this moment we are awaiting a Government decision on how the final quota of tax stamps can be legally used up.

One of our importers is already working under the privileges granted into the Free Economic Trade Zone of Ingushetiya. It is to be expected that the State Duma will consider in the nearest future to set up a Free Economic Trade Zone also in Chechnya. Only in that way will the Government be able to generate funds for the rebuilding of the Chechnya Republic. Therefore we expect the system of import privileges to continue into the new year 1997. There will however be strong modifications.

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2.2. Profit and Loss Account

BAT RUSSIA

Profit & Loss Account

September 1996	Year To Date			Next Quarter			Year Estimate		
	Estimate	Budget	Variance	Estimate	Budget	Variance	Estimate	Budget	Variance
Sales Volume Millions	14803	18653	-3851	16254	20350	-4096	16254	20350	-4096
Gross Turnover	96481	137687	-41206	106308	151666	-45358	106308	151666	-45358
Government Levies	32353	43603	-11250	35237	48028	-12791	35237	48028	-12791
Net Turnover	64128	94084	-29956	71071	103638	-32567	71071	103638	-32567
Leaf	16167	24879	-8712	18594	27417	-8823	18594	27417	-8823
Wrapping	16167	22048	-5881	17112	23370	-6258	17112	23370	-6258
Variable Costs	32334	47817	-15483	35706	52787	-17081	35706	52787	-17081
Gross Contribution	31794	46267	-14473	35365	50851	-15486	35365	50851	-15486
Brand Support	3658	10317	-6659	3900	11325	-7335	3900	11325	-7335
Brand Contribution	28136	35950	-7814	31375	39526	-8151	31375	39526	-8151
Production Labour Cost	8329	7247	-1082	9086	7925	-1161	9086	7925	-1161
Production Expenses	9942	4984	-4958	10846	5498	-5348	10846	5498	-5348
Administration	2232	4432	-2200	2435	4993	-2558	2435	4993	-2558
Marketing & Sales	1253	3804	-2551	1367	4198	-2831	1367	4198	-2831
Depreciation	1742	9950	-8208	1900	11189	-9289	1900	11189	-9289
Total PSVE	23498	30417	-6919	25634	33803	-8169	25634	33803	-8169
Other Income		472	-472		680	-680		680	-680
Other Expenses	2510		-2510	2718		-2718	2718		-2718
PBIT	2128	5999	-3867	3003	6403	-3400	3003	6403	-3400
Investment Income									
Interest Paid	2110	1815	-295	2302	2065	-237	2302	2065	-237
Profit Before Tax	18	4180	-4162	701	4338	-3637	701	4338	-3637
Taxation	1287	2137	-950	1642	2245	-603	1642	2245	-603
Profit After Tax	-1269	2043	-3312	-941	2093	-3034	-941	2093	-3034
Dividends									
Retained Profit	-1269	2043	-3312	-941	2093	-3034	-941	2093	-3034

Commentary

The Table at the end of this section indicates performance against the SOP for November, on which the year end forecast for last month was based. Though there is considerable under-performance, Trade Marketing remain confident that the year end forecast of 16.254 billions will be met.

The principle reasons for under-performance are as follows:-

- Unfulfilled Contracts
 - future be counselled in forming realistic contracts .
 - The time taken to transfer funds from regional customers to our Moscow bank account is approximately 5 working days or more . We are working with number of banks who have branches in key cities , to open sub accounts in order to speed up the flow of funds .
- Prima ex Yava Factory (27 mn) were reserved for the Army . As yet the contract has not been finalised .
- Insufficient allocations were made of Prima ex Yava Factory which Trade Marketing indicate has significantly higher demand and production capability. We are re examining the market demand estimates .
- It is appears that Kosmos SC has a weak performance , significantly below stated market demand . We are examining both the market demand and element of the marketing mix - but shortfall seems more likely to have been caused by misjudgement in regional allocation of contracts..
- We remain confident that annual shipment targets of 16,254 mns will be met.
- Production performance exceeded SOP by 110 mn (7.8 %).

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PBIT

The year end \$ rate has been revised to Rbl 5750 'v' Rbls 6000 in the Company Plan . The higher contribution due to favourable year end exchange rates has been offset by higher leaf costs (\$650k) in the last quarter following delay in receipt of Indian leaf from ITC . This shipment is now expected to arrive mid January 1997 .

In addition , the planned price increases ex ITMS for November and December have been postponed .

F & SV's have been revised , lower Production costs mainly due to postponement of building repairs in Yava to 97 (due to unavailability of funds) , lower depreciation (delay in commissioning machinery) and lower than expected salaries in Yava .

Exchange losses of \$250k have been incurred following delay in payments of foreign trade creditors (unavailability of funds) .

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2.3. Marketing

2.3.1. Domestic Cigarette Market

Domestic Volume by Brand	Month of November				Cumulative 11 months to date				Year End Estimate			
	Prior Year		Budget		Actual		Budget		Prior Year		Budget	
	ms	ms	ms	ms	ms	ms	ms	ms	ms	ms	ms	ms
Don Datoch	466.9	467.0	467.0	467.0	467.0	467.0	467.0	467.0	5719	5719	5719	5719
KEY DOMESTIC BRANDS												
Yara Brand Family	317.6	317.2	317.2	317.2	317.2	317.2	317.2	317.2	3099	3099	3099	3099
Yara Soft Cup	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	1740	1740	1740	1740
Yara Hapsa Ltd	70.7	70.7	70.7	70.7	70.7	70.7	70.7	70.7	724	724	724	724
Kosmas Brand Family	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0
Kosmas Soft Cup	70.7	70.7	70.7	70.7	70.7	70.7	70.7	70.7	724	724	724	724
Kosmas Hapsa Ltd	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0
Porma/Other Plans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0
MARKET BRANDS												
Banray	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4	161	161	161	161
H8 KS	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	141.4	141.4	141.4	141.4
Hollywood	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	293.9	293.9	293.9	293.9
JPS	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	310	310	310	310
Kari Brand Family	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	280.3	280.3	280.3	280.3
Kari KS	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	228.1	228.1	228.1	228.1
Kari Supertights	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	22.4	22.4	22.4	22.4
Kim	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	49.9	49.9	49.9	49.9
Kim Masabod	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	31.0	31.0	31.0	31.0
Kim Sam Sam	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	19.0	19.0	19.0	19.0
Lucky Strike Brand Family	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	464.6	464.6	464.6	464.6
Lucky Strike	69.7	69.7	69.7	69.7	69.7	69.7	69.7	69.7	441.6	441.6	441.6	441.6
Lucky Strike Lights	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	22.1	22.1	22.1	22.1
Full Mail Brand Family	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9	281.5	281.5	281.5	281.5
Full Mail Supertights	41.4	41.4	41.4	41.4	41.4	41.4	41.4	41.4	201.6	201.6	201.6	201.6
Full Mail KS	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	29.9	29.9	29.9	29.9
Sara Express SS	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	41.2	41.2	41.2	41.2
Victory	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	31.1	31.1	31.1	31.1

2.3.3. Market Trends

Retail Audit - Moscow

The Retail Audit for Moscow is as follows:

The overall market volume has decreased by 10.6 %.

(a) Major Company S.O.M. (%)

Corporate off-take share for BAT was up vs last month for local brands and remained at the same level for international brands.

	Nov	Oct	Variance Pts
BAT Local	18.1	17.7	+ 0,4
BAT Int	1.7	1.7	=
BAT Total	19.8	19.4	+ 0,4
PMI	42.4	42.1	+ 0,3
RJR	14.8	14.5	+ 0,3
Rothmans	4.6	5.0	- 0,4
Reemstma	1.2	1.4	- 0,2
Other Imported	1,7	1,8	- 0,1
Other Local	15.5	15.0	+ 0,5

(b) Major Brand Family S.O.M. (%)

	Nov	Oct	Variance Pts
Davidoff	1.2	1.4	- 0.2
Marlboro	16.0	16.2	- 0.2
Camel	4.8	4.8	=
Kent	0.7	0.6	+ 0.1
L&M	16.7	16.4	+ 0.3
Chesterfield	3.8	3.7	+ 0.1
Lucky Strike	0.7	0.6	+ 0.1
Winston	3.6	3.5	+ 0.1
Bond	1.9	1.9	=
Magna	1.6	1.5	+ 0.1
Peter I	2.1	2.1	=
Yava	13.7	13.6	+ 0.1
Hollywood	0.0	0.0	=

All PMI brands, except all versions of Marlboro, increased off-take during the month which resulted in corporate brand share increase of 0.3 pts.

Yava brand share has slightly increased, 0.3 pts for SC and 0.1 for HL.

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(c) Moscow Lights brands segment evolution (%)

	Nov	Oct	Variance Pts
Marlboro	7.7	7.8	- 0.1
Camel	1.0	0.9	+ 0.1
Winston	0.3	0.3	=
Parliament	1.2	0.9	+ 0.3
L&M	1.2	1.1	+ 0.1
Kent SL	0.1	0.1	=
Dunhill	0.1	0.1	=
Pall Mall	0.1	0.1	=
PM Sup Lights	0.6	0.4	+ 0.2
Davidoff	0.5	0.5	=
Pierre Cardin	0.2	0.1	+ 0.1
Total	13.0	12.8	+ 0.2

2.3.4. Price/ Excise/ Tariffs

EXCISE

This month in official bodies, including the State Duma, BAT was lobbying jointly with Tabakprom on ad valorem excise system. The lobbying was against the specific excise system, proposed by Philip Morris and other international manufacturers and promoted through International Tax and Investment Center (ITIC).

Several publications explaining our position were released on this issue in the most important Russian newspapers. There also was some coverage on national TV and radio.

The lobbying is to be carried on in December, when the law should be approved.

2.3.5. Competition

PMI

"Chesterfield" promotions in major cities,

Hiring merchandisers in smaller town,

Consumer promotion on "Bond Street" continues in various regions inviting consumers to win fishing or picnic equipment,

PMI withdrew all contracts for domestic brands from regional and Moscow distributors and focused them in the hands of 6 importers,

PMI started dumping Appollo-Soyuz in the trade. They made it compulsory to buy Appollo-Soyuz together with other brands.

RJR

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"Camel Trophy" campaign,

"North Star" still remains strong with St.Petersburg (651 availability) as stronghold.

Rothmans

Consulate being actively pushed in the trade.

2.3.6. Consumer Marketing

Local Brands

Yava/ Kosmos Consumer Switching

At the last National Sales meeting the issue of potential Yava/Kosmos consumer switching in Saratov and other regions was raised. We have conducted the following analyses to find out the key reasons .

1 Prices

Kosmos/Yava Retail Prices week 38-47 \$/pack (Saratov)

week	Yava SC	Yava HL	Kosmos SC	Kosmos HL	Rodopi	Peter 1
38	0.34	0.37	0.27	0.33	0.4	0.62
40	0.33	0.38	0.27	0.33	0.42	0.64
43	0.34	0.37	0.28	0.32	0.45	0.62
45	0.33	0.36	0.29	0.32	0.44	0.61
47	0.32	0.36	0.29	0.36	0.45	0.59

November (All Russia) (Rub)

Average Price for Yava HL	1,938	Yava SC	1,765
Average Price for Kosmos HL	1,818	Kosmos SC	1,490
Average Price for Rodopi	2,299		
Average Price for Peter 1	3,193		

2.Distribution

Kosmos/Yava Distribution % (Saratov)

week	Yava SC	Yava HL	Kosmos SC	Kosmos HL	Rodopi	Peter 1
38	13	10	47	24	36	38
40	13	8.5	38.5	26	35.5	35.5
43	15.5	16.5	40.5	36.5	44.5	54
45	17.5	20	39	45	47	50.5
47	18.2	21.5	42.5	47.7	42.5	57.9

November (All Russia) %

Average distribution Yava HL	26.6	Yava SC	27.9
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Average distribution Kosmos HL	9.9	Kosmos SC	9.6
Average distribution Rodopi	44.2		
Average distribution Peter 1	35.8		

Key conclusions

- As can be seen from the above Yava and Kosmos belong to the very similar price segment. It makes them competitors.
- The distribution of these brands are different in every region but there is no significant gaps in distribution network that can provide switching to another brand.
- The fact of consumer switching between Yava/ Kosmos must be continuously analysed in every region.
- Peter 1 brand retail price has been reduced, distribution is higher than all competitor brands. It is more likely that Kosmos is losing share because of their than switching to Yava

Kosmos brand

	Nov '96	SOP Nov	Var	Nov '95	Var	YTD '96	Var SPLY
	mns	mns	%	mns	%	mns	%
Kosmos SC	59.5	102.0	-42.0	0.0		490.4	+100,0
Kosmos HL	71.1	102.0	-24.0	70.7	+0,6	742.8	+10,4
Total	130.6	204.0	-36.0	70.7	+84,7	1233.2	+83,3

Kosmos brand sales decreased due to seasonality unfulfilled contract orders from the region and increased competitors activity.

In Saratov continuing post launch research indicated decreased consumer share, trial, purchase and growing market share of Peter 1 brand in the region.

In Moscow and Samara key marketing parameters: trial, purchase and advertising awareness have not been changed significantly after Kosmos relaunch in August 1996

In Volgograd ad. Awareness strongly increased but it has not led to increase of purchase and trial

In Moscow Volgograd and Samara Kosmos of Yava - Tabak is very high (90-100%)

Current activity

ATL - On the new orbit of quality execution 2-nd wave Outdoor campaign in Volgograd, Saratov, Samara continues until the year end.

BTL- A consumer promotion was run in Volgograd. Overall 800 consumer contacts were made purchasing 5 packs for instant reward.

Product development

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Packaging design mock ups incorporating the Yava factory logo and leaves are in progress to allow a toppling focus group research in Volga region re intended pack enhancement to aid differentiation vs competitive Kosmos products.

Oval Plain brands

	Nov. '96	Nov. '95	Var.	YTD '96	Var SPLY
	mns	mns	%	mns	%
Prima YTF	253.7	326.6	-22.3	3167.5	-2.7
Prima STF	247.1	254.7	-3.0	2978.8	-13.6
Astra	81.7	53.2	+53,6	739.7	+43,4
Total	582.5	634.5	-8.0	6886.0	-4.6

Prima YTF sales plan was not fulfilled under the following reason. In October '96 Moscow Government imposed obligations on Yava-Tabak to supply 50.5 mns of Prima to the Ministry of Defence trading company (Voentorg). Up to end of November Voentorg has taken only 1.5 mns of product (it claimed that the price is too high). The stock for this order is still kept at the warehouse.

Also there were sales contracts made with distributors in the regions which were unfulfilled. At STF extra stock was made within the month of October to avoid sharp deficit during the factory shut down. This led to higher than planned closing stock of Prima at the month end.

As of November 19, 1996 STF started production of new varnished packaging. Still there is difference in quality of product from old machinery (DKJets) and other machines (Lof 3000). Product from old machinery is sold mainly in Volga region (approx. 40 % of total STF oval plains volume), other regions get the product produced on Lof machines.

Product Development

Conformity sign which will be obligatory as of January '97 was incorporated into the pack design.

Unified new die prints are still in progress.

Work on improving cigarette quality is being done to reduce tar/nicotine delivery.

Distribution/Price

No significant changes has been observed in November.

Distribution of Prima Yava is increasing within Moscow Oblast (18.5 % vs 11.3 % avg. October) and has slightly increased in Region 10000 (Voronezh) (1.4 % vs 1.0 % avg. October). In Moscow distribution of Prima Yava is stable (8.4 % avg. November, 8.3 % avg. October).

Distribution of Prima STF is increasing in Volga region (23.6 % vs 17.4 % avg. October) and in St.Petersburg (2.6 % vs 2.0 % avg. October).

Prima Ducat slightly decreased distribution in Region 10000 (18.8 % vs 21.5 % avg. October) and has firm high distribution in Region 7000 (N.Novgorod) - 31.7%.

Retail prices for Prima Yava decreased in Moscow (1039.4 Rbls vs 1052.5 avg. October) and in Region 10000 (1061 vs 1083.8 avg. October) becoming more or less at parity with Prima Ducat (1025.6 in Moscow and 1059.5 in Region 10000).

(See attached for details). This can be explained by seasonal factor i.e. demand goes down therefore traders command less margin.

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Imported brands.

(a) Hollywood

Volume shipments during the month was 111 mns including 80mns of volume not yet custom cleared. YTD volume (included shipments) is 185.3 mns which is still down vs S.P.L.Y.

Hollywood distribution shows positive trend of growth Nationally with significant results achieved in St. Petersburg,(36%) Murmansk/Arhangelsk (40%), Voronez/Lipetsk /Belgorod (40%) (see attachments for details)

Hollywood average retail price (3000-3200) is 5% premium vs Bond Street(2900-3100) and 7-8% premium to Magna (2700-2900) positioning Hollywood at top level in VFM segment (detailed information see in attachment).

Planned activity

A sales cycle (13) is on, to improve distribution in St. Petersburg. Kaliningrad is also in cycle due to 6 mio of Hollywood arrival by end of November.

Brand development

STM test is in development process to run full fledged research in St. Petersburg.

Product

Hollywood CPT preliminary results indicates preference of Hollywood -2 blend over current and HW3. Additional Oracle CPT will be run to confirm product acceptance. Hollywood -2 formula to be proposed for replacement to Germany, to have product update as of Year 1997.

Advertising

When Agency will resume its work, following issues will be explored in Hollywood Brand Plan for year 1997:

- BTL Hollywood rock umbrella
- Development of Radio advertising
- BTL music event sponsorship
- Channel specific promotions agreed

New BTL graphic device is expected w/c December 2,96.

Competitors:

Sovereign continuously improving its distribution in St.Petersburg (from 53% to 56%) Bond Street pricing trend indicates price steady reduction across Russia, which can be explained by improved situation with product availability.

Peter 1 build its distribution in Moscow from 29.7 % in October to 32.6% in November averaging to 31.5% in Russia.

Portfolio Management

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Distribution of the imported International brands increased slightly in Moscow and St.Petersburg but is lagging behind in other area's due to the price instability. Stabilization and return to strategic pricing levels can be achieved once regular supply and stable pricing has been achieved starting at the importer level.

Brand profitability

No figures available

Spend

Total BSE budget of US\$11,070 has been further reduced to US\$9,545 for 1996. Please find attached an overview of YTD November BSE budget status.

Key Promotional Activities

Lucky Strike

Media cycle for Lucky Strike in Moscow and St.Petersburg during the month featuring the "Pinute Butte" execution. One 12 x 4 Trivision board was placed at the Leningradsky Pr.

Final preparations were made for the simulator promotions due to take place in December.

Preparations for the 1997 Lucky Strike plans are behind schedule due to the absence of BATES in Moscow. The Agency continues to be the subject of a Tax police investigation and statements of tax officials indicate that criminal proceedings may start in December. Given this situation no Agency contact has been possible

Kent

No significant activities to report.

Pall Mall

The new Pall Mall creative "Light up the Night" was reviewed and recommendations for local adaptation (no smoking) were made to the Agency. Research has been placed on hold due to the request by Marketing management to reduce the dominance of the neon used in the campaign.

A decision on which Pall Mall blends to be tested along with L & M and Chesterfield for Russia will be taken after the Hollywood CPT results are available from Central M. R./ Central Product Development.

Other

- Market visit was made by Mr.T.Ayres from Media Audit to Moscow in order to assist in the development of the most effective media purchasing procedures for both International and Local brands.

- Instructions regarding the required sign of conformity have been communicated with the responsible parties in Hamburg.

- The position of Brand Manager Lucky Strike will be vacant as of 1/1/1997.

Appendix 1

2.3.7. Trade Marketing

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Trade environment

More and more kiosks are being rebuilt into pavilions (bigger area than kiosks, consumers can get into pavilion and do their shopping hence bigger assortment and more choice for consumers).

Stricter control from trade inspectors to make sure that proper procedures of documentation is followed by the trade.

In the regions workers are still not paid the salaries resulting in lowering of the purchasing power.

Market situation

Imported brands

In November the situation has not changed a lot if compared with October. The flow of BAT international brands is continuing through 3 main importers: Flamingo, Samos and Savva-Universal. They still have to import cigarettes using privileges as they have big irrevocable deposits of money for those particular stamps. This situation creates a lot of problems for some of them as the customs does not accept these stamps, so they have to pay all duties besides the price they paid for the "privileged" stamps.

The seasonal demand decline is visible, but it is supposed to jump by the end of the year and fall back in the end of January - beginning February.

Unfortunately low demand leads to price decrease at the wholesale level. e.g. Flamingo was selling LS at \$ 0.65 in September, \$ 0.55 in October and finally \$ 0.54 in November. This price fluctuation have negative impact on trade at wholesale level; big wholesalers prefer to have small stock of BAT brands, being afraid of continuing price drop.

Domestic brands:

Actual sales for Yava H were 15,7 % lower than sales forecast mostly due to slow offtake in the regions, Yava SC, in spite of seasonal decline in demand, was only 3.8% behind the sales plan due to very high popularity in Moscow. The sales of Kosmos was lower simply because a lot of contracts which were concluded in November will be picked up in December. Sales of Prima STF due to the production shortage in Saratov also were below the sales forecast (see enclosure).

Total Closing stock in the end of the cycle is 605.9 mn. sticks for BAT RUSSIA.

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Trade Margins

In the tables given below are trade margins through the supply chain from distributors to retailers. In St.Petersburg the average is derived from 220 retail outlets and 5 wholesalers. In Moscow 1240 retail and 136 wholesale outlets were surveyed.

St.Petersburg

	margins			avail.	
	Distributors	%	Wh.market	%	Retail
Yava HL	7		8	40	31.1
Yava SC	3		8	80	43
Kosmos HL BAT	1		7	80	40
Kosmos SC BAT	4		4	60	53.6
Kosmos HL RJR	2		6	80	30
Kosmos SC RJR	2		8	60	40

Moscow

	Distributors	%	Wh.market	%	Retail	%
Yava HL	12		7	73	42	19.7
Yava SC	3		8	79.4	51	44
Kosmos HL BAT	11		9	17.0	32	6.1
Kosmos SC BAT	6		9	23.0	45	5.2
Kosmos HL RJR	2		8	3.7	30	1.1
Kosmos SC RJR	2		11	2.2	30	1.3
Lucky Strike KS	-		11	67	54	44
Kent KS	-		9	68.4	62	46
Hollywood	-		6	20	36	3.3
Marlboro	-		-	83.1	52	89
L&M	-		-	87	35	82

Activities of the filed force

By the end of the cycle 12 the team visited 34.144 POS's and our database reached the level of 55.981 clients. The number of "deletes" in our database is very high due to high percentage of small convenience outlets and tendency of rebuilding them into bigger pavilions.

Convenience	-37.987 (68%)	Cash&Carry	-366
Grocery	-8.200	Wholesale container	-395
HORECA	-3.193	Wholesale account	-42
Retail Accounts	-2.429		
Wholesaler	-1.816		

Number of retail orders make by TMR&MD is 9000 (almost 6 per visit), in average the order consisted of 2.6 brands. The volume distributed by the filed force is 198.371 ctn. (129 ctn. per visit).

First 5 leaders from the point of distribution:

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Brand	Distributions	Volumes (ctn.)
Yava H	4.302	29.101
Yava S	3.947	78.893
LS	3.545	10.153
Kent	2.155	8.665
Kosmos H	2.151	10.435

Facing was done in 10.230 outlets (30% of visited).

Merchandising was done in 5.488 outlets (16% of visited).

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BAT Russia
Sales & Production Performance November 1996

1. SOP

	Opening Stock	Production	Sales	Closing Stock
Yava Soft Cup	164,0	575,0	600,0	139,0
Yava Hinge Lid	53,0	313,0	320,0	46,0
Yava Prima	90,0	266,0	356,0	
Yava Product Total	307,0	1154,0	1276,0	185,0
Kosmos Soft Cup	57,0	45,0	102,0	
Kosmos Hinge Lid	72,0	30,0	102,0	
STF Prima	127,0	160,0	270,0	17,0
Astra	60,0	28,0	60,0	28,0
STF Product Total	316,0	263,0	534,0	45,0
Total BAT Russia	623,0	1417,0	1810,0	230,0

2. Actual

	Opening Stock	Production	Sales	Closing Stock
Yava Soft Cup	164,1	623,3	577,2	210,2
Yava Hinge Lid	53,1	300,3	269,7	83,6
Yava Prima	90,5	289,4	253,7	126,2
Yava Product Total	307,6	1213,0	1100,6	419,9
Kosmos Soft Cup	64,3	54,0	59,5	58,8
Kosmos Hinge Lid	76,4	54,5	77,1	46,6
STF Prima	139,3	160,0	247,1	52,2
Astra	64,5	45,7	81,7	28,5
STF Product Total	344,5	314,2	465,4	186,1
Total BAT Russia	652,1	1527,2	1566,0	606,0

3. Variance (SOP v. Actual)

	Opening Stock	Production	Sales	Closing Stock	Unfilled Contracts	No Contract
Yava Soft Cup	0,1	48,3	-22,8	71,2	8,5	-14,3
Yava Hinge Lid	0,1	-12,7	-50,3	37,6	15,2	-35,1
Yava Prima	0,5	23,4	-102,3	126,2		-102,3
Yava Product Total	0,6	59,0	-175,4	234,9	23,7	-151,7
Kosmos Soft Cup	7,3	9,0	-42,5	58,8	1,0	-41,5
Kosmos Hinge Lid	4,4	24,5	-24,9	46,6	25,5	0,6
STF Prima	12,3		-22,9	35,2	11,1	-11,8
Astra	4,5	17,7	21,7	0,5	0,5	22,2
STF Product Total	28,4	51,2	-68,6	141,1	38,1	-30,5
Total BAT Russia	29,1	110,2	-244,0	376,0	61,8	-182,2
% Variance	4,7	7,8	-13,5	163,5		

Note Opening Stock Differences relate to transit stocks not verified in November.

***** 7.2 millions written off

Appendix 2

2.4. Cost Base

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2.4.1. Production

Yava Factory

Production

Production output for November was again above S&OP. Average daily output (excluding overtime) increased to 58 mns /day in November from 56 mns / day in October. Total output was 58.9 mns above S&OP plan.

Gains in output from all Protos / GD lines were consolidated in November. A single shift operation was introduced on Protos / GD X1 #3, the second shift will start in December as soon as the crew is fully trained.

Style	CoPlan	S&OP	Actual (Normal Hours)	Actual (Overtime)	Actual (Total)
Soft Cup	522.03	575.00	585.90	37.40	623.27
Hinge Lid	512.50	313.00	297.80	2.50	300.32
Oval Plain	219.78	266.00	260.60	28.70	289.35
Totals	1,254.31	1,154.00	1,144.30	68.60	1,212.94

Modernisation Project

Installation of the first Cut Tobacco Silo in PMD continued during November. The installation of the control system in PMD (level 3) commenced.

The KS Protos (linked to GD X2NV) passed protocol achieving an outstanding efficiency over the three days of 94%. The protocol was co-ordinated by a representative of Technical Services from the UK. The results of the GD X2NV protocol, carried out last month, were analysed and the machine passed.

Protos / GD X1 #3 commenced production whilst the installation of Protos / GD X1 #4 was started.

Installation of the centralised vacuum cleaning system for all production floors is now underway.

Building #4; Level 1 is now complete and ready for occupation. Commissioning of Heating and Ventilation systems was carried out and all staff have been trained in the operation of Mechanical and Electrical systems. BAT Russia offices now complete.

All permissions have been obtained. One item remains pending this being the Geotechnical conclusion regarding the foundations. Mosexpertise are expected to deliver this by 2nd week of December.

Appendix 3

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Appendix 4
Appendix 5

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Capex Spend in Month

Paid by BATCo	US\$ 109,300
---------------	--------------

Bank	Opening	Closing
Portabank Rbls	3,061 mn	3,061 mn
Econombank Rbls	-5,045 mn	-4,449 mn
Citibank US\$	9,087	8,219
Citibank Rbls	724 mn	878 mn
[Citibank US\$ Expected	497,401	247,401

MSD

Shipments

November 1996	Prima	Astra	Kosmos HL	Kosmos SC		Total
Production	160.0	45.7	54.6	54.0		314.3
Sales	233.8	76.2	82.4	48.0		440.4
Stock 30/11/96	42.6	23.9	21.6	22.2		110.3

By entering the month with very high stocks, the amount of sales lost as a result of the shutdown was minimal, as evidenced by the relatively high closing stocks.

The factory resumed production as scheduled after the shutdown with three shift working. 314 mn cigarettes were produced in ten days, slightly exceeding the S&OP requirement for every brand.

Conditions in the factory are considerably improved since the shutdown with dust levels reduced and heating available in all areas.

Leaf Stocks

30/11/96	Tonnes	Roubles
Leaf stocks	699	7,844 mn

Stock durations continued to improve, mainly due to improved regularity of supply from UzBAT and the factory shutdown.

Health & Safety

There were no reportable accidents during the month.

Factory Project

Weather conditions remained good throughout the month enabling external works to continue unimpeded.

The administration move to level 2 was completed in line with the revised schedule. This will allow occupation of level 1 and the removal of temporary offices in the production building.

Apart from the final stages of commissioning of some equipment and some general tidying-up, the project is substantially complete in the production and administration buildings. The remaining works are centred around the warehouses and the hazardous materials store. The majority of the Taylor Woodrow workforce will leave by 19th December, although a small team will remain into the New Year.

Saratov Refurbishment Project

The expenditure during the month of \$ 741,020 was due to the following activities:-

T.W.I Main Construction Activities:-

Production Building; The general refurbishment work has continued; both the male and female lockers and showers are now complete, the Core C toilets are almost complete, this area still needs to be tiled. The floors to SMD & PMD have been painted with the epoxy paint. All ventilation systems are now operational. Work now started on new Q.A. area and is progressing well.

Tobacco Warehouse; Substantially complete, heating remaining

Integrated Stores Building; Building structure is now complete, BAT have taken occupancy. M&E work still progressing. Level 2 FGS racking partly assembled.

Energy Centre; Substantially complete, floor painting outstanding

Engineering Workshops; Substantially complete.

External Works; Substantially complete, new entrance guard-house outstanding.

Administration Building; Substantially complete

WMS Building 17; Work progressing, new floor complete, new ceiling complete, M&E work unfinished.

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General; The acceptance committee are currently reviewing the substantially complete buildings. Some of the comments especially from the fire officer are concerning. We are addressing these as best we can.

T.W are working towards having all the contractual scope of work finished by 15-12-96, at which time T.W will be leaving site. Next year a smaller team of specialists (approx. 40 people) will return for finishing works, snagging items, variation works and any other special requests from the local authorities as a result of the acceptance committee comments.

BAT Activities:-

PMD; During November we have completed the remainder of the Dickinson installation work. The new cutter feed system has been made operational along with the box fill. The PMD is now running at 4000kg/hr and are currently trying to optimise operations. The arrival of our new Production Manager will obviously aid this process.

The KTC80E cutter was installed by Hauni and is operating well, we can now switch between the two existing cutters or the new cutter.

Cardwell have completed the installation of the new Tipper Feeders and pneumatic feed pipes. This system is at present being optimised, but in general running well. The centralised vacuum cleaning system is currently being installed on the third floor.

SMD; Now all three OS-4000's have successfully completed protocol. As a result of the last EXCO meeting, all Dekajet / Puch packers are to be decommissioned. This should start end Dec. BAT-STF are still waiting for the stamper units to be supplied from Schmermund through the Tobacprom/Russian Government credit deal. These are expected in Jan 97 and will be fitted to our two OS-4000's.

Independent Contracts:-

None placed this month.

Expenditure for the Above Activities:-

T.W.I Expenditure;

Expenditure for the T.W activities above are split as follows:-

ON-SHORE = \$ 284,820

OFF-SHORE = \$ 342,400

BAT Expenditure;

An order was placed for a Cardwell Briquette Press at \$113,800

Contingency

Total Expended to date = \$ 466,200

Total Unexpended to date = \$ 313,800

Note: \$350,000 has been transferred from the machinery budget due to anticipated overspend on the Building Contract

The Project is approximately 95% complete.

Appendix 6

2.5. Business Support Activities

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2.5.1 Human Resources

Assessment Centre

Assessment Centre training was organised for top and middle management of BAT Russia. There were five local managers and five expatriates assessing nine internal graduates, one of whom was selected for the "Challenge Initiative" programme.

Career Development Meeting

Career Development Meeting - November, 26-27.

Future career moves and needs for development were discussed for some 60 managers from all units of BAT Russia. For the first time this group included managers from Yava and Saratov factory.

Training & Development

Team Building course - 17 middle managers of Yava factory went through this training.

Victor Kornienko and Dmitriy Polyakov both from HR attended respectively "HRTM Professional Managers development programme" and "Salary Management" programme in UK.

Vladimir Soloviev (Trade Marketing) participated in Field Force follow-up training. English language lessons were organised for 27 employees of Yava and Saratov factory.

Appendix 7

Appendix 8

Management Recruitment

3 management trainees, selected following the Assessment Centre which took place in September 96, joined on 7.10.96

Project Manager (Yuriy Vlasov) in Production department with effect from 14.10.96

Compensation & Benefits Manager (Dmitriy Polyakov) in Human Resources on 1 October 96.

Regional Manager for Saint-Petersburg (Alexander Silyaev) on 23 October 96

Graduate Recruitment

On 23 October 96 BAT together with 14 other multinational companies participated in the Career day organised by International Association for the Exchange of Students for Technical Experience in Russian Economic Academy, Moscow.

Over a thousand students from more than 20 leading Universities & high schools of Moscow turned up.

Training & Development

Time Management Training - 43 participants (provider - TMI)

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PACE training - 4 sessions (Yava administration; Top Management of former BAT Deutschland; Divisional & Regional Managers; employees of grades 34 & 33)

Job evaluation (HAY system) - for HR department staff

2.5.3. Corporate Affairs

After the first reading in the State Duma it is now clear that excise on tobacco goods will be harmonised in the form that we will have a 20% ad valorem tax. It is also clear that the minimum tax amount for oval plain cigarettes without filter will be Rbl 5 500. There is considerable debate carried by one local producer whether the minimum tax on filter cigarettes should be Rbl 7 500 or Rbl 10 000 per 1 000 cigarettes. This question will be decided still before the end of December 1996.

The Law on Advertising will also be re-examined. Public hearings are scheduled for December 17th. BAT will make a formal presentation supporting a better regulation of sponsorship by trade marks on TV programmes, supporting authority over tobacco advertising only on the federal level and carefully supporting pack only advertising on TV. There is at the moment no danger that tobacco advertising will be banned completely.

NMA

BAT through Yava and Saratov factories became a member of the local National Manufacturers Association (NMA). Other international manufacturers (except Liggett) were not admitted due to their position on excise. Leonid Sinelnikov became a member of the Board and representative of BAT-STF - a member of Associative Commission.

2.5.4. Legal

Appeal for cancellation of our trade mark Kosmos made by RJR-Petra has been declined by Appeal Chamber of Patent office of Russian Federation. Patent officer representing RJR-Petra in these hearings failed to submit sufficient evidence of use of Kosmos by other independent factories at the time of "Yava" application in 1979. Tabakprom (who has all necessary evidence) is doing nothing at the moment taking into account our mutual interests on excise issue but this will change if we continue to insist on licensing agreements.

JSC "BAT-STF" share emission of 1 059 545 600 common shares issued for BAT has been registered. When placement is made and report on placement is approved by Ministry of finance, BAT shareholding in "BAT-STF" will be 99.97%.

2.5.5. Information Technology

Materials Requirements planning is now being run weekly in Yava Yabak and scheduling suggestions are being used to plan materials. Thus the objective of having completely reliable materials planning data by the end of the year remains achievable. Saratov continues to run brought financial systems up to date, but poor initial set up of

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Sales Order Processing by the former IT Manager has required rectification. Purchasing and MRP module training has taken place.

ITMS systems operated smoothly in the month, with full running of necessary Chameleon modules and Platinum Payroll & Fixed Assets, though the Platinum Payroll continues to encounter some operational difficulties.

An IT Training Officer was appointed in November from existing staff and a full training programme for Battalion standards for desktop operation is under way

The certification of telephone connections by the Local Telephone Exchange of the Moscow Public telephone service(MGTS) with spurious additional costs, has been avoided by installation of lines from another carrier.

2.6. Finance

- . The credit given to importers continues to be monitored closely. We are being faced with some delayed payments as a result of slow offtake from importers as a result of market loading by non-credit customers Evros/Daver in October and November.
- . The Audit and Systems Department, to assist managers with the implementation of procedures and controls to comply with the recommendations of the International Audit has commenced work and is in the process of being staffed. Procedures have been put in place for cash and advance controls in the Moscow Office. The transfer of sales staff to ITMS has meant that all field staff now are required to follow the rigorous Soviet Style control system for business trip expenses, and this has considerably assisted in improving controls. Work has started on implementation of proper and extensive controls for Brand marketing expenses.
- . The database, set up in Yava and Saratov, to enable the full reconciliation of Russian accounting records with UK accounting records and provide the necessary audit trail required by the Property Funds for Investment agreement compliance is being actively used in both sites to track necessary information.
- . The major banks are being contacted to ascertain whether they have the necessary Branch network to support the receipt of cash closer to the customers and the necessary IT infrastructure to enable electronic monitoring of funds receipt. One promising contact, Inkombank, has been located and is being investigated.

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**General Manager's Monthly Review
BAT RUSSIA**

Unit / Cluster : _____

Month : ____ November '96

Currency : _____

Appendix 2.4.1 Production

	Month		Cumulative		Year End Estimate	
	Actual	Budget	Actual	Budget	Actual	Budget
Production Volumes (1)	1527.24	1695.83	15,013.26	18,654.17	16,250.00	20,350.00
Conversion Costs (2)						
Productivity (3)	8,207	9,003	6,816	9,003	7,000	9,003
Wastage (4) Leaf	11.79%	10.00%	12.79%	10.00%	12.80%	10.00%
WMS	3.51%	7.00%	5.20%	7.00%	5.20%	7.00%
Quality Index (5)	77	55	68	55	68	55
Safety (6) Lost Time Acc.	3	0	20	0	20	0
Reportable Accidents	2	0	13	0	13	0
Lost hours %	0.05%	0.00%	0.07%	0.00%	0.07%	0.00%

(1) As relevant by factory: Domestic / Export: Cigarettes / RYO / CRT etc.

(2) As currently defined under STEM

(3) As currently defined (Direct / Indirect) under STEM

(4) If not available, report 1 month in arrears

(5) As currently available e.g. PQRS

(6) As currently defined e.g. Lost Time Accidents; Accident Rate etc.

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Appendix 2

SUMMARY OF DAILY REPORTS FOR THE CYCLE : 12 (November 4 - November 29, 1996)

ACTIVITIES OF TMReps

Key of Duties Section*

	1000	2000	3000	4000
No of Staff	18TMR+3MD	13TMR+3MD	5TMR+2MD	13TMR
Week-days	409.00	320.00	138.00	260.00
08			2.00	
05	20.00	16.00	7.00	12.00
04	7.00	15.00	16.00	18.00
Work-days	382.00	289.00	113.00	230.00
NT	365.75	270.60	80.75	205.50
KM a.o.	30,011.00	11,729.00	6,900.00	9,708.00
KM/day	78.56	40.58	61.06	42.21
Cl. Previews	1,102.00	375.00	61.00	920.00
Clients a.o.	7,525.00	6,059.00	1,968.00	4,433.00
Calls /day	20.77	22.33	24.34	21.55
days off	16.25	18.40	32.25	24.50
10	8.38	3.90	13.50	17.00
09	0.50		2.50	
07			2.13	
06	4.38	0.50	2.13	1.50
03		8.00	6.50	1.00
02		4.00	1.38	1.00
01	3.00	2.00	4.13	4.00

Summary of "Order / Zakaz" Section

Volume Distributed (CTN)

	1000	2000	3000	4000
Yawa SC (01)	55,705.00	1,711.00	342.00	3,068.00
Yawa HL (02)	13,542.00	3,686.00	1,785.00	2,154.00
Kosmos SC (03)	3,061.00	774.00	108.00	2,960.00
Kosmos HL (04)	2,193.00	1,710.00	457.00	3,099.00
Lucky Strike (05)	1,886.00	1,429.00	663.00	1,309.00
Kent (06)	1,452.00	819.00	1,488.00	640.00
SE 555 (07)	329.00	158.00	104.00	250.00
Pall Mall (08)	1,121.00	399.00	331.00	827.00
Hollywood (09)	492.00	191.00	129.00	398.00

HB (10)	468.00	111.00	132.00	253.00
Other Int'l (11)	674.00	148.00	759.00	580.00
Other local (12)	16,468.00	3,724.00	29.00	15,057.00
Sum:	97,391.00	14,860.00	6,327.00	30,595.00

Distributions / Orders per Brand

Yawa SC (01)	841.00	416.00	105.00	608.00
Yawa HL (02)	718.00	917.00	277.00	459.00
Kosmos SC (03)	236.00	194.00	16.00	563.00
Kosmos HL (04)	298.00	470.00	108.00	528.00
Lucky Strike (05)	492.00	750.00	221.00	639.00
Kent (06)	440.00	349.00	293.00	335.00
SE 555 (07)	181.00	118.00	49.00	147.00
Pall Mall (08)	394.00	219.00	111.00	380.00
Hollywood (09)	214.00	96.00	46.00	211.00
HB (10)	240.00	96.00	62.00	125.00
Other Int'l (11)	249.00	110.00	165.00	210.00
Other local (12)	23.00	43.00	11.00	424.00
Sum:	4,326.00	3,778.00	1,464.00	4,629.00

No of Orders

Orders	929.00	2,064.00	500.00	1,886.00
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Summary of "Distribution / Listing" Section **

Brand Availability (Present (1)) - Number of Outlets

	1000	2000	3000	4000
Yawa SC (01)	4,638.00	723.00	96.00	1,174.00
Yawa HL (02)	2,484.00	1,367.00	196.00	981.00
Kosmos SC (03)	866.00	323.00	65.00	1,462.00
Kosmos HL (04)	686.00	700.00	75.00	1,251.00
Lucky Strike (05)	3,940.00	1,667.00	597.00	1,318.00
Kent (06)	3,611.00	876.00	895.00	777.00
SE 555 (07)	961.00	245.00	156.00	300.00
Pall Mall (08)	1,616.00	989.00	462.00	905.00
Hollywood (09)	933.00	316.00	274.00	368.00
HB (10)	1,145.00	415.00	177.00	312.00
Other Int'l (11)	1,011.00	386.00	563.00	488.00
Other local (12)	782.00	450.00	17.00	1,365.00
Sum:	22,673.00	8,457.00	3,573.00	10,701.00

Distribution % (Present (1))

	1000	2000	3000	4000
Yawa SC (01)	62.82%	13.60%	4.64%	27.31%
Yawa HL (02)	34.50%	23.53%	10.11%	22.35%
Kosmos SC (03)	12.33%	5.33%	3.26%	31.85%
Kosmos HL (04)	9.66%	12.10%	4.15%	27.72%
Lucky Strike (05)	52.83%	27.70%	31.00%	28.86%
Kent (06)	48.35%	14.56%	45.94%	17.44%
SE 555 (07)	13.53%	4.00%	8.04%	7.07%
Pall Mall (08)	22.69%	16.30%	24.27%	20.08%
Hollywood (09)	12.86%	5.73%	15.84%	8.99%
HB (10)	16.25%	7.05%	10.26%	7.01%
Other Int'l (11)	13.07%	6.41%	26.91%	11.09%
Other local (12)	11.25%	7.28%	0.76%	29.61%

New Distributions (New (2))

	1000	2000	3000	4000
Yawa SC (01)	369.00	112.00	89.00	351.00
Yawa HL (02)	413.00	203.00	237.00	265.00
Kosmos SC (03)	194.00	25.00	18.00	248.00

Kosmos HL (04)	239.00	80.00	69.00	203.00
Lucky Strike (05)	265.00	106.00	128.00	310.00
Kent (06)	254.00	59.00	112.00	278.00
SE 555 (07)	141.00	61.00	38.00	121.00
Pall Mall (08)	282.00	37.00	67.00	178.00
Hollywood (09)	169.00	32.00	29.00	161.00
HB (10)	196.00	26.00	35.00	100.00
Other Int'l (11)	177.00	37.00	67.00	150.00
Other local (12)	8.00	1.00	11.00	110.00
Sum:	2,707.00	779.00	900.00	2,475.00

New Distribution % (New (2))

	1000	2000	3000	4000
Yawa SC (01)	4.73%	1.80%	3.85%	7.86%
Yawa HL (02)	5.31%	3.28%	13.39%	5.95%
Kosmos SC (03)	2.46%	0.40%	0.83%	5.65%
Kosmos HL (04)	3.06%	1.26%	3.26%	4.56%
Lucky Strike (05)	3.42%	1.64%	6.89%	7.05%
Kent (06)	3.27%	0.97%	6.22%	6.11%
SE 555 (07)	1.83%	1.00%	2.49%	2.64%
Pall Mall (08)	3.67%	0.58%	3.86%	3.88%
Hollywood (09)	2.21%	0.48%	1.83%	3.47%
HB (10)	2.59%	0.41%	2.04%	2.20%
Other Int'l (11)	2.26%	0.61%	3.62%	3.37%
Other local (12)	0.11%	0.02%	0.49%	2.34%

No of Clients Out of Stock (3)

	1000	2000	3000	4000
Yawa SC (01)	2,518.00	5,224.00	1,783.00	2,908.00
Yawa HL (02)	4,628.00	4,489.00	1,535.00	3,187.00
Kosmos SC (03)	6,465.00	5,711.00	1,885.00	2,723.00
Kosmos HL (04)	6,600.00	5,279.00	1,824.00	2,979.00
Lucky Strike (05)	3,320.00	4,286.00	1,243.00	2,805.00
Kent (06)	3,660.00	5,124.00	961.00	3,378.00
SE 555 (07)	6,423.00	5,753.00	1,774.00	4,012.00
Pall Mall (08)	5,627.00	5,033.00	1,439.00	3,350.00
Hollywood (09)	6,423.00	5,711.00	1,665.00	3,904.00
HB (10)	6,184.00	5,618.00	1,756.00	4,021.00
Other Int'l (11)	6,337.00	5,636.00	1,338.00	3,795.00
Other local (12)	6,735.00	5,608.00	1,940.00	2,958.00
Sum:	64,920.00	63,472.00	19,143.00	40,020.00

Out of Stock % (3)

	1000	2000	3000	4000
Yawa SC (01)	32.45%	84.59%	91.51%	64.83%
Yawa HL (02)	60.18%	73.19%	76.50%	71.70%
Kosmos SC (03)	85.21%	94.27%	95.92%	62.51%
Kosmos HL (04)	87.28%	86.64%	92.58%	67.72%
Lucky Strike (05)	43.75%	70.66%	62.11%	64.09%
Kent (06)	48.38%	84.48%	47.84%	76.46%
SE 555 (07)	84.64%	95.00%	89.47%	90.29%
Pall Mall (08)	73.64%	83.12%	71.87%	76.04%
Hollywood (09)	84.93%	93.79%	82.34%	87.54%
HB (10)	81.16%	92.53%	87.70%	90.79%
Other Int'l (11)	84.67%	92.98%	69.47%	85.54%
Other local (12)	88.64%	92.70%	98.75%	68.05%

Merchandising / Facing

	1000	2000	3000	4000
Merchandising	3,238.00	99.00	100.00	168.00
Facing	2,466.00	936.00	534.00	1,732.00
Sum:	5,704.00	1,035.00	634.00	1,900.00

*** - Codes Used in "Key of Duties" Section**

00	normal tour
01	tour with SMD / NSM / RSM (for RSM - tour with field staff as well)
02	tour outside the region
03	conference with RSM / National sales meeting / Training course
04	holiday
05	national holiday
06	car reparation
07	office work
08	illness
09	display activities
10	special tasks (e.g. price check etc.)

- Codes Used in "Distribution / Listing" Section

Present (1)	- number of B.A.T. brands available at Client's stock before the call of B.A.T. Rep
New (2)	- number of B.A.T. brands not available at Client's stock before the call and distribu
N/A (3)	- number of B.A.T. brands which neither were available at Client's stock before the

5000	6000	7000	8000	9000
8TMR+1MD	3TMR+2MD	4TMR	10TMR+2MD	3TMR+1MD
180.00	100.00	80.00	220.00	84.00
6.50	5.00		14.00	1.38
9.00	5.00	4.00	11.00	8.00
24.63	10.00		14.00	
139.88	80.00	76.00	181.00	74.63
134.25	77.00	64.85	160.00	63.19
7,491.00	4,017.00	5,673.00	5,410.00	5,743.00
53.55	50.21	74.64	29.89	76.96
19.00	99.00	1,253.00	372.00	113.00
2,789.00	1,935.00	1,655.00	3,707.00	1,408.00
20.92	24.71	25.43	23.11	22.28
5.63	3.00	11.15	21.00	11.44
		4.00	0.50	4.75
2.63				
				1.50
		1.50		
1.00	3.00	2.00	15.00	1.00
2.00			4.00	1.50
		3.65	1.50	2.69

5000	6000	7000	8000	9000
762.00	1,033.00	1,002.00	2,800.00	10,852.00
1,264.00	1,136.00	628.00	2,328.00	1,418.00
83.00	452.00	410.00	1,025.00	463.00
177.00	521.00	374.00	717.00	884.00
185.00	294.00	357.00	2,141.00	1,162.00
87.00	178.00	414.00	427.00	2,740.00
22.00	12.00	83.00	9.00	1,432.00
157.00	226.00	183.00	237.00	71.00
7.00	55.00	73.00	1,919.00	178.00

7.00	85.00	70.00	128.00	23.00
56.00	153.00	31.00	215.00	36.00
	1,315.00	470.00	50.00	
2,807.00	5,460.00	4,095.00	11,996.00	19,259.00

354.00	240.00	255.00	780.00	74.00
450.00	236.00	181.00	675.00	94.00
41.00	50.00	132.00	306.00	43.00
95.00	56.00	106.00	351.00	67.00
140.00	147.00	180.00	547.00	165.00
62.00	77.00	174.00	145.00	199.00
22.00	5.00	41.00	18.00	58.00
115.00	98.00	87.00	67.00	21.00
6.00	27.00	44.00	409.00	35.00
6.00	34.00	43.00	68.00	6.00
31.00	54.00	18.00	57.00	7.00
	42.00	13.00	3.00	
1,322.00	1,066.00	1,274.00	3,426.00	769.00

646.00	445.00	376.00	1,124.00	302.00
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5000	6000	7000	8000	9000
1,004.00	439.00	383.00	768.00	165.00
1,231.00	481.00	276.00	413.00	175.00
406.00	205.00	202.00	389.00	107.00
444.00	64.00	169.00	230.00	211.00
1,247.00	806.00	513.00	1,564.00	489.00
632.00	438.00	355.00	535.00	603.00
288.00	94.00	46.00	99.00	188.00
1,297.00	565.00	186.00	418.00	154.00
232.00	96.00	134.00	1,165.00	190.00
340.00	115.00	156.00	452.00	72.00
279.00	179.00	81.00	507.00	159.00
2.00	4.00	33.00	16.00	12.00
7,402.00	3,486.00	2,534.00	6,556.00	2,525.00

5000	6000	7000	8000	9000
35.42%	22.78%	22.80%	22.53%	11.63%
44.03%	26.12%	17.51%	13.08%	12.27%
13.77%	11.90%	12.65%	11.79%	7.67%
15.63%	3.24%	11.20%	7.72%	15.02%
43.99%	43.76%	31.03%	42.02%	34.88%
22.17%	23.40%	21.24%	16.16%	42.44%
9.76%	4.54%	2.72%	3.24%	13.18%
45.71%	32.13%	11.41%	11.85%	10.76%
7.91%	4.82%	8.56%	32.21%	14.45%
12.28%	6.01%	9.87%	13.56%	5.32%
9.39%	8.62%	5.14%	13.52%	11.26%
0.07%	0.14%	2.42%	1.46%	0.85%

5000	6000	7000	8000	9000
201.00	215.00	123.00	364.00	86.00
214.00	142.00	73.00	322.00	99.00
17.00	33.00	52.00	187.00	55.00

54.00	50.00	40.00	136.00	58.00
58.00	72.00	65.00	197.00	65.00
37.00	41.00	70.00	79.00	107.00
16.00	6.00	32.00	23.00	70.00
32.00	48.00	42.00	52.00	39.00
5.00	24.00	22.00	197.00	28.00
4.00	28.00	27.00	77.00	25.00
13.00	27.00	4.00	65.00	27.00
	40.00	9.00	10.00	22.00
651.00	726.00	559.00	1,709.00	681.00

5000	6000	7000	8000	9000
6.89%	12.35%	7.00%	9.05%	6.28%
7.47%	7.53%	4.18%	8.15%	7.08%
0.61%	1.96%	2.91%	5.53%	4.25%
1.86%	2.58%	2.23%	3.50%	4.17%
2.06%	4.34%	3.80%	4.32%	4.67%
1.29%	2.35%	4.01%	1.77%	7.72%
0.50%	0.29%	1.88%	0.57%	5.16%
1.18%	2.57%	2.44%	1.15%	3.07%
0.20%	1.22%	1.27%	4.58%	2.24%
0.13%	1.32%	1.62%	1.77%	2.05%
0.43%	1.45%	0.29%	1.46%	2.12%
	1.64%	0.53%	0.24%	1.80%

5000	6000	7000	8000	9000
1,584.00	1,281.00	1,149.00	2,575.00	1,157.00
1,344.00	1,312.00	1,306.00	2,972.00	1,134.00
2,366.00	1,697.00	1,401.00	3,131.00	1,246.00
2,291.00	1,821.00	1,446.00	3,341.00	1,139.00
1,484.00	1,057.00	1,077.00	1,946.00	854.00
2,120.00	1,456.00	1,230.00	3,093.00	698.00
2,485.00	1,835.00	1,577.00	3,585.00	1,150.00
1,460.00	1,322.00	1,427.00	3,237.00	1,215.00
2,552.00	1,815.00	1,499.00	2,345.00	1,190.00
2,445.00	1,792.00	1,472.00	3,178.00	1,311.00
2,497.00	1,729.00	1,570.00	3,135.00	1,222.00
2,787.00	1,891.00	1,613.00	3,681.00	1,374.00
25,415.00	19,008.00	16,767.00	36,219.00	13,690.00

5000	6000	7000	8000	9000
57.68%	64.86%	70.20%	68.42%	82.09%
48.50%	66.35%	78.31%	78.78%	80.65%
85.62%	86.14%	84.44%	82.68%	88.08%
82.51%	94.18%	86.57%	88.79%	80.81%
53.96%	51.90%	65.16%	53.66%	60.45%
76.54%	74.25%	74.75%	82.06%	49.85%
89.73%	95.17%	95.40%	96.19%	81.66%
53.11%	65.30%	86.15%	86.99%	86.17%
91.88%	93.95%	90.17%	63.21%	83.31%
87.59%	92.68%	88.52%	84.66%	92.63%
90.17%	89.92%	94.57%	85.02%	86.62%
99.93%	98.22%	97.05%	98.30%	97.34%

5000	6000	7000	8000	9000
54.00	9.00	411.00	793.00	199.00
1,628.00	788.00	402.00	862.00	151.00
1,682.00	797.00	813.00	1,655.00	350.00

SMD - Sales & Marketing Director
NSM - National Sales Manager
RSM - Regional Sales Manager

ted by B.A.T. Rep during the call
call, nor distributed by B.A.T. Rep during the call

10000	11000	12000	Sum:	in%/MT
2TMR	3TMR	1TMR+1MD	83TMR+15MD	
40.00	60.00	40.00	1,931.00	100.00
			28.88	1.50
2.00	3.00	2.00	99.00	5.13
			104.63	5.42
38.00	57.00	38.00	1,698.50	87.96
30.00	52.00	38.00	1,541.89	
3,151.00	2,613.00	3,052.00	95,498.00	
82.92	45.84	80.32	56.22	
79.00	336.00	156.00	4,885.00	
630.00	1,227.00	808.00	34,144.00	
21.00	23.61	21.26	22.61	22.61
8.00	5.00		156.61	
8.00			60.03	3.53
			5.63	0.33
			3.63	0.21
			10.00	0.59
	5.00		42.50	2.50
			13.88	0.82
			20.96	1.23

10000	11000	12000	Sum:	AVG / NT
	1,434.00	184.00	78,893.00	51.17
	796.00	364.00	29,101.00	18.87
	145.00	14.00	9,495.00	6.16
	268.00	35.00	10,435.00	6.77
	427.00	300.00	10,153.00	6.58
	403.00	17.00	8,665.00	5.62
	35.00	1.00	2,435.00	1.58
	135.00	35.00	3,722.00	2.41
	392.00	5.00	3,839.00	2.49

	108.00	278.00	1,663.00	1.08
	96.00	79.00	2,827.00	1.83
	30.00		37,143.00	24.09
	4,269.00	1,312.00	198,371.00	128.65

	192.00	82.00	3,947.00	2.56
	153.00	142.00	4,302.00	2.79
	28.00	8.00	1,617.00	1.05
	57.00	15.00	2,151.00	1.40
	125.00	139.00	3,545.00	2.30
	65.00	16.00	2,155.00	1.40
	33.00	4.00	676.00	0.44
	39.00	26.00	1,557.00	1.01
	74.00	2.00	1,164.00	0.75
	31.00	126.00	837.00	0.54
	28.00	54.00	983.00	0.64
	2.00		561.00	0.36
	827.00	614.00	23,495.00	15.24

	464.00	264.00	9,000.00	5.84
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10000	11000	12000	Sum:	AVG / NT
325.00	375.00	154.00	10,244.00	6.64
291.00	372.00	162.00	8,429.00	5.47
35.00	79.00	32.00	4,171.00	2.71
16.00	189.00	23.00	4,058.00	2.63
317.00	674.00	395.00	13,527.00	8.77
202.00	489.00	174.00	9,587.00	6.22
24.00	122.00	58.00	2,581.00	1.67
127.00	365.00	159.00	7,243.00	4.70
231.00	556.00	50.00	4,545.00	2.95
136.00	235.00	417.00	3,972.00	2.58
51.00	334.00	318.00	4,356.00	2.83
2.00	3.00		2,686.00	1.74
1,757.00	3,793.00	1,942.00	75,399.00	48.90

10000	11000	12000	AVG / %
51.59%	30.79%	18.87%	27.07%
46.19%	29.13%	20.06%	24.91%
5.56%	6.68%	3.97%	10.56%
2.54%	14.44%	2.78%	10.52%
50.32%	52.17%	48.94%	40.63%
32.06%	37.91%	21.46%	28.59%
3.81%	9.68%	7.03%	7.22%
20.16%	28.96%	19.88%	22.02%
36.67%	43.31%	6.13%	16.46%
21.59%	18.44%	51.75%	14.95%
8.10%	25.30%	39.52%	14.86%
0.32%	0.23%		4.53%

10000	11000	12000	Sum:	AVG / NT
	54.00	65.00	2,029.00	1.32
	63.00	110.00	2,141.00	1.39
	5.00	9.00	843.00	0.55

	16.00	17.00	962.00	0.62
	13.00	56.00	1,335.00	0.87
	16.00	4.00	1,057.00	0.69
	23.00		531.00	0.34
	6.00	3.00	786.00	0.51
	11.00		678.00	0.44
	8.00	40.00	566.00	0.37
	9.00	14.00	590.00	0.38
	2.00		213.00	0.14
	226.00	318.00	11,731.00	7.61

10000	11000	12000	AVG / %
	4.13%	8.14%	6.01%
	4.78%	13.86%	6.75%
	0.45%	1.13%	2.18%
	1.22%	2.10%	2.48%
	1.02%	6.97%	3.85%
	1.24%	0.50%	2.95%
	1.78%		1.51%
	0.48%	0.38%	1.94%
	0.86%		1.53%
	0.63%	4.98%	1.65%
	0.71%	1.79%	1.51%
	0.15%		0.61%

10000	11000	12000	Sum:	AVG / NT
305.00	798.00	589.00	21,871.00	14.18
339.00	792.00	536.00	23,574.00	15.29
595.00	1,143.00	767.00	29,130.00	18.89
614.00	1,022.00	768.00	29,124.00	18.89
313.00	540.00	357.00	19,282.00	12.51
428.00	722.00	630.00	23,500.00	15.24
606.00	1,082.00	750.00	31,032.00	20.13
503.00	856.00	646.00	26,115.00	16.94
399.00	660.00	758.00	28,921.00	18.76
494.00	984.00	351.00	29,606.00	19.20
579.00	884.00	476.00	29,198.00	18.94
628.00	1,222.00	808.00	31,245.00	20.26
5,803.00	10,705.00	7,436.00	322,598.00	209.22

10000	11000	12000	AVG / %
48.41%	65.08%	73.00%	66.93%
53.81%	66.08%	66.08%	68.34%
94.44%	92.87%	94.90%	87.26%
97.46%	84.34%	95.12%	87.00%
49.68%	46.82%	44.09%	55.53%
67.94%	60.85%	78.04%	68.45%
96.19%	88.54%	92.97%	91.27%
79.84%	70.56%	79.75%	76.04%
63.33%	55.83%	93.87%	82.01%
78.41%	80.92%	43.27%	83.40%
91.90%	73.99%	58.70%	83.63%
99.68%	99.62%	100.00%	94.86%

10000	11000	12000	Sum:	AVG / NT
208.00	69.00	140.00	5,488.00	3.56
171.00	308.00	252.00	10,230.00	6.63
379.00	377.00	392.00	15,718.00	10.19

Appendix 3**PQRS CUMULATIVE DATA - 1996**

	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	Total
VOLUME										
YAVA SC	346.61	396.92	365.06	249.10	510.31	595.07	728.00	623.27		4,735.74
YAVA HL	214.50	187.42	178.91	115.88	211.66	217.96	326.28	300.32		2,079.04
PRIMA	343.00	340.19	302.26	163.09	268.30	268.30	343.91	289.35		3,187.60
TOTAL	954.06	977.82	886.13	528.07	990.27	1,081.33	1,398.19	1,212.94		10,350.73

PQRS

YAVA SC	75	52	78	72	74	73	74	75		72
YAVA HL	64	57	70	56	49	69	74	73		64
COSMOS	73	56	69							66
PRIMA	50	40	72	69	69	73	77	83		67
Weighted Average	63	49	74	68	67	72	75	77		68

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Appendix 4
BAT RUSSIA PRODUCTION SCHEDULE

	YAVA	SARATOV	prev. ytd	NOVEMBER			
				RUSSIA	TARGET	ytd target	YTD
1. MANUFACTURE							
TOTAL	1,212.94	314.30	13,486.02	1,527.24	1,695.83	18,654.17	15,013.26
HL	300.32	54.60	2,476.93	354.92	470.83	5,179.17	2,831.85
SC	623.27	54.00	4,603.83	677.27	558.33	6,141.67	5,281.10
PLAIN	289.35	205.70	6,405.26	495.05	666.67	7,333.33	6,900.31
2. PRODUCTIVITY							
DIRECT	14,254	8,725	10,929	12,610	15,688	15,688	11,079
OVERALL	9,428	5,472	6,688	8,207	9,003	9,003	6,816
3. EFFICIENCY							
LINKED GROUPS	78.57%	60.50%	68.34%	74.85%	72.00%	72.00%	69.00%
FILTER RODS	91.19%		82.39%	91.19%	70.00%	70.00%	83.55%
4. WASTE							
TOBACCO	13.37%	5.70%	12.90%	11.79%	10.00%	10.00%	12.79%
WMS	4.00%	1.60%	5.39%	3.51%	7.00%	7.00%	5.20%
5. PRODUCTION NUMBERS							
DIRECT	553	267	850	820	762	---	820
OVERALL	929	470	1434	1399	1354	---	1399
6. SAFETY							
LTA	2	1	17	3	0	0	20
RA	2	0	11	2	0	0	13
% LT	0.06%	0.004%	0.07%	0.05%	0.00%	0.00%	0.07%

800541512

Appendix 4
BAT RUSSIA PRODUCTION SCHEDULE

	YAVA	SARATOV	prev. ytd	NOVEMBER			
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OVERALL	929	470	1434	1399	1354	—	1399
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LTA	2	1	17	3	0	0	20
RA	2	0	11	2	0	0	13
% LT	0.06%	0.004%	0.07%	0.05%	0.00%	0.00%	0.07%

800541513

Appendix 4
BAT RUSSIA PRODUCTION SCHEDULE

	YAVA	SARATOV	prev. ytd	NOVEMBER			
				RUSSIA	TARGET	ytd target	YTD
1. MANUFACTURE							
TOTAL	1,212.94	314.30	13,486.02	1,527.24	1,695.83	18,654.17	15,013.26
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LTA	2	1	17	3	0	0	20
RA	2	0	11	2	0	0	13
% LT	0.06%	0.004%	0.07%	0.05%	0.00%	0.00%	0.07%

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Appendix 5

		Month		Cumulative		Year End Estimate	
		Actual	Budget	Actual	Budget	Actual	Budget
Production Volumes (1)		1527.24	1695.83	15,013.26	18,654.17	16,250.00	20,350.00
Conversion Costs (2)							
Productivity (3)		8,207	9,003	6,816	9,003	7,000	9,003
Wastage (4)	Leaf	11.79%	10.00%	12.79%	10.00%	12.80%	10.00%
	WMS	3.51%	7.00%	5.20%	7.00%	5.20%	7.00%
Quality Index (5)		77	55	68	55	68	55
Safety (6)	Lost Time Acc.	3	0	20	0	20	0
	Reportable Accidents	2	0	13	0	13	0
	Lost hours %	0.05%	0.00%	0.07%	0.00%	0.07%	0.00%

(1) As relevant by factory: Domestic / Export: Cigarettes / RYO / CRT etc.

(2) As currently defined under STEM

(3) As currently defined (Direct / Indirect) under STEM

(4) If not available, report 1 month in arrears

(5) As currently available e.g. PQRS

(6) As currently defined e.g. Lost Time Accidents; Accident Rate etc.

Appendix 6

BAT-STF PROJECT:- ANALYSIS OF CONTINGENCY AT 31-08-96**BUDGET - \$780,000 PER BEC NOTE JULY 95**

ALLOCATION	\$,000's	COMMENTS
SAVINGS & GENERAL VARIATIONS		
PROJECT SAVINGS (ESTABLISHMENT FIXED PRICE)	-867	PRICE FIXED UNDER CONTRACT IN MARCH 96.
ALLOWANCE FOR CONTRACT INCENTIVE BONUS	0	T.W WILL RECEIVE BONUS FROM VALUE ENGINEERING REDUCTIONS
INDEPENDENT CONTRACTS	3	CANCELLATION OF DEMOLITION CONTRACT FOR SITE OFFICE.
OFF-SITE CONSTRUCTION WORKS	-40	COST SAVINGS FOR TECHNICAL CONDITIONS
INDEPENDENT CONTRACTS	-5	GEOCHEMICAL INVESTIGATION SAVINGS
INDEPENDENT CONTRACTS	-57	ENERGY CENTRE FOUNDATIONS SAVINGS
ANTICIPATED VARIATIONS TO FIXED PRICE	350	OAP ESTIMATE OF ADJUSTMENTS TO FPCS
TRANSFER FROM MATERIALS HANDLING BUDGET	-350	POST PALLET PROJECT PROVED NOT PRACTICAL AT THIS TIME
TOTAL	-966	
T.W.I. ISSUED INSTRUCTIONS OVER \$10,000		
ENGINEERING WORKSHOPS	14	ISSUE OF DETAILS
ENERGY CENTRE	64	CHANGE OF L.V. SWITCHGEAR SUPPLIER. (K. STANEK, COAR 7) E.I.84
PRODUCTION BUILDING	17.5	MODIFICATIONS TO SPRINKLER SYSTEM E.I.91
PRODUCTION BUILDING	10	REVISED R.C. CORE DETAILS & CORE A DETAILS E.I. 93
PRODUCTION BUILDING	-15.6	REDUCTION IN TILING SCOPE
GENERAL	23.4	PROVISION OF PVC & AIR CURTAINS E.I.185
EXTERNAL WORKS	38	MODIFICATIONS TO EXTERNAL WORKS E.I.221
PRODUCTION BUILDING	-12.7	REDUCTION IN SECURITY GRILLS GROUND FLOOR (INTERNAL)
WRAPPING MATERIALS STORE	15.1	UNDERPINNING IN BUILDING 19 E.I.273
WRAPPING MATERIALS STORE	-17.2	BUILDING 19 FLOOR SLAB SIMPLIFICATION E.I.279.
ENGINEERING WORKSHOPS	16	ELECTRICAL WORKBENCHES E.I.296
ENGINEERING WORKSHOPS	11	REPLACEMENT OF GAS FIRED WATER HEATER. E.I.298
ENGINEERING WORKSHOPS	26	EXTRACT FANS FOR METAL & WOODWORKING MACHINES E.I.300
ADMINISTRATION BUILDING	32.8	AMENDMENTS TO OFFICE LAYOUTS, SUSPENDED CEILING E.I.320
SITE WIDE	95	REVISION TO FIRE PROTECTION SERVICES TO MEET SNIPS E.I.
INTEGRATED STORES	17.5	DETAILED DESIGN CONVEYOR ENCLOSURE
GENERAL	12	UNDER PROVISION FOR SITE GATES
EXTERNAL WORKS	16.5	DRAINAGE & FIRE WATER REVISIONS
STORES 17, 19 & 20	115	MODIFICATIONS TO HEATING (GAS TO STEAM)
INTEGRATED STORES BUILDING	12	REVISED LAYOUTS
PRODUCTION BUILDING	30	SUSPENDED CEILINGS
PRODUCTION BUILDING	12	FORMATION LEVEL 4 AIR HANDLING PLENUM.
PRODUCTION BUILDING	14.4	ADDITIONAL TOILETS, REQUIRED BY LOCAL SANITARY AUTHORITY
PRODUCTION BUILDING	12.9	ROOF REPAIRS
ADMINISTRATION BUILDING	-14.9	ROOF OMIT PROVISIONAL QUANTITIES
EXTERNAL WORKS	15.6	COURTYARD ROADS
ENGINEERING WORKSHOP	15	WORKSHOPS DISTRIBUTION BOARD
ADMINISTRATION BUILDING	10.2	REPAIRS TO FLOOR
ESTIMATE OF SITE INSTRUCTIONS AWAITING E.I.	175	SITE INSTRUCTIONS ISSUED IN MAY
TOTAL INSTRUCTIONS ISSUED OVER \$10,000	760.8	
TOTAL INSTRUCTIONS ISSUED UNDER \$10,000	406.7	SUM OF ENGINEERING INSTRUCTIONS UNDER \$10,000 (\$76 OFF)
ANTICIPATED VARIATIONS **	263	ESTIMATE OF ANTICIPATED FUTURE VARIATIONS
TOTAL EXPENDED TO DATE	488.2	
TOTAL UNEXPENDED TO DATE	313.8	PROJECT 95% COMPLETE

* ENGINEERING INSTRUCTIONS ISSUED UNDER \$10,000 HAVE BEEN COLLATED TOGETHER.

** INDEPENDENT QUANTITY SURVEYORS ASSESSMENT OF ANTICIPATED FUTURE VARIATIONS.

PREPARED BY :- SPJ MAGUIRE

DATE:- 17/12/96

CONT008.WK4

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Appendix 7

1. Manning Levels

1. Manning Levels			ACTUAL		ESTABLISHMENT		ACTUAL		VARIANCE	
			1995 Actual at 31/12	1996 Target at 31/12	1996 Current Month	Current Month	Actual vs Establish	Comments Reference		
Administration:	Finance & Accounting		50	55	60	60	0			
	Human Resources		59	71	68	72	-4			
	MSD		9	17	14	13	1			
	Other		241	247	292	296	-4			
	Total Admin.		359	390	434	441	-7			
	Management		39	52	57	59	-2			
	Non-management		320	330	377	382	-5			
	Trainees	Year One	0	4	0	0	0			
		Year Two	0	4	0	0	0			
	Marketing:									
	Brand Marketing		6	9	22	22	0			
	Trade Marketing		39	54	170	175	-5			
	Services		4	9	7	7	0			
	Total Marketing		49	82	199	204	-5			
		Management		15	22	30	30	0		
Non-management			34	55	169	174	-5			
Trainees		Year One	0	2	0	0	0			
		Year Two	0	3	0	0	0			
Production:										
	Cigarette	Primary	161	153	163	187	-24			
		Secondary	587	590	550	606	-56			
		Indirect	605	606	576	606	-30			
	Non Cigarette		8	8	1	1	0			
	Total Production		1361	1367	1290	1400	-110			
	Management		75	78	73	74	-1			
	Non-management		1270	1258	1212	1326	-114			
	Trainees	Year One	16	18	5	0	5			
		Year Two	0	3	0	0	0			
	Leaf:									
	Field & Buying		2	2	2	2	0			
	Threshing and Redrying		0	0	0	0	0			
	Administration		2	3	3	2	1			
	Total Leaf		4	5	5	4	1			
		Management		3	3	3	3	0		
Non-management			1	2	2	1	1			
Trainees		Year One	0	0	0	0	0			
		Year Two	0	0	0	0	0			
Total Tobacco Employees			1773	1834	1928	2049	121			
Other Activities Employees			0	0	0	0	0			
TOTAL COMPANY EMPLOYEES			1773	1834	1928	2049	121			

Note: Major increase in numbers due mainly to new recruits in Trade Marketing & in Production in Saratov

DT/AK/BAT RUS/17/12/96

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Appendix 8		Management in/out flow (for Grade 34 and higher, plus trainees)							
		IN							
		External recruitment/local management				Local Management			
						Dismissal	Resignation	Redundancy	Early Retirement
Name	Job Title	Function	Date in	Previous Employers Name	Job Title	Name/Job Title/Date in			
Lela Chkhvashvili	Management Accountant	Finance	16.09.96	"LG Alina Electronics" (South Korea)	Chief Accountant				
International staff/secondes						International Staff/Secondes			
Name	Job Title	Function	Date in	Transferred from (location)		Name / Job Title/ Date Out / Transfer out (location)			

800541518



cc: RH/AL

1250 H STREET, N.W., SUITE 750, WASHINGTON, D.C. 20005-3908 / TEL(202)942-7651 FAX(202)942-7678

1995 RESULTS AND WORK-IN-PROGRESS

CO-CHAIRMEN

The Honorable
JOHN E. ROSSON
Robertson Stephens & Co.
Former Deputy Secretary of
the U.S. Treasury

The Right Honorable
LORD PETER WALKER
Chairman
Carnhill Insurance PLC
& the Thornton Group
Former Member of House
of Commons

HONORARY CO-CHAIRMEN

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Minister of Finance
Republic of Kazakhstan

The Honorable
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Chairman
Russian State Tax Service

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The Chase Manhattan
Bank, N.A.

The Honorable
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Vice Chairman
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Norway

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Distinguished Fellow
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and Secretary of the Treasury

JOHN SEIXON
Dean
New York University
Law School

The Honorable
PAUL VOLCKER
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D. Wolfensohn, Inc.
Former Chairman of the
U.S. Federal Reserve Board

The Honorable
CLAYTON YELTNER
Partner
Hogan & Hartson
Former U.S. Secretary of
Agriculture and Second
Vice President

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Former Executive Director
of the U.S. Tax Fellowship

ECONOMIC ADVISOR

CHARLES E. MCLURE, JR.
Senior Fellow
Hoover Institution

Former Deputy Assistant Secretary
of the U.S. Treasury

INTERNATIONAL TAX ADVISOR

RODARD M. HAMMER

During 1995, the International Tax and Investment Center (ITIC) was successful in advancing pro-investment policies, laws and regulations in Russia and Kazakhstan. Since its creation in September 1993, ITIC has developed trusted, advisory relationships with key, senior-level policy makers in both countries. These relationships, combined with ITIC's programs, provide channels for private sector expertise to reach the Government before, during, and after the official policy-making process. This combination, which is truly unique to ITIC, is the institution's principal asset; it provides ITIC and its sponsors a "seat at the policy-making table."

Key results achieved in 1995, work-in-progress, and objectives for 1996 are summarized below:

RUSSIA RESULTS

- Invited by the Russian Ministry of Finance to be the only private sector representative to the new Tax Code drafting team. ITIC's comments, provided by company representatives, have resulted in significant changes being made in the draft Tax Code.
- ITIC, at the request of the Russian Deputy Minister of Finance, formed a three-person team which assisted the Ministry in rewriting the draft Tax Code to conform with the Russian Civil Code.
- Along with other international advisors, successfully worked with the Ministry of Finance and State Tax Service to repeal the excess wage tax and reduce the VAT rate.
- Organized a Russian Study Tour in Washington and New York on tax reform which, for the first time, brought together all senior Russian officials involved with tax reform and administration: Ministry of Finance, State Tax Service, and State Duma's Budget and Finance Committee. This program provided a forum for companies to directly provide input to the draft Tax Code.
- ITIC was invited by the U.S. Department of Commerce to assist in the development of the U.S.-Russian Commercial Tax Dialogue, which is a part of the Gore-Chernomyrdin Commission.
- Trained over 75 Russian Tax Inspectors in the United States on Western business practices and taxation; these programs were entirely financed by the Russian Government.
- ITIC's monthly forums in Moscow and St. Petersburg continue to identify specific problems, and with follow-up by ITIC's in-country staff, help resolve problems, both general and company-specific matters.
- Monthly Tax Policy Forums and Bulletins are published in the official publication of the Russian State Tax Service. These hands-on discussions between taxpayers and tax authorities are now disseminated to large, nationwide audiences through official government publications. This is one important step closer to building a public record to improve the interpretation and clarification of tax issues in these countries.

GOGOLEVSKIY BULVAR 6, SUITE 17, MOSCOW, 121019, RUSSIA, TEL/FAX(7)(095)202-8379

C/O MINISTRY OF FINANCE, PROSPECT ABLAI KHAN 93-95, ROOM 321
ALMATY, 480091, KAZAKHSTAN, TEL(7)(3272) 62-15-57, FAX (7)(3272) 50-73-84

326 HIGH HOLBORN, LONDON WC1V 7PT, UNITED KINGDOM, TEL(44)(171) 611-1952, FAX(44)(171) 611-4635

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INSTITUTIONAL RESULTS

- Opened an ITIC European Office in London to increase participation and input from European companies, governments, and academics.
- ITIC continued to "leverage" the initial financial support which it receives from companies by raising additional program funds from foundations and government sources. In 1996, for every \$1 received from companies, over \$2.25 in programs was provided.

From: Smith, Jan Fulton
To: Smith, Mark D.
CC:
BCC:
Primary Date: 3/18/1997 10:26:00 AM
Last Modified Date: 2001-Nov-20 15:08:38
Last Touched Date:
Sent Date: 1997-Mar-18 10:26:00
Received Date: 1997-Mar-18 10:26:00
Subject: IMF--Taxes{F}

Attachments:

Mark,
Thanks for the update.
Angela Prather of ITIC attended the "tax conference" we had here for Russian visitors. If she's someone you would like to talk with, let me know and I'll give you her phone number.
Jan

From: Smith, Mark D.
To: Smith, Jan Fulton
Cc: Griscom, Tom C.; Hyde, Timothy N.; Griscom, Tom C. (MSM USA)
Subject: IMF--Taxes
Date: Tuesday, March 18, 1997 11:36AM

FYI...

Just participated in a conference call with Wilfried Dembach, Tony Maggiore (TI-Tax) and Mary Carol Holbert (TI-Tax)... discussion on Tony attending the International Tax and Investment Center -- International Monetary Fund meeting on March 25 in Washington. (Rick Connor of Seagrams will be attending as well.) Wilfried is providing Tony with technical info on taxes. I've provided Tony with information from Rod Stamler on worldwide tobacco contraband (root cause being high taxes and unfair market restrictions).

I suggested to Tony that he urge ITIC/IMF to address the contraband problem -- perhaps to form a study group, or ask for a report to be prepared for IMF consideration. Objective: the IMF is doing a grave injustice to emerging Democracies and third-world countries when it advises them to raise cigarette taxes -- as this will only encourage organized criminal groups to get into trafficking contraband. These countries need to build a tax base -- not encourage an underground economy.

Mark

52801 7848

52801 7849

RJR0000000508033761
70018 1145

Source: <http://industrydocuments.library.ucsf.edu/tobacco/docs/ykny0013>

From: Smith, Jan Fulton
To: Smith, Mark D.
CC:
BCC:
Primary Date: 3/18/1997 10:26:20 AM
Last Modified Date: 2001-Nov-20 15:01:54
Last Touched Date:
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Mark

52801 7758

52801 7759

RJR0000000508032468
70018 1055

Source: <http://industrydocuments.library.ucsf.edu/tobacco/docs/rmff0024>

From: TBARBA --VUS0212A
To: Weekly Highlights Distribution

Date and time 01/26/98 15:19:41

2074651819

*** Resending note of 01/26/98 15:20
From: Teresa Barba-Erlitz
To: TBARBA --VUS0212A Barba, Teresa
From: Barba-Erlitz, Teresa
Subject: Weekly Highlights, January 12-16, 1997
PMI Corporate Affairs Weekly Highlights By Region
Week of January 12, 1998

ANCAM

Country:ECUADOR
Issue:PUBLIC RELATIONS

PMI and its affiliate in Ecuador, ITABSA, recently made a contribution to the Catholic Church in order to provide for disaster relief for the victims of El Niao. 75 people have died and over 11,000 have lost their homes due to the intense rains and floods.

ASIA

Country:HONG KONG
Issue:CONSUMER FREEDOMS

ETS

It is reported that with effect from April 1, smoking will be banned on all Northwest Airlines flights between Hong Kong and Tokyo whereas the Royal Dutch Airline will ban smoking on all its flights between Hong Kong and Amsterdam starting March 29.

Country:HONG KONG
Issue:MARKETING

ETS

The Health and Welfare Branch will submit to the Provisional Legislative Council within this month a list of regulations as well as details of the implementation and enforcement of the restrictions in the Smoking and Health Ordinance which was passed in June 1997. According to the H&W, grace periods as requested by the industry for various provisions ranging from 3 months to one year would be granted.

Country:INDONESIA
Issue:INDUSTRY

GAPRINDO met on January 13 to firm up planning for the upcoming Regional Tobacco Associations conference to be held in Indonesia in late April. GAPPRI, the clove cigarette association, will be invited as special guest.

Country:INDONESIA
Issue:INDUSTRY

The economic/currency crisis deepened at the beginning of week of January 12. The currency firmed up throughout the remainder of the week as various high level international financial experts continued talks with the government over reforms. It appears certain that the clove monopoly run by President Suharto's son will be disbanded under IMF conditions.

AUSTRALIA

Country:AUSTRALIA

Issue:INDUSTRY

There has been widespread media reporting of the Rothmans A\$50 million sponsorship deal between the Williams Formula One racing team and the tobacco manufacturer. A spokesman for Rothmans is reported as saying that the decision was made by the international company and was part of the wider expansion into Europe of Winfield cigarettes.

The Federal Health Minister is reported as attacking the sponsorship deal "despite having already exempted the race from Australian's stringent tobacco sponsorship laws."

CEMA

Country:OMAN
Issue:INDUSTRY

ETS

The Muscat police issued a circular granting cafes permission to serve 'Sheesha' - Arabic water pipes - to customers. It is unclear if this permanently repeals the 4-year ban or if it is a temporary measure granted for the month of Ramadan.

Country:POLAND
Issue:PRODUCT LIABILITY

The Ministry of Justice developed a draft amendment to the Polish Civil Code aimed at harmonizing the current product liability law to the EU directive. The draft introduces an ECU 70 million cap on the total liability of a manufacturer for damages caused by a product. The Polish Association of Branded Goods Manufacturers is monitoring the situation to ensure the proposed changes are not more restrictive than the EU directives.

Country:REUNION
Issue:FISCAL POLICY

The Regional Council voted in favor of raising the duty on imported cigarettes from 28% to 51%. An excise tax of 28% is applied to locally manufactured cigarettes. While the duty on imported cigarettes is based on CIF prices, the excise tax on locally manufactured cigarettes will be applied to 85% of the ex-factory price. These measures became effective January 1, 1998.

Country:TURKEY
Issue:MARKETING

Tekel, the state tobacco company, has secured the passage of new regulations that impose severe restrictions on the marketing and sale of alcohol and tobacco products at point-of-sale, including:

- prohibition of payments or gifts to the trade;
- equal shelf space to all brands;
- a requirement that all brand varieties produced by Tekel and private manufacturers be available at any POS;
- a requirement that all products be sourced only from the manufacturers or authorized wholesalers;
- prohibition of the sale of tobacco products to the underage.

Violations of the above would result in Tekel revoking trade licenses.

EASTERN EUROPE

Country:AZERBAIJAN
Issue:MARKETING

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Due to severe shortages of electrical power supplies, the Mayor of Baku issued a decree banning the use of electricity for all outdoor signs, including POSM, at outlets such as restaurants, cafes and discos after 7 p.m.

Country:BELARUS
Issue:PUBLIC RELATIONS

On January 14 1998, the Philip Morris Ballet Flower Award was presented at the Belarus National Ballet. The ceremony, which was attended by a wide range of dignitaries and celebrities, received widespread media coverage.

Country:RUSSIA
Issue:MARKETING

On January 8, the Russian Federal Government held a meeting to review State control over advertising. It was decided that in the first quarter of 1998 the State Anti-Monopoly Committee together with other local, Federal, and executive bodies would prepare draft amendments to the Federal law on advertising. The purpose of the amendments is to alleviate contradictions between local and federal legislation.

According to a representative of the State Anti-Monopoly Committee, the proposed draft is not expected to include additional restrictions on advertising.

Country:TADJIKISTAN
Issue:FISCAL POLICY

Taxes on imported cigarettes were revised as follows effective January 1, 1998:

	Old taxation	New taxation
Customs clearance	0.15%	0.15%
Import duty	50.00%	5.00%
Excise tax	60.00%	20.00%
VAT	-	20.00%

Country:UKRAINE
Issue:TRADE ISSUES

The government of Ukraine has removed VAT from Russian commodities imported into the country effective February 1. In return, President Yeltsin signed a decree abolishing VAT on Ukrainian goods imported to Russia as of the same date. It is estimated that these moves will boost trade between the two countries by as much as 25%.

MERCOSUR

Country:ARGENTINA
Issue: MARKETING

The Buenos Aires City Council passed an ordinance, effective January 12, banning outdoor cigarette advertising in color. Under this ordinance, all forms of outdoor advertising including billboards, posters, signage, point of sale material, etc. can be displayed only in black and white. PM will

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request an injunction (which must be done within 15 working days) based on the fact that the ordinance contradicts a federal law regulating trademark property.

Country:ARGENTINA
Issue:FISCAL POLICY

PM hired the International Tax and Investment Center (ITIC) to conduct an economic impact study and to sponsor a project supporting the conversion from an ad-valorem tax system to a specific tax system for cigarettes and other products. ITIC will use data from other countries to create a financial model for Argentina and will work to develop a proposal by mid-year in conjunction with the UK-based Oxford economic forecasting group and FIEL, an Argentine think-tank.

E N D O F N O T E



R.J. REYNOLDS INTERNATIONAL
EXTERNAL RELATIONS, RUSSIA & BALTICS

TELEFAX TRANSMISSION

DATE : November 29, 1996
TO : RJR - Winston-Salem
ATTN : Jan Fulton CC : P. Van Every
T. Griscom
K. Brown
N. Ringer
FROM : André Benoît
RE : Monthly Report - Russia & Baltics
Nr pages : - 5 - (including this page)

General

- Russian Prime Minister Viktor Chernomyrdin indicated last week that he was confident that the IMF would restart its \$10 billion loan program by the middle of December. In October, the IMFs decided not to disburse the current tranche of \$340 million; because of low tax collection. November numbers show that tax collection was picking up, to reach an expected RUR 18 trillion (\$3.27 billion), way up from September's low of \$10 trillion.
- President Yeltsin has begun to hold regular meetings with key officials from his Moscow region sanitarium where he is recuperating from his November bypass heart surgery. He is expected to return to the Kremlin on a part-time basis by mid-December.
- The State Duma (Parliament) has postponed further debate on the 1997 budget until December 4th, when new Government-sponsored draft laws on taxation will be reviewed and incorporated into the budget document. One of these laws concerns the harmonization of excise taxation on cigarettes between imported and locally-manufactured product, where for the first time, a specific taxation system will be proposed for domestic cigarettes.
- Latest inflation re-cap (latest prediction for annual inflation in 1996 is 22% and 11.8% for 1997; the budget deficit is expected to be no higher than 3.5% of GDP, while the ruble will devalue by 0.3% to 1.1% a month next year):

April	May	June	July	Aug.	Sept.	Oct.	Nov.(est.)
2.2%	1.6%	1.2%	0.7%	0.0%	0.3%	1.3%	1.9%

Issues

a) advertising

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The advertising debate continues, with different groups jockeying for influence with Russian legislators, both openly and behind the scenes. The Russian Chamber of Commerce and Industry (RCCI) leads the way, with a November 5th Round Table on "Self-Regulation in the Russian Advertising Industry" that saw

Russian and foreign advertising experts provide convincing argumentation on self-regulation as a way to police the industry, rather than through the heavy hand of Government. Speakers argued that after two years of actual operation, the Russian Law "On Advertising" has revealed its shortcomings, and that less stringent methods of control (i.e. self-regulation) were in order. Government participants from the State Anti-Monopoly Committee listened but were unimpressed, countering that strong regulations must be in place as a "backstop" to any attempts at self-regulation in an "unruly" industry.

In parallel, we have been having ongoing but informal discussions with Video International (VI), one of the largest Russian advertising and media-buying organizations. VI also seeks a more liberal advertising regime as regards tobacco and alcohol, but believes that the only way to obtain this is by offering a "carrot" to legislators, in the form of public service ads paid for by the Industry. We are not encouraging a legally mandated percentage of advertising outlays, as VI favors, but a flexible approach based on the Industry Advertising Code, where youth smoking and youth access messages could be produced under our editorial control.

Also in parallel, RJRI, supported by Moscow consultants, continues to look at ways to use legislation as currently written to increase our TV presence for logo advertising (*Camel Rocks*, for instance). We are receiving favorable feedback from consultants on this avenue.

Under the aegis of the RCCI, parliamentary hearings on advertising on TV have been called for December 15th in Moscow. It is not known at this time whether international tobacco or alcohol manufacturers will be asked to speak. In a related development, beer producers were granted the right to be considered in a different product category from other, stronger alcoholic beverages. This paves the way for their full return to TV advertising, which until now had been limited to non-alcoholic beer.

b) harmonization of excise tax rates for tobacco products

The debate between specific excise versus *ad valorem* excise tax calculation has left parliamentary committee and will now be taken to the State Duma floor this week, as discussions over the 1997 budget continue. Since our last report, the Ministry of Finance has come around to the arguments in favor of a specific taxation system, a position defended by RJRI, PMI and Rothmans.

An influential Position Paper funded by Philip Morris and prepared by the Russian Scientific and Research Institute of Market Research (VNIKI by its Russian acronym) was submitted to the Taxation Committee of the Duma. According to PMI in Moscow, this document weighed heavily in favor of the specific taxation system, along with the International Tax and Investment Center's (ITIC) earlier submissions.

A further quiet lobbying opportunity will be provided in late January 1997, when Duke University and ITIC host an RJRI-sponsored taxation conference on Russia, which will take place at Duke University in Durham (NC). Key Russian decision-makers in the legislative and executive branches, including Deputy Finance Minister Sergei Shatalov, are expected to take part. One day of the conference program will take place in Winston-Salem and will be devoted to excise taxation. We hope to include a tour of Tobacconville and provide entertainment opportunities to Russian visitors.

c) Tar & Nicotine

As advertised, the Tar & Nicotine Committee met in Moscow on November 25th. The first part of the meeting served to further discuss the position of the domestic tobacco industry as it attempts to delay the implementation of new, tougher T&N norms. New, more stringent norms are in fact mandated to come into force on January 1, 1997.

Under pressure to propose a phasing-in period that the domestic industry could live with, the domestic industry represented by the Tabakprom Association tabled a new schedule that would be submitted to regulatory agencies for consideration:

This is the first time that the local industry has done any kind of serious thinking about what they are ready to live with. This has meant a great amount of consultation with most of the tobacco factories in Russia. Indeed, Tabakprom realizes that they will be held accountable for this schedule by regulatory authorities.

Keep in mind that the following figures would be measured under ISO conditions, also a first for Russia, which allows for +/- margins:

	Tar (mg/cig)	Nicotine, mg/cig
from 01.01.97.		
with filter	20	1,3
without filter	24	1,5
from 01.01.98.		
with filter	19	1,3
without filter	24	1,5
from 01.01.99.		
with filter	18	1,3
without filter	23	1,5
from 01.01.2000		
with filter	17	1,3
without filter	23	1,5
from 01.01.2001		
with filter	16	1,3
without filter	23	1,5
from 01.01.2002		
with filter	15	1,3
without filter	22	1,5

The second, much more interesting part of the meeting involved Professor David G. Zaridze, Chief of the Department for Epidemiology/Prevention, Director of the Carcinogenesis Research Institute, and Deputy General Director of the Oncological Scientific Center in Moscow. He will playing a key role in preparing recommendations to the Ministry of Health and the Russian Government as to how to implement new T&N norms for Russia. He had been invited to meet our Committee and outline where he stands on the issue, and whether there was room for compromise.

Dr. Zaridze had seen the draft Tabakprom proposal and was not impressed. He insisted that the domestic industry had had much time to work on this problem, and that the latest schedule was too generous. Zaridze had also participated in the recent European Tobacco and Health conference in Helsinki, where new EU-wide norms were discussed, including one option which would see maximums fall to 12 mg/1 mg by December 31, 1997, and by 10% every year thereafter, until 5 mg/0.5 mg levels are reached. He was confident that these norms would become policy in the EU, and that they should also be applied to Russia as well. Thus, even

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though Europe has not adopted these new norms, Zaridze will recommend the following schedule for filter cigarettes of foreign origin or produced in Russia under license:

For Tar:

1998	1999	2000	2001	2002	2003	2004	2005	2006
12	11	10	9	8	7	6	5.5	5

For Nicotine:

1998	1999	2000	2001	2002	2003	2004	2005	2006
1	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4

For domestic cigarettes, Zaridze also proposes that no new limits be applied as previously planned. The new limits would begin on 01.01.98 and the schedule would look like this:

For Tar (filter/non-filter):

1998	1999	2000	2001	2002	2003	2004	2005	2006
19/23	17/22	15/21	14/20	13/19	11/18	10/17	9/16	8/15

For Nicotine (filter/non-filter):

1998	1999	2000	2001	2002	2003	2004	2005	2006
1.2/1.4	1.1/1.3	1.0/1.2	.9/1.1	.8/1.0	.7/9	.6/9	.6/8	.5/8

These are the opening salvos. There likely will be a conciliation commission of sorts that will be created to iron out differences, but for the moment, the Tabakprom proposal and the Zaridze proposal will be submitted to Government separately.

The issue of the adoption of ISO standards for testing of cigarettes in Russia was also discussed at the T&N Committee meeting. The funding problem, linked to the adoption procedures (editing, amending and updating existing regulations), appears to have been solved. Twelve Russian tobacco factories (including RJRI's factories) agreeing to provide RUR 2 million each. We await final adoption confirmation from the State Standards Committee.

d) National Manufacturers Association (NMA)

BAT has decided to turn against its foreign "colleagues" and has joined the new Russian NMA in another surprise move. As a response, the remaining members of the informal International Tobacco Companies Operating in Russia group (PMI, Rothmans, Reemtsma and RJRI) will meet in Moscow next week to consider future action, which may include the creation of a rival association. The Liggett-Dukat factory in Moscow has also joined the new NMA.

Events/Activities

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Source: <http://industrydocuments.library.ucsf.edu/tobacco/docs/gtdn0003>

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- a) RJRI Russia & Baltics General Manager Nick Ringer will for the first time meet the new PMI Managing Director for Russia Kursat Kocdag in Moscow on December 3rd.
- b) The official launch of the new *Camel Lights* "blue pack", originally scheduled for December 4th in Moscow, has been postponed to February 1st, 1997. This will insure that sufficient product is available in the market to support the launch.

Media Contacts and Coverage

- a) Pre-arranged sit-down 30-minute interview on November 21st with the Moscow daily *Segodnya*. The interview focused on the excise tax debate, with *Segodnya* offering its pages as rebuttal to an earlier article placed by BAT on the same issue. The resulting article appeared on November 26th, but fell short of expectations. This was due to strong perceptions that the specific taxation system was detrimental to the local industry, and that the foreign companies were only "looking after themselves".
- b) Telephone interview with the Moscow trade publication *Kynok*, on manufacturing sites for RJRI products in the FSU.
- c) The planned *Financial Izvestia* supplement on the tobacco industry in Russia has been delayed indefinitely. Although BAT has part its portion of the cost, PMI has pulled out of the project, and we are reconsidering our participation, due to lack of editorial control over the final product.

Sponsorships and Contributions

- a) One-time contribution of **RUR 1 million** (USD \$181) to the Russian Red Cross office in St. Petersburg.
- b) One year contribution program of **RUR 72 million** (USD \$13, 057) to the "Russian School" in Yelets (the only institution where the English language is taught in Yelets), at a rate of RUR 18,000,000 per quarter.
- c) One-time contribution of **USD \$500** to the Disabled Children Fund in St. Petersburg, to assist in treatment for a young girl with Rhett's syndrome.

INTEROFFICE MEMORANDUM

November 4, 1996

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of October External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE COMMUNICATIONS

- Produced three publications this month: Forum, Caravan, and Performance Update.
- Began initial planning for issues seminar for marketing, sales and other affected departments in November-December.

BRAND ACTIVITIES

- Camel - Reviewed POS materials, made recommendations on ad executions, and finalized plans for Grooveblender event in Las Vegas Nov. 22-24.
- Winston MM - Began working on a PR plan to address any potential report from contract lab hired by the state of Florida to evaluate the no-additive Winston product being marketed there.

ETS/ACCOMMODATION

- The US Court of Appeals for the District of Columbia heard oral arguments in Action on Smoking or Health (ASH) vs. US Department of Labor. The suit by ASH requests the Court to order the Occupational Safety and Health Administration (OSHA) to issue an emergency rule to ban smoking in workplaces. (In April 1994, OSHA proposed regulations on indoor air quality and environmental tobacco smoke, but the agency has not yet promulgated a final rule.)

Indications are that OSHA may be gearing up to move forward on an indoor air quality rule early next year. Strong possibility a new proposed rule will be written, supplanting the existing proposal. The information we have suggests the rule-making procedure involving second-hand smoke will be a top OSHA priority. Working with a number of RJR departments in preparation.

- Working with RJR-Macdonald to present a seminar on the economic impact of smoking bans on the hotel, motel, bar and restaurant industries, and on related issues.

- Attended the annual meeting of the International Hotel and Motel Association in Mexico City. It is hoped that the IHMA will merge within the next year or two with HORECA, the leading international restaurant organization, and will therefore be better positioned to effectively promote the continued international accommodation of smokers in the hospitality industry.
- Continue to assist Host Marriott in reducing ETS in bars and restaurants. Working closely with Host Marriott's Detroit General Manager on upgrading air conditioning and installing air cleaning devices in a number of locations at Detroit Metropolitan Airport.
- The National Restaurant Association conducted research into customer attitudes and opinions in the UK, Spain, the Netherlands, and Canada. Will do media tours in the European markets in November, and be joined by hospitality industry leaders in each of them. All of the public opinion research shows strong support for accommodation of smokers and non-smokers.

YOUTH NON-SMOKING

- RJR met with one of the National PTA officers to pursue their participation in the "We Card" program. They will consider being involved and will notify us after the first of the year.
- To date, 291,491 "We Card" kits have been ordered. Fayetteville (NC) Police Dept. ordered 1,000 kits to distribute to retailers in their community outreach program. Maine Grocers Association is sending mailing to state police chiefs including "We Card" kit to encourage police departments to work with MGA in educating the retail community on tobacco state law. Super K-Mart's corporate offices sent a memo to store owners promoting the "We Card" program; the American Cancer Society requested permission to reprint samples of "We Card" materials in a new program manual called "Stop Illegal Tobacco Sales."
- Working to produce booklet called "Influencing Your Child's Lifestyle Choices" for our youth non-smoking campaign.
- The New Jersey Health Commissioner is urging cigarette retailers in the state to begin "rigid" enforcement of a law that took effect January 1 that increases the fines for sale to underage youth. As part of the program enforcement, the commissioner revealed undercover teenagers this summer were able to purchase cigarettes 44 percent of the time in scattered sting operations. The new retailer fine schedule is \$250 first offense, \$500 second offense, \$1,000 third or subsequent offense. However, after the second offense, local authorities can recommend a vendor's license be revoked.

COMMUNITY AND CORPORATE AFFAIRS

- Continued to work with local boards and committees including Community Services Research Group, Forsyth Early Childhood Partnership, Today's Woman's Health and Wellness Center, United Way, WSSU Foundation, Chamber Education Committee, Piedmont Park Task Force, and NC Business Committee for Education.
- During October Community Affairs processed 30 Community Involvement requests for a total of \$7,500; 75 Education Matching Grants for a total of \$21,187.40; and 46 Arts Matching Grants for a total of \$6,086.50.

LITIGATION

- Provided articles on the development of the AG lawsuit concept and other background information for article in *Business Week* magazine about lawyers suing the tobacco industry.
- Responded to Alabama media on a second-hand smoke suit filed there.
- Provided additional information on the Mangini suit for two *LA Times* reporters, including the one writing about an early Camel illustrator. That story ran on page 1 with a headline that included: "...adman recalls R.J. Reynolds rejecting youth slants."
- In New Mexico, Attorney General Tom Udall appeared before the Legislative Finance Committee requesting \$200,000 for the current fiscal year and \$800,000 per year for the next four fiscal years for use in hiring attorneys and financing the cost of litigation against the tobacco industry. The committee chose to take no action at the present time.
- Arizona Governor Symington ordered the state to drop the lawsuit filed to recover Medicaid costs. The acting Director of AHCCCS (Arizona Health Care Cost Containment System), who was a plaintiff in the suit, also demanded their name be removed. In a letter to the Attorney General, the Governor wrote, "After reviewing the complaint and the contingency fee agreement with the trial lawyers, both I and Acting Director Kelly believe that you have put the state and AHCCCS in a very bad position." The Attorney General has said he will go forward with the suit.
- Ten counties in California and the City of San Jose have joined Los Angeles and San Francisco in their suits against the tobacco industry, for recovery of "tobacco-related" health care costs.

REGULATORY ISSUES

- Sent letters to the editor from Dan Donahue to the Greensboro and Durham newspapers regarding the misleading stories they filed on FDA. Letter to the editor sent to the Jackson, Mississippi newspaper correcting misrepresentations of the industry's positions made by Mike Moore in a speech at the University of Southern Mississippi, as reported in that paper.
- Only the *Wall Street Journal* and CNN initially asked for a reaction to the "Science" news release on research claiming to have found a lung cancer and smoking link; R&D helped turn around a quick review and response. After news stories ran the next day, and we put out a fuller response, handled numerous calls regarding potential impact on litigation.
- The Minnesota Medical Association has voted in favor of phasing out nicotine in cigarettes over a five-year period. Delegates voted unanimously for the resolution to call on the American Medical Association to lobby Congress for the nicotine phase-out.

LEGISLATION

- The 104th Congress has officially adjourned. Anti-tobacco bills introduced in the final days included:
 - ◊ Senator Lautenberg (D-NJ) introduced the "Tobacco-Free Children's Internet Act," which would require the FDA Commissioner to issue regulations limiting the advertising of cigarettes and smokeless tobacco products over the Internet in a manner consistent with the FDA final rule on tobacco. The bill was referred to the Senate Commerce, Science, and Transportation Committee.
 - ◊ Rep. Lewis (D-GA) introduced a bill to prohibit smoking in any transportation facility that receives federal financial assistance. The bill was referred to the Transportation and Infrastructure Committee.

The next formal session of Congress will be the noon swearing-in of the 105th Congress on January 7, 1997.

- A New Jersey Republican Assemblyman has introduced a cigarette ingredients disclosure and nicotine regulation bill patterned after legislation enacted this year by Massachusetts.

CIGARETTE EXCISE TAXES

- Massachusetts cigarette retailers located along the border of New Hampshire are reporting a 45-60 percent decline in cigarette sales since a state cigarette tax increase took effect October 1. The new Massachusetts tax is 76 cents per pack plus sales tax. The rate in New Hampshire is 25 cents and no sales tax. Retailers say a carton of name brand cigarettes sold in Massachusetts is \$26 per carton. In New Hampshire, the retail price is \$16. State fiscal specialists are acknowledging revenue from the new tax will be far less than the sponsors of the tax increase legislation estimated. The Tobacco Institute is sponsoring a study of the cross-border impact of the tax increase.

INTERNATIONAL

BRAND ACTIVITIES

- Launched Salem's 'Romance on the Cool Planet' campaign in Malaysia. This is a mini music blitz to maintain continued high visibility and novel marketing support behind the brand to stage for revitalized growth in 1997. This will be followed by year-end Salem Celebration campaign and Salem's sponsorship of multiple Grammy winner, Alanis Morissette.
- Preparation for Salem's year-end "Salem Celebration" in Malaysia is underway. Program will be "celebration of dance and music" with a mega dance party as the anchor event. Awaiting confirmation of top act Los Del Rio (who sang the year's biggest hit and started the dance craze 'Macarena') for this function.
- Winston's movie roadshow series will complete its last leg this month in Malaysia. The program, designed as a field marketing vehicle to target value brand adult smokers in non-urban locations, will have screened a total of 100 shows during its 5-month run.
- "Thank you Party" for Augsburg Hi.Q smokers took place. Local press attended.

ETS/ACCOMMODATION

- The "Bienvenidos" program logo has been included in The San Juan City Magazine restaurant listing to identify all restaurants participating in our program.
- In Vancouver, the Restaurant and Food Services Association of British Columbia is challenging the smoking ban in B.C. Supreme Court on the basis that it discriminates between establishments.

- ETS discussion group meeting took place in New York, including presentation of status on exposure studies. Reached agreement on usefulness of forum for open discussion and determination of common strategies. Next meeting to be held in January in Bonn, Germany, hosted by VdC.
- Contact has been established with the President and the Secretary of the FER (Spanish Federation of Restaurants) to jointly plan the presentation to the media on the survey conducted by NRA on consumers' attitudes. Presentation to be done jointly by the Presidents of FER and NRA on November 22.

YOUTH NON-SMOKING

- Operation I.D. successfully launched October 21 in Canada. Media response was very positive despite anti's criticism of program as a "PR gesture."
- Still awaiting launch date for youth non-smoking program in Malaysia.
- Presentation of international youth program strategy given to RJRI executive committee.
- Hong Kong test is ongoing, with results to be reviewed jointly between School Teachers Association, JC, and RJRI in November or December. Materials then to be finalized and produced; full program to be launched in 1997.
- The National Association of Tobacconists in Spain confirmed that RJR's youth smoking program had been approved by its Board. Retail program ready to be launched November 18.
- Met with PM in Lausanne. Agreement on joint approach to youth programs, beginning with countries in East & Central Europe (Czech Republic, Poland, Hungary). This strategy is supported by regional management locally. Meeting to be arranged ASAP with local management of PM and RJRI to explain strategy and ensure understanding, support, and funding.

SMOKING RESTRICTIONS

- The Federal Tobacco Commission is preparing a survey of existing smoking restrictions in the EU-Member States in order to make proposals for "stronger regulations" to the Swiss authorities.

CONTRABAND

- The Ministry of Finance in Spain has told the industry that a task force is preparing a series of measures to more aggressively fight contraband. More detailed information will be disclosed in November.

ADVERTISING/MARKETING FREEDOMS

- Freedom of Commercial Speech Symposium - The Chamber of Commerce will present the results of the Puerto Rico Impact Study on Advertising during January 1997.
- Extensive discussions resulted in significant "improvements" to the voluntary code in Canada, particularly in the area of sponsorship advertising, and clarifications applicable to in-store promotional activities. Amendments to be announced publicly early November. Code changes are important to perceptions of industry as marketing in a responsible manner and being sensitive to political and social environment, with "blueprint" regulatory proposals pending.
- Although Taiwan's Smoking Hazard Prevention Act (SHPA) remains on the agenda, it now looks like it will not be addressed by parliament until December, and the local Tobacco Institute is optimistic that at least product display, point of sale and art/cultural sponsorship (but no sports/pop music) can be preserved. The local tobacco institute continues to talk with legislators, including letter-writing campaigns from affected retailers and appeals from sports and arts personalities directly hit by the proposed sponsorship ban.
- Government in Gibraltar continues to maintain its discredited policy of restrictive quotas on RJR's, and other U.S. brands, in favor of British brands. The policy has artificially distorted the market, and had very harmful effects on RJR's sales. Despite a regional sales management/ER meeting with the Chief Minister, and the subsequent provision of a written proposal, little real progress has been made. New tactics to persuade the Government to action are now being considered. These could involve RJR being a member of a coalition of international companies able to advise the Government on sensible commercial and trading policies.
- The Minister of Health (Zuma) in South Africa continues to threaten stringent legislation, perhaps even a ban. Recently in a Senate debate, Zuma accused tobacco companies in South Africa of being involved in the smuggling of illegal cigarettes. Rembrandt, market leader in S.A., reacted angrily with an open letter to Zuma signed by Johann Rupert, Chairman, denying any involvement and accusing Zuma of avoiding numerous requests for meetings to find a solution to a problem which is getting out of hand. The tobacco industry association (TISA) also refuted the accusation. RJR plays a full role as member of a government-approved anti customs fraud caucus. A meeting of a newly formed coalition of the tobacco industry and parties with interests in seeing commercial freedoms protected is addressing these issues.

- We are witnessing a definite increase in efforts by different groups in Russia to allow tobacco and alcohol advertising to return to TV, in some form or another. As previously reported, the Russian Law "On Advertising" prescribed a total tobacco advertising ban on TV effective January 1, 1996. However, as state subsidies to Russian television companies have decreased in the overall fall in Government revenues and expenses, broadcasters are looking for new sources of income. In parallel, Russian ad agencies and media buyers are riding this wave of discontent for obvious reasons.

The preferred route for a loosening of the TV ban is not an actual amendment to the Law that would permit a full return of "lifestyle" advertising with pack shots, but rather, to seek and obtain clarification of the existing legislation, in terms of the use of trademarks on TV (a Camel logo, for example, as part of a *Camel Rocks* ad). This is a more realistic target, since an actual change in the Law would require much time and effort, coupled with an uncertain outcome because of the volatility of the legislative process. Along with a legal consultant retained specifically for this issue, we are participating in a strategy meeting with the allies on this issue.

- The Irish presidency has drafted a Council resolution on the reduction of smoking in the EU. Attempts by the industry to convince the blocking minority governments to oppose the resolution unless a clear reference to the tobacco advertising directive were included are unlikely to succeed. The major negative consequence of the resolution, if passed, would be that it would provide a justification for Commissioner Flynn's plans to propose new anti-smoking measures.
- Commissioner Flynn has announced a Commission communication, clamping down on smoking in the EU. These recommendations propose to regulate additives and ingredients, lay down a maximum nicotine content, further reduce the maximum tar content, strengthen health warnings, introduce plain packaging, ban self-service displays and vending, ban advertising, raise taxes, ban duty-free sales and increase smoking restrictions. Commissioner Flynn's draft communication will be discussed by the Commission on November 7. The industry is in contact with member states and relevant commissioners regarding these proposals. The industry is concentrating its efforts to find two or three member states opposing it because unanimity is required for such a resolution. However, we face the obstacle of the negative climate created by PMI's ETS ad campaign this summer.
- Four EU member states have sent detailed objections to the Belgian government regarding its ad ban bill. The Commission also sent some comments. As a result, Belgium cannot adopt the bill before January 14, 1997. During this extra three-month period, Belgium will discuss the issues raised with the other member states and the Commission.

- The International Duty Free Confederation (IDFC) launched an advertising campaign, "Focus 99", in view of the Ecofin decision of '91 to abolish intra-Community duty-free by June 30, 1999. The issue has an OCC impact for RJR. The intention is to request a report from the Commission on the economic implications of an abolition of EU duty-free, hoping that the economic data and the related employment figures provide a strong argument for the continuation of duty-free.

MEDIA/PUBLIC RELATIONS

- There was wide coverage in the Spanish media regarding the scientific study released in the USA linking the carcinogen B(a)P and lung cancer.
- Yomiuri Osaka TV (Japan) requested an interview about how Eclipse works and its difference versus conventional cigarettes. External Relations met a reporter from TV station for about an hour; segment will be aired in early November.
- With the help of Legal Dept. (Messrs. Stettler and Donahue), RJR Japan provided information on Carter/Rogers cases and Liggett settlement to a professor of Sophia University who was contacted by Japanese TV station for comments on these cases and U.S. product liability law as a neutral professional. The TV station decided it was not worth producing its "Tobacco PL Law - US and Japan" program.
- Since RJR's partnership with the Government of Tanzania at Tanzania Cigarette Company (TCC) commenced early this year, improvements in all aspects of the business operation have been made. A PR plan is being jointly prepared by ER and the local TCC management to exploit the "good news" stories through the press and other channels. Government decision-makers and "influentials" will see the benefits which RJR has brought to TCC, and the Tanzanian economy as a whole.
- Steve Goldstone visited RJRI Russia & Baltics. The visit included calls on St. Petersburg Governor Vladimir Yakovlev and Minister of the Economy Evgueny Yasin. Pre-arranged sit-down 45-minute interview for Mr. Goldstone on October 8 in Moscow with the Moscow business paper *Kommersant-Daily*. Parts of the interview were picked up by other media.
- Began working with Russia, Turkey and Poland to prepare media plans for 1997. Plan to visit Russia at the end of November, and am meeting newly appointed PR agency in the middle of November. At the request of a number of senior executives, will prepare a brief Media Guide for all spokespeople.

TAXATION

- No taxation was imposed for cigarettes for year 1997 by Malaysian government during the budget announcement on October 25, 1996.

- Saudi & the Gulf - Gulf Cooperation Council (GCC) Health Ministers have made their decision to increase further the cigarette tariffs from 50% to 70% during this year, and to 100% by 1997. Further increases in tariffs across the GCC states will erode margins even more, and negatively affect pricing competitiveness. Attempts to find a common industry position on taxation have failed amongst the members of the industry association, META. RJR is now engaged in drafting plans to take unilateral action on this issue, or to form an alliance with one other competitor which shares a similar interest on this issue. Proposals for a lobbying program will be presented to management within the next week.
- This was a month of intense activity on our part (RJR-Russia), in conjunction with RJRI Geneva, PMI, the Moscow office of the International Tax and Investment Center (ITIC), and Deloitte & Touche Moscow, to push for a universal specific excise tax rate for cigarettes. BAT remains adamantly opposed to a specific rate and prefers either the status quo or a universal ad valorem rate with low specific minimums. The local tobacco factories without foreign investment have sided with BAT.

The Duma members and Ministry of Finance, although convinced on a philosophical level of the advantages of a specific system, expressed two overriding concerns: potential lower revenues to the State, and the risk of unacceptably large increases in retail prices for cheaper cigarettes. The required numbers were produced by Deloitte & Touche, and early soundings reveal that the material has been persuasive and Duma members are now convinced that "specific is better." Ministry of Finance continues to review the material; chances the specific system will prevail are seen to be 50/50.

- Mr. K. Schweri, owner of Denner, one of the most important discount-chains in Switzerland, officially announced his intention to launch a people's initiative, supporting the fact that cigarettes and other tobacco products should be heavily taxed in the future. The text of the initiative also mentions that the trade should be granted a minimum, but fixed trade margin of 15% of the retail selling price (base March 1 - 1995). According to information from the Federal Chancellery, such an initiative would be refused since it would not be in line with the constitutional rules.
- The Spanish Club of Smokers in favor of tolerance has announced the results of a survey, generating coverage in most of the Spanish media. The results show that most smokers think that the tax increase was excessive and is damaging for smokers and non-smokers. Public opinion also suggests that possible solutions could be strengthening the fight against contraband and tax fraud.
- A meeting was held between RJR executives and a key official at the Ministry of Finances in Spain. Taxation and pricing issues were discussed. The tone of the meeting was productive and should lead to follow-up sessions in the near future. A meeting was also held between RJR and the General Director of Excise Taxes to present the APET wrap and discuss the best way of including the tax-stamp and legal marks to assure its clearance for upcoming launches.

Representatives from the industry held a meeting with the Secretary of State of the Treasury, to voice concerns about the last tax increase and the manner it was decreed, and also to request legislative steps to alleviate fiscal pressure.

- Following the "overnight" tax increase imposed by the Spanish government, a revision of the excise tax rates is politically impossible for face-saving reasons. Industry efforts are now concentrated on a lift of the additional VAT-like tax, called "recargo de equivalencia."
- A CECCM/GITES delegation met with civil servants within the EU Commission (Directorate General Tax) to present their common proposal to review the minimum tobacco excise incidence. The Commission welcomed the approach but requested several clarifications. The compromise will be re-submitted to the Commission. RJR has been instrumental in seeking closer cooperation for the monopoly countries, represented by GITES. The tax issue has always divided the industry. If this issue can be resolved in a satisfactory manner, closer cooperation on other issues will be possible at European level.
- The Central European Tax Task Force met again to discuss a common strategy for those countries having applied for membership in the EU (ten countries in Central & Eastern Europe). The Working Group is concentrating on Poland, the Czech and Slovak Republics, Hungary and Slovenia. The companies represented agreed that the primary objective is to avoid an early implementation of a 57% minimum incidence in Central & Eastern Europe.

MARKET ACCESS

- President Aliiev of Azerbaijan went on national TV to "bless" the joint venture, and we now have access to the factory. The initial reception from factory employees was not positive, persuading us of the need for an ambitious employee communications program, and a steady stream of media events. News of the deal was picked up positively throughout Azerbaijan, and was also carried on major international wire services. It is still our intention to seek a broader FSU piece, using this deal as our "lead-in."
- Have begun work on a new licensing deal in Croatia; signing ceremony planned for November 20.
- The government-owned monopoly in Ethiopia, National Tobacco Enterprise (NTE) is up for sale. Ethiopia was formerly one of the largest Winston markets in sub-Saharan Africa. The market has been decimated recently by extremely high tariffs, resulting in two thirds of cigarette sales being smuggled in from neighboring countries. Government of Ethiopia is seeking partners to purchase a share of NTE. ER was part of a multi-functional project team which visited Ethiopia to assess the potential for a joint venture, and make key contacts.

REGULATORY ISSUES

- The full adoption of ISO standards for the testing of cigarettes in Russia - The issue here remains funding for the actual procedure of adoption, which entails editing, amending and updating of existing regulations.
- Implementation of regulations for new maximum allowable T&N levels in Russia - Dr. D. Zaridze of the State Committee for Sanitary and Epidemiological Supervision (SCSES), who ultimately will make the final decision on the length of the phasing-in period for new maximums, has shown a willingness to listen to the industry's arguments.
- New legislation possibly mandating the listing of shelf life on cigarette packs (Russia)
-
It appears that there is agreement within Russian regulatory circles on the principle that tobacco goods need not have to show shelf life or expiration dates on the pack. This will be confirmed shortly.
- Effectively, imports of tobacco products not bearing the Russian Government-mandated "mark of conformity" would be banned after January 1, 1997 for Russian-made brands, and July 1st for imported brands.
- The Autonomous Government of Catalonia has stated its intention to demand the health warning in both Catalan and Spanish languages. The AET will get in touch with the European Commission to address this proposal.

EMPLOYEE COMMUNICATIONS

- Completed first edition of new quarterly newsletter for employees, which is part of a wider-ranging employee communications initiative.
- Prepared three articles for World News - on Azerbaijan, Steve Goldstone's visit to Russia, Romania and Turkey, and the "new" External Relations function.

INDUSTRY RELATIONSHIPS

- Media training for Ontario Restaurant Association confirmed for November 4-5.
- PMI, RJR and Rothmans are working to revitalize the Asia Tobacco Council. ATC will be a information resource located in Hong Kong to provide support to the regional tobacco institutes and will be a vehicle for regional industry initiatives. We envision BAT and JTI membership, and hope that the new ATC can be packaged to make it attractive even to the state monopolies in the region, including China's.

- Met with new officer of Ministry of Finance, Tobacco Business Dept. and discussed current situation of worldwide tobacco industry and status of import cigarettes in Japan.
- ER Moscow has hired a Manager, Government Relations for Russia & Baltics. He reports on Monday, December 2, in Moscow.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Ove Sorenson

Jaap Uittenbogaard
Peter Van Every
Jason Wright

From: Spainhour, Sheryl F.
To: Carter, Peggy C.; Ellis, Maura P.; Haver, Donald G.;
Meyne, Rob W.; Moskowitz, Seth W.
CC:
BCC:
Subject: External Relations November Monthly Report
Primary Date: 12/3/1996 12:13:03 PM
Last Modified Date: 2001-Nov-20 14:49:34
Last Touched Date:
Sent Date: 1996-Dec-03 12:13:00
Received DateDate: 1996-Dec-03 12:13:03

Attachments:

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INTEROFFICE MEMORANDUM

December 3, 1996

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

Following are highlights of November External Relations activities and issues worldwide:

UNITED STATES

EMPLOYEE COMMUNICATIONS

- Wrote and coordinated shooting of RJR Diversity video.
- Assisted in preparations for United Way victory celebration, including preparation of remarks for Andy Schindler; coordinated with Community Affairs regarding governor's award reception for employees involved in community activities; coordinated RJR participation in Farm Broadcasters national convention.
- Prepared fourth quarter Forum publication for production, as well as the December and year-end editions of Caravan employee publication.

BRAND ACTIVITIES

- Developed public relations plan regarding the distribution of "Winston Just Got Naked" banner/one-sheets at retail and mobile billboards in Florida. Responded to various media calls regarding Winston's Florida test market of no-additives product.
- Drafted statement regarding "Simon Says" publication, which included a Moonlight ad, being included in the Soho Arts Festival Internet site. Publication was loaded onto the Internet by Simon Watson, head of the Soho Arts Festival, without RJR's permission. Responded to *USA Today's* inquiry about Moonlight on the Internet.

MEDIA RELATIONS

- Conducted interviews with *New York Times* and the *Village Voice* regarding our use of the Internet, pointing out that RJRT home page restricted itself to public policy issues, such as youth non-smoking programs, that were of interest to the public, and that RJRT (US) does not use the Internet for marketing purposes.

- Media contacts on legal issues included: (1) *The American Bar Association Journal* accepted an opinion piece from an RJR attorney; (2) Issued a statement on the court's dismissing some of the claims brought by the state of Washington; and (3) Gave general overview and historical perspective on tobacco litigation to the *Tampa Tribune* for story on the amount of cigarette litigation in Florida.

ETS/ACCOMMODATION

- The Department of Transportation issued a proposed rule regarding air travel by handicapped persons. Part of the proposal is seeking comments on whether airports should be required to protect individuals from ETS. If granted, the petitions would lead to a proposal that carriers and airports ensure that an individual with a severe respiratory disability "triggered" by exposure to tobacco smoke have available a path of access from the terminal entrance to the aircraft free from exposure to tobacco smoke. According to the proposal, the Transportation Department "would not intend to ban smoking in all terminals" by providing a number of compliance options. Written comments on the rule are due by Jan. 30, 1997.
- The National Licensed Beverage Association announced the findings of a nationwide survey of restaurant and tavern owners and managers concerning OSHA's proposal to ban smoking in all workplaces. The survey showed that 83% of bar owners and 49% of restaurant operators anticipate at least a 5% loss in revenue should OSHA's proposal be implemented. Two-thirds of those surveyed predicted the rule would result in employee layoffs.
- The National Restaurant Association, National Licensed Beverage Association, Nevada Resort Association, and American Hotel & Motel Associations, have all stated their intention to continue their opposition to any federal rulemaking which will result in a virtual ban on smoking in hospitality and lodging locations.
- Smokers' Rights United filed a class-action lawsuit in the U.S. District Court on behalf of 50 million smokers. The suit charges that the U.S. Environmental Protection Agency (EPA) has no legal or scientific basis to classify ETS as a Group A carcinogen. According to the group, "the results of EPA's virtual falsification of data on secondhand smoke has been a rash of anti-smoker restrictions" and an unprecedented discrimination against smokers.

YOUTH NON-SMOKING

- Coordinated visit by actor Danny Glover to a Mississippi middle school. Four television stations and two daily newspapers covered this appearance.

- Three state attorneys general (from Nevada, New York and Connecticut) have endorsed the "We Card" youth non-smoking retail program. RJR has received orders for more than 312,000 retail kits. Working with the Outdoor Advertisers Association of America on billboard advertising campaign communicating the "We Card" message. Space is donated by individual outdoor advertising companies within each state.

K-Mart is incrementally fulfilling all of its 2,000 stores with a special order. Super K-Mart is also digitizing the program to go into a computer training program.

RESTRICTIONS

- In Mesa, Arizona, a City Council study concluded that the city has taken a five percent loss in tax revenue since a smoking ban took effect in July. Citizens have filed a petition to repeal the ban; and if 4100 of the 7500 signatures are registered voters, the City Council will have to consider the issue.
- In Honolulu, Hawaii, the City/County Council is considering a proposal to ban smoking in all public places, including bars, restaurants, and nightclubs.

COMMUNITY AND CORPORATE AFFAIRS

- The Community Affairs staff participated in the National Hispanic Corporate Council Institute, a four-day program designed to provide information regarding the \$300 billion U.S. Hispanic market.
- RJR hosted 40 teachers at the Tobaccoville plant as part of the Teacher Workplace Learning project, to show teachers how business operates in today's global environment.
- During November, Community Affairs processed 46 Community Involvement requests for a total of \$11,500; 127 Education Matching Grants for a total of \$39,410; and 29 Arts Matching Grants for a total of \$6,212.

LITIGATION

- Illinois became the 17th state to sue the tobacco industry to recover Medicaid expenses for smoking related illnesses.
- The tobacco industry was denied a motion to move Connecticut's Medicaid liability lawsuit to federal court from a state superior court.

- The Arizona Attorney General amended the state's lawsuit against tobacco companies, accusing them of "contributing to juvenile delinquency," and seeking alleged profits from the sale of tobacco products to children, plus civil penalties of \$10,000 for every sale to a minor.

REGULATORY ISSUES

- Legislation introduced in Michigan would require manufacturers of tobacco products to disclose nicotine content and the ingredients of any products sold to Michigan consumers.
- FDA Commissioner Kessler resigned Nov. 25. According to media reports, Kessler will officially leave his post when a successor is named. No frontrunner candidates have emerged at this time to fill the vacancy.

FDA issued a final rule implementing the medical device recall authority provided in the Safe Medical Device Act (SMDA) of 1990 because of its potential applicability to tobacco. (The FDA stated in its final rule on tobacco that removing tobacco products from the market would cause more harm than good to public health and safety.) The SMDA says that if FDA finds a reasonable probability that a device intended for human use would cause serious, adverse health consequences or death, FDA would be required to issue an order to cease distribution of the device. A recall may occur only after FDA: (1) makes the requisite finding; (2) issues a cease distribution order to the manufacturer; (3) gives the manufacturer an opportunity for a regulatory hearing; and (4) determines that recalling the device will not present a greater health risk than not recalling it from use. The final rule will become effective May 19, 1997. Public comment on the rule's information collection requirements are due Jan. 2, 1997.

- Sent letter to head of Coalition for Tobacco-Free Kids regarding the misrepresentation of RJR documents in its advertisements.

MILITARY SALES

- The Pentagon raised the price of cigarettes Nov. 1 at military-base stores by \$4 a carton to discourage smoking.

CIGARETTE EXCISE TAXES

- Oregon voters approved a measure to increase cigarette taxes by 30 cents per pack. Massachusetts tax revenues are down 8.5 percent since July 1 due to a 50 cent a pack cigarette tax increase that took effect Oct. 1. The Maryland governor proposed to double the current state excise tax rate of 36 cents per pack.

ELECTION RESULTS

- The Republicans lost several seats in the House of Representatives, but still maintain a majority. They also increased their advantage in the Senate.

House Republicans and Democrats recently met to elect their party leaders for the next Congress. Despite several rumblings that there would be a challenge to Speaker Gingrich, it never materialized and the leaders from the last Congress were unanimously reelected. The tone of the week was "cooperation," with both sides promising a conciliatory approach to governing with the other party. This is in sharp contrast to the combative tone between Republicans and Democrats during most of the last session of Congress.

INTERNATIONAL

BRAND ACTIVITIES

- Salem's year-end "Celebration of Dance and Music" in Malaysia will feature the current top act in dance music, "La Bouche", with "Snap", "Frente", and "Freebee" in one giant dance concert on Dec. 27. 8,000 free invitations will be given for this event to the winners of Salem's car sticker contest. Salem will also throw a series of New Year's Eve parties in major cities, complemented by a series of dance and music performances running from mid to late December in the country's leading disco clubs. The shows will feature a range of entertainment from hip hop to ballroom dancing; from pop and alternative music to Latin sounds.
- During a session of the Federal Tobacco Commission in Switzerland on Nov. 7, a representative of the Anti Tobacco Lobby (AT) announced that they will initiate a media campaign denouncing the "cynical" advertising methods used by RJR. AT falsely claims the Camel Lights Animal Game promotion is focused on children. The claims will of course be refuted.

MEDIA/PUBLIC RELATIONS

- Interview on November 21 with the Moscow daily *Segodnya* focused on the excise tax debate in Russia; interview with the Moscow trade publication *Kynok* focused on manufacturing sites for RJR products in the FSU.
- Held media training sessions for General Managers and/or ER staff in Spain, Turkey, Malaysia and Japan; additional training sessions with RJR executive committee members completed. Virgil Scudder is scheduled for January 22 sessions in Cologne and Geneva.

- A NASCAR race was held in Suzuka Circuitland in November, with Team Camel participating in the race with a Japanese driver. The combination of American Team (Camel) and a Japanese driver attracted Japanese and US media. Two magazines and three TV programs did pre-race publicity on the race and Camel driver. During the NASCAR race, RJR-Japan distributed 4,500 portable ashtrays for adult smokers.
- Responses were prepared for a Czech magazine inquiring about the prospects for tobacco companies in a hostile environment.

ETS/ACCOMMODATION

- Press briefings were held in Amsterdam and Madrid with Biff Naylor, Chairman of the US National Restaurant Association (NRA), presenting results of survey on preferences of restaurant clientele. Positive media coverage in both countries, including the aspect of smoking accommodation in restaurants. Next step: discussion with Biff Naylor and RJRT to set strategy for activities in 1997.
- The recent announcement by the Minister of Health in Malaysia on the inclusion of another eleven non-smoking zones triggered a local town council to formally inform tobacco firms to remove and refrain from placing posters outside retail premises. The industry has initiated activities to defend against and limit proposed smoking restrictions by the Ministry of Health. Potential allies include Ministry of Tourism, the media and assorted associations of restaurants, pubs, etc. that will be directly impacted by the new regulations. We are hopeful that the collective voice will limit the severity of the proposed regulations and delay any further initiatives.
- Tobacco Institute Of Japan conducted a smoking courtesy campaign in November using TV, radio and magazines.
- On Nov. 12-13, two draft bills were tabled in the Bonn (Germany) Federal Parliament to protect non-smokers rights. The first bill, by 136 MPs from the ruling CDU/CSU/FDP-coalition as well as the Social Democrat's opposition, proposes to ban smoking in public buildings, workplaces and on public transport. Another bill, by the oppositional Green Party, calls for a general ban in most public areas and pubs/hotels, and a ban on cigarette vending machines. Compared to an earlier bill, the interparty motion does not cover a smoking ban in restaurants and hotels. Under this bill, smokers might be fined up to DM 100 and employees up to DM 5000 if a smoking ban is not enforced. These bills were broadly covered by German media. Germany's biggest daily "*Bild Zeitung*" conducted a telephone survey among some 30,000 readers in which 74.8% were against a smoking ban in the workplace. The industry will defend against passage of either of these bills.

- In the Aargau Canton (Switzerland), after two years of discussions between RJR and political parties, a new law was passed that does not include mandatory non-smoking areas in restaurants. Wettingen is the largest town in Canton Aargau, where for two years it has been forbidden to smoke in the City Hall. According to the Mayor of Wettingen, this had led to a "noticeable deterioration of the working climate." RJR proposed alternative measures to the community council on Nov. 7, 1996, which voted to cancel the ban, assign smoking areas on every floor, and permit smoking in those offices where all inhabitants agree to it.

YOUTH NON-SMOKING

- Continuation of youth non-smoking program preparation for priority markets. A retail program in Spain now includes RJR, PM, BAT, Tabacalera and the Tobacconists' Association. A meeting is being held with PMI on Dec. 5, to discuss possible joint programs in Hungary, the Czech Republic and Poland. Our goal is a program that will be led by PMI, who would also bear the bulk of the cost.
- The Canadian industry is placing an ad on the back page of the publication *Your Convenience Manager* (distributed directly to 45,000 convenience outlets nationally) in English and French. The ad will profile the "Operation ID" campaign, encouraging retailers to join in.
- Many of EU Commissioner Flynn's proposals focus on the youth issue, recommending a study on youth smoking initiation, a charter for children's right to a smoke-free environment, and banning vending and self-service counters except in "secure areas."
- Fedetab has launched a pilot youth access project in Belgium, involving 16 retailers on a voluntary basis in Gent (Flanders). A second pilot project in Namur (Wallonia) will follow soon. If successful, it will gradually be spread throughout the country. Initial press and political reactions are positive.

LEGISLATION

- Canadian Health Minister Dingwall announced his intentions to table new tobacco control legislation covering four main areas:
 - ◊ further limits on youth access
 - ◊ restrict promotion of tobacco products
 - ◊ increase health information on tobacco packages
 - ◊ establish powers to regulate tobacco products.

Youth access provisions include prohibiting self-serve displays (except in duty-free stores); banning vending machine sales; banning mail-order distribution; and requiring photo-identification to confirm age. Restrictions on promotion of tobacco products include prohibiting tobacco advertising on broadcast, billboards, street signs, transit and point-of-sale displays; information about products and brands will be permitted in print publications with at least 85% adult readership, and in direct mail; and signs pertaining to availability and price will be permitted at retail.

Existing restrictions on free distribution, and the use of promotional gifts, cash rebates, contests, and lotteries remain in force. Use of tobacco brand names or logos on non-tobacco products that are youth-oriented or have lifestyle connotations is prohibited; format of sponsorship advertising will be regulated to restrict tobacco brand name and logos to bottom 10% of display surface; sponsorship advertising containing tobacco brand names will be prohibited in all media except print publications with primarily adult readership, direct mail, and onsite at event; on-site promotional materials will be restricted in size and duration; and broadcasting of events is permitted.

Tobacco packaging rules include prohibiting false or misleading claims; requiring prominent health messages; requiring increased information about toxic substances in the product and smoke; and requiring information on health impact of those substances.

This legislation gives government power to regulate tobacco products and smoke constituents. As information grows and the market evolves, control measures will be put in place. Enforcement provisions include tougher fines and penalties. Tax changes include a federal excise tax increase of 70 cents per carton, with matching provincial-level increases in Ontario, Quebec, Nova Scotia and New Brunswick; and the surtax on profits is extended at same rate for another 3 years.

- In Puerto Rican elections, incumbent Governor Pedro Roselló was re-elected. This pediatric surgeon was responsible for the anti-smoking legislative package approved in 1993. He is reportedly working on legislation to further limit cigarette advertising and promotions. In the Legislature, the newly elected President of the House and the new President of the Senate, Rep. Charlie Rodríguez, are avid anti-smokers. Rep. Rodríguez urged Governor Roselló to sue the tobacco industry to recoup medical expenses related to smoking, just before the elections. The new Mayors of San Juan and Yabucoa, and several other elected legislators, have a good relationship with RJR.
- In 1997, Ukraine is joining the EAN system of bar codes. Beginning July 1, 1997, it will be required to have bar codes on all exported and imported products.

LITIGATION

- The Secretary of the Justice Department is investigating the possibility of having Puerto Rico join 17 states and the City of New York in a legal challenge against tobacco companies claiming to recoup millions of dollars spent on treating smoking-related diseases. The Spanish press in Puerto Rico has not picked up on this information and no media inquiries have been received to date.

ADVERTISING/MARKETING FREEDOMS

- Debate continues, as Russian and foreign advertising experts argue for self-regulation, and claim the Russian Law "On Advertising" has revealed its shortcomings. Government participants from the State Anti-Monopoly Committee counter that strong regulations must be in place as a "backstop" to any attempts at self-regulation in an "unruly" industry. Video International (VI), one of the largest Russian advertising and media-buying organizations, seeks a more liberal advertising regime but believes that the only way to obtain this is by offering public service ads paid for by the industry. We are not encouraging a legally mandated percentage of advertising outlays (as VI favors) but a flexible approach based on the Industry Advertising Code, where youth smoking and youth access messages could be produced under our editorial control. Parliamentary hearings on advertising on TV will be December 15 in Moscow.
- The industry's Position Paper on Tobacco Advertising was approved by the Spanish tobacco association (AET).
- An advertising ban was passed in Turkey late in November, coming as a surprise to all companies. We probably need to look at our monitoring capabilities. The ban is total, though out-of-home advertising is given a year's grace. We are now assessing the situation and preparing a strategy for challenging the legislation.

RJR Turkey will hire a new PR agency and prepare a detailed media plan.

- The Health Council adopted a resolution on the reduction of smoking in the EU. It urges the member states to continue to promote strategies to reduce the prevalence of smoking and calls upon the Commission to carry out surveys on best practices conducted in the member states and their impact. Commissioner Flynn has tabled a draft communication on the proposed EU-role in combating tobacco consumption. It contains a detailed list of recommended actions largely based on the EU-cancer experts committee's recommendations. Commissioner Flynn's proposal contains the following elements: increase in size and improvement of visibility of health warnings; "generic packaging"; in-pack cessation leaflet; compulsory declaration of additives; and banning "light" or "low" claims. The industry continues its contacts with other Commissioners. The industry advertising working group will update its strategy to fight the ad ban directive under the upcoming Dutch Council presidency on Dec. 3.

TRADE

- In an interview for a local business magazine in Spain, Pablo Isla, Director of the State Patrimony (the entity which holds the Government's TSA shares) made comments regarding the privatization of Tabacalera (TSA):
 - ◊ The possibility of the State retaining some share (following the French model) exists, but the percentage to be sold has not yet been defined.
 - ◊ The future and privatization of Tabaqueira (Portugal) will directly affect Tabacalera.
 - ◊ There is not yet a fixed date for the sale of Tabacalera.
 - ◊ Employees and retailers are being encouraged to participate in the company's capital, as a part of the privatization process.

Also, Josep Pique, Minister of Industry, has stated in the press that the privatization of the State tobacco company may be delayed until 1998.

- In the second week of November, the Government of Portugal delayed the decision on the privatization of Tabaqueira and ordered a report on how the sale would affect the competition. RJR sent a letter to the Council of Competition, with copy to the Minister of Economy, to express RJR's opposition to PMI winning the privatization. The Minister of Economy has commissioned a study from Portugal's competition council that is expected to lead to conditions designed to safeguard fair competition. Everything points to a Government decision by mid-December.

GOVERNMENT RELATIONS

- Messrs. Goldstone and Langner visited Spain (Nov. 20) to review the business, and met with Mr. Rodrigo Rato, Vice President of the Spanish Government. Mr. Goldstone also met with Mr. César Alierta, Chairman of Tabacalera.
- RJR executives met with Congressman Angel Martinez, the influential Vice President of the Economic Commission of the PSOE (Socialist Political Party) in Spain and an elected member of the Parliament from La Rioja.
- Technical issues pertaining to the application of tax control stamps when APET is used, were reviewed with the Spanish monopoly government delegate and the head of the Tribute Department.
- There is some dissent within the Opposition Party in Azerbaijan about RJR's new joint venture. An advertising ban is being considered; the industry is meeting to discuss. A new excise tax structure is also under consideration; we have been asked for input by the government.

We sponsored a dinner for the UK Ambassador of Azerbaijan, in London. In Azerbaijan, we will spotlight the fact that RJR is supporting Azerbaijan's attempts to gain greater international recognition.

TAR AND NICOTINE

- The Russian domestic tobacco industry attempts to delay the implementation of new, more stringent T&N norms scheduled to come into force on January 1, 1997. Professor David G. Zaridze of the Oncological Scientific Center in Moscow will play a key role in preparing recommendations to the government as to how to implement new T&N norms for Russia. Zaridze participated in the recent European Tobacco and Health conference in Helsinki, where new EU-wide norms were discussed, including one option which would see maximums fall to 12 mg/1 mg by December 31, 1997, and by 10% every year thereafter, until 5 mg/0.5 mg levels are reached. He was confident that these norms will become policy in the EU, and that they should also be applied to Russia as well. There likely will be a conciliation commission created to iron out differences; but for the moment, the Russian domestic industry proposal and the Zaridze proposal will be submitted to Government separately.
- In response to the EU directive reducing maximum "tar" levels by January 1, 1998, to 12 mg, a meeting with the German Health Ministry will occur on Dec. 4 to agree on a voluntary adjustment (reduction) of the tar figures of the Lights segment by the industry.

TAXATION

- The debate between specific excise versus ad valorem excise tax calculation in Russia has left parliamentary committee and will now be taken to the State Duma floor, as discussions over the 1997 budget continue. Since our last report, the Ministry of Finance has come around to the arguments in favor of a specific taxation system, a position defended by RJRI, PMI and Rothmans.

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cc: David Fishel
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Tommy Payne
Ove Sorenson
Jaap Uittenbogaard
Peter Van Every
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From: Rumple, Phyllis
To: De Labouchere, Pierre; Hobson, Kaye K.
CC: Uittenbogaard, Jaap; Van Every, Peter J.; Fishel,
David; Mozingo, Roger L.; Spainhour, Sheryl F.; Sorensen,
Ove; Payne, Tommy J.; Wright, Jason
BCC:
Subject: External Relations November Report
Primary Date: 12/3/1996 11:26:01 AM
Last Modified Date: 2001-Nov-20 16:44:11
Last Touched Date:
Sent Date: 1996-Dec-03 11:26:00
Received DateDate: 1996-Dec-03 11:26:01

Attachments:

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INTEROFFICE MEMORANDUM

December 3, 1996

TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

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- Media contacts on legal issues included: (1) *The American Bar Association Journal* accepted an opinion piece from an RJR attorney; (2) Issued a statement on the court's dismissing some of the claims brought by the state of Washington; and (3) Gave general overview and historical perspective on tobacco litigation to the *Tampa Tribune* for story on the amount of cigarette litigation in Florida.

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- The Department of Transportation issued a proposed rule regarding air travel by handicapped persons. Part of the proposal is seeking comments on whether airports should be required to protect individuals from ETS. If granted, the petitions would lead to a proposal that carriers and airports ensure that an individual with a severe respiratory disability "triggered" by exposure to tobacco smoke have available a path of access from the terminal entrance to the aircraft free from exposure to tobacco smoke. According to the proposal, the Transportation Department "would not intend to ban smoking in all terminals" by providing a number of compliance options. Written comments on the rule are due by Jan. 30, 1997.
- The National Licensed Beverage Association announced the findings of a nationwide survey of restaurant and tavern owners and managers concerning OSHA's proposal to ban smoking in all workplaces. The survey showed that 83% of bar owners and 49% of restaurant operators anticipate at least a 5% loss in revenue should OSHA's proposal be implemented. Two-thirds of those surveyed predicted the rule would result in employee layoffs.
- The National Restaurant Association, National Licensed Beverage Association, Nevada Resort Association, and American Hotel & Motel Associations, have all stated their intention to continue their opposition to any federal rulemaking which will result in a virtual ban on smoking in hospitality and lodging locations.
- Smokers' Rights United filed a class-action lawsuit in the U.S. District Court on behalf of 50 million smokers. The suit charges that the U.S. Environmental Protection Agency (EPA) has no legal or scientific basis to classify ETS as a Group A carcinogen. According to the group, "the results of EPA's virtual falsification of data on secondhand smoke has been a rash of anti-smoker restrictions" and an unprecedented discrimination against smokers.

YOUTH NON-SMOKING

- Coordinated visit by actor Danny Glover to a Mississippi middle school. Four television stations and two daily newspapers covered this appearance.

- Three state attorneys general (from Nevada, New York and Connecticut) have endorsed the "We Card" youth non-smoking retail program. RJR has received orders for more than 312,000 retail kits. Working with the Outdoor Advertisers Association of America on billboard advertising campaign communicating the "We Card" message. Space is donated by individual outdoor advertising companies within each state.
K-Mart is incrementally fulfilling all of its 2,000 stores with a special order. Super K-Mart is also digitizing the program to go into a computer training program.

RESTRICTIONS

- In Mesa, Arizona, a City Council study concluded that the city has taken a five percent loss in tax revenue since a smoking ban took effect in July. Citizens have filed a petition to repeal the ban; and if 4100 of the 7500 signatures are registered voters, the City Council will have to consider the issue.
- In Honolulu, Hawaii, the City/County Council is considering a proposal to ban smoking in all public places, including bars, restaurants, and nightclubs.

COMMUNITY AND CORPORATE AFFAIRS

- The Community Affairs staff participated in the National Hispanic Corporate Council Institute, a four-day program designed to provide information regarding the \$300 billion U.S. Hispanic market.
- RJR hosted 40 teachers at the Tobaccoville plant as part of the Teacher Workplace Learning project, to show teachers how business operates in today's global environment.
- During November, Community Affairs processed 46 Community Involvement requests for a total of \$11,500; 127 Education Matching Grants for a total of \$39,410; and 29 Arts Matching Grants for a total of \$6,212.

LITIGATION

- Illinois became the 17th state to sue the tobacco industry to recover Medicaid expenses for smoking related illnesses.
- The tobacco industry was denied a motion to move Connecticut's Medicaid liability lawsuit to federal court from a state superior court.

- The Arizona Attorney General amended the state's lawsuit against tobacco companies, accusing them of "contributing to juvenile delinquency," and seeking alleged profits from the sale of tobacco products to children, plus civil penalties of \$10,000 for every sale to a minor.

REGULATORY ISSUES

- Legislation introduced in Michigan would require manufacturers of tobacco products to disclose nicotine content and the ingredients of any products sold to Michigan consumers.
- FDA Commissioner Kessler resigned Nov. 25. According to media reports, Kessler will officially leave his post when a successor is named. No frontrunner candidates have emerged at this time to fill the vacancy.

FDA issued a final rule implementing the medical device recall authority provided in the Safe Medical Device Act (SMDA) of 1990 because of its potential applicability to tobacco. (The FDA stated in its final rule on tobacco that removing tobacco products from the market would cause more harm than good to public health and safety.) The SMDA says that if FDA finds a reasonable probability that a device intended for human use would cause serious, adverse health consequences or death, FDA would be required to issue an order to cease distribution of the device. A recall may occur only after FDA: (1) makes the requisite finding; (2) issues a cease distribution order to the manufacturer; (3) gives the manufacturer an opportunity for a regulatory hearing; and (4) determines that recalling the device will not present a greater health risk than not recalling it from use. The final rule will become effective May 19, 1997. Public comment on the rule's information collection requirements are due Jan. 2, 1997.

- Sent letter to head of Coalition for Tobacco-Free Kids regarding the misrepresentation of RJR documents in its advertisements.

MILITARY SALES

- The Pentagon raised the price of cigarettes Nov. 1 at military-base stores by \$4 a carton to discourage smoking.

CIGARETTE EXCISE TAXES

- Oregon voters approved a measure to increase cigarette taxes by 30 cents per pack. Massachusetts tax revenues are down 8.5 percent since July 1 due to a 50 cent a pack cigarette tax increase that took effect Oct. 1. The Maryland governor proposed to double the current state excise tax rate of 36 cents per pack.

ELECTION RESULTS

- The Republicans lost several seats in the House of Representatives, but still maintain a majority. They also increased their advantage in the Senate.

House Republicans and Democrats recently met to elect their party leaders for the next Congress. Despite several rumblings that there would be a challenge to Speaker Gingrich, it never materialized and the leaders from the last Congress were unanimously reelected. The tone of the week was "cooperation," with both sides promising a conciliatory approach to governing with the other party. This is in sharp contrast to the combative tone between Republicans and Democrats during most of the last session of Congress.

INTERNATIONAL

BRAND ACTIVITIES

- Salem's year-end "Celebration of Dance and Music" in Malaysia will feature the current top act in dance music, "La Bouche", with "Snap", "Frente", and "Freebee" in one giant dance concert on Dec. 27. 8,000 free invitations will be given for this event to the winners of Salem's car sticker contest. Salem will also throw a series of New Year's Eve parties in major cities, complemented by a series of dance and music performances running from mid to late December in the country's leading disco clubs. The shows will feature a range of entertainment from hip hop to ballroom dancing; from pop and alternative music to Latin sounds.
- During a session of the Federal Tobacco Commission in Switzerland on Nov. 7, a representative of the Anti Tobacco Lobby (AT) announced that they will initiate a media campaign denouncing the "cynical" advertising methods used by RJR. AT falsely claims the Camel Lights Animal Game promotion is focused on children. The claims will of course be refuted.

MEDIA/PUBLIC RELATIONS

- Interview on November 21 with the Moscow daily *Segodnya* focused on the excise tax debate in Russia; interview with the Moscow trade publication *Kynok* focused on manufacturing sites for RJRI products in the FSU.
- Held media training sessions for General Managers and/or ER staff in Spain, Turkey, Malaysia and Japan; additional training sessions with RJRI executive committee members completed. Virgil Scudder is scheduled for January 22 sessions in Cologne and Geneva.

- A NASCAR race was held in Suzuka Circuitland in November, with Team Camel participating in the race with a Japanese driver. The combination of American Team (Camel) and a Japanese driver attracted Japanese and US media. Two magazines and three TV programs did pre-race publicity on the race and Camel driver. During the NASCAR race, RJR-Japan distributed 4,500 portable ashtrays for adult smokers.
- Responses were prepared for a Czech magazine inquiring about the prospects for tobacco companies in a hostile environment.

ETS/ACCOMMODATION

- Press briefings were held in Amsterdam and Madrid with Biff Naylor, Chairman of the US National Restaurant Association (NRA), presenting results of survey on preferences of restaurant clientele. Positive media coverage in both countries, including the aspect of smoking accommodation in restaurants. Next step: discussion with Biff Naylor and RJRT to set strategy for activities in 1997.
- The recent announcement by the Minister of Health in Malaysia on the inclusion of another eleven non-smoking zones triggered a local town council to formally inform tobacco firms to remove and refrain from placing posters outside retail premises. The industry has initiated activities to defend against and limit proposed smoking restrictions by the Ministry of Health. Potential allies include Ministry of Tourism, the media and assorted associations of restaurants, pubs, etc. that will be directly impacted by the new regulations. We are hopeful that the collective voice will limit the severity of the proposed regulations and delay any further initiatives.
- Tobacco Institute Of Japan conducted a smoking courtesy campaign in November using TV, radio and magazines.
- On Nov. 12-13, two draft bills were tabled in the Bonn (Germany) Federal Parliament to protect non-smokers rights. The first bill, by 136 MPs from the ruling CDU/CSU/FDP-coalition as well as the Social Democrat's opposition, proposes to ban smoking in public buildings, workplaces and on public transport. Another bill, by the oppositional Green Party, calls for a general ban in most public areas and pubs/hotels, and a ban on cigarette vending machines. Compared to an earlier bill, the interparty motion does not cover a smoking ban in restaurants and hotels. Under this bill, smokers might be fined up to DM 100 and employees up to DM 5000 if a smoking ban is not enforced. These bills were broadly covered by German media. Germany's biggest daily "Bild Zeitung" conducted a telephone survey among some 30,000 readers in which 74.8% were against a smoking ban in the workplace. The industry will defend against passage of either of these bills.

- In the Aargau Canton (Switzerland), after two years of discussions between RJR and political parties, a new law was passed that does not include mandatory non-smoking areas in restaurants. Wettingen is the largest town in Canton Aargau, where for two years it has been forbidden to smoke in the City Hall. According to the Mayor of Wettingen, this had led to a "noticeable deterioration of the working climate." RJR proposed alternative measures to the community council on Nov. 7, 1996, which voted to cancel the ban, assign smoking areas on every floor, and permit smoking in those offices where all inhabitants agree to it.

YOUTH NON-SMOKING

- Continuation of youth non-smoking program preparation for priority markets. A retail program in Spain now includes RJR, PM, BAT, Tabacalera and the Tobacconists' Association. A meeting is being held with PMI on Dec. 5, to discuss possible joint programs in Hungary, the Czech Republic and Poland. Our goal is a program that will be led by PMI, who would also bear the bulk of the cost.
- The Canadian industry is placing an ad on the back page of the publication *Your Convenience Manager* (distributed directly to 45,000 convenience outlets nationally) in English and French. The ad will profile the "Operation ID" campaign, encouraging retailers to join in.
- Many of EU Commissioner Flynn's proposals focus on the youth issue, recommending a study on youth smoking initiation, a charter for children's right to a smoke-free environment, and banning vending and self-service counters except in "secure areas."
- Fedetab has launched a pilot youth access project in Belgium, involving 16 retailers on a voluntary basis in Gent (Flanders). A second pilot project in Namur (Wallonia) will follow soon. If successful, it will gradually be spread throughout the country. Initial press and political reactions are positive.

LEGISLATION

- Canadian Health Minister Dingwall announced his intentions to table new tobacco control legislation covering four main areas:
 - ◊ further limits on youth access
 - ◊ restrict promotion of tobacco products
 - ◊ increase health information on tobacco packages
 - ◊ establish powers to regulate tobacco products.

Youth access provisions include prohibiting self-serve displays (except in duty-free stores); banning vending machine sales; banning mail-order distribution; and requiring photo-identification to confirm age. Restrictions on promotion of tobacco products include prohibiting tobacco advertising on broadcast, billboards, street signs, transit and point-of-sale displays; information about products and brands will be permitted in print publications with at least 85% adult readership, and in direct mail; and signs pertaining to availability and price will be permitted at retail.

Existing restrictions on free distribution, and the use of promotional gifts, cash rebates, contests, and lotteries remain in force. Use of tobacco brand names or logos on non-tobacco products that are youth-oriented or have lifestyle connotations is prohibited; format of sponsorship advertising will be regulated to restrict tobacco brand name and logos to bottom 10% of display surface; sponsorship advertising containing tobacco brand names will be prohibited in all media except print publications with primarily adult readership, direct mail, and onsite at event; on-site promotional materials will be restricted in size and duration; and broadcasting of events is permitted.

Tobacco packaging rules include prohibiting false or misleading claims; requiring prominent health messages; requiring increased information about toxic substances in the product and smoke; and requiring information on health impact of those substances.

This legislation gives government power to regulate tobacco products and smoke constituents. As information grows and the market evolves, control measures will be put in place. Enforcement provisions include tougher fines and penalties. Tax changes include a federal excise tax increase of 70 cents per carton, with matching provincial-level increases in Ontario, Quebec, Nova Scotia and New Brunswick; and the surtax on profits is extended at same rate for another 3 years.

- In Puerto Rican elections, incumbent Governor Pedro Roselló was re-elected. This pediatric surgeon was responsible for the anti-smoking legislative package approved in 1993. He is reportedly working on legislation to further limit cigarette advertising and promotions. In the Legislature, the newly elected President of the House and the new President of the Senate, Rep. Charlie Rodríguez, are avid anti-smokers. Rep. Rodríguez urged Governor Roselló to sue the tobacco industry to recoup medical expenses related to smoking, just before the elections. The new Mayors of San Juan and Yabucoa, and several other elected legislators, have a good relationship with RJR.
- In 1997, Ukraine is joining the EAN system of bar codes. Beginning July 1, 1997, it will be required to have bar codes on all exported and imported products.

LITIGATION

- The Secretary of the Justice Department is investigating the possibility of having Puerto Rico join 17 states and the City of New York in a legal challenge against tobacco companies claiming to recoup millions of dollars spent on treating smoking-related diseases. The Spanish press in Puerto Rico has not picked up on this information and no media inquiries have been received to date.

ADVERTISING/MARKETING FREEDOMS

- Debate continues, as Russian and foreign advertising experts argue for self-regulation, and claim the Russian Law "On Advertising" has revealed its shortcomings. Government participants from the State Anti-Monopoly Committee counter that strong regulations must be in place as a "backstop" to any attempts at self-regulation in an "unruly" industry. Video International (VI), one of the largest Russian advertising and media-buying organizations, seeks a more liberal advertising regime but believes that the only way to obtain this is by offering public service ads paid for by the industry. We are not encouraging a legally mandated percentage of advertising outlays (as VI favors) but a flexible approach based on the Industry Advertising Code, where youth smoking and youth access messages could be produced under our editorial control. Parliamentary hearings on advertising on TV will be December 15 in Moscow.
- The industry's Position Paper on Tobacco Advertising was approved by the Spanish tobacco association (AET).
- An advertising ban was passed in Turkey late in November, coming as a surprise to all companies. We probably need to look at our monitoring capabilities. The ban is total, though out-of-home advertising is given a year's grace. We are now assessing the situation and preparing a strategy for challenging the legislation.

RJR Turkey will hire a new PR agency and prepare a detailed media plan.

- The Health Council adopted a resolution on the reduction of smoking in the EU. It urges the member states to continue to promote strategies to reduce the prevalence of smoking and calls upon the Commission to carry out surveys on best practices conducted in the member states and their impact. Commissioner Flynn has tabled a draft communication on the proposed EU-role in combating tobacco consumption. It contains a detailed list of recommended actions largely based on the EU-cancer experts committee's recommendations. Commissioner Flynn's proposal contains the following elements: increase in size and improvement of visibility of health warnings; "generic packaging"; in-pack cessation leaflet; compulsory declaration of additives; and banning "light" or "low" claims. The industry continues its contacts with other Commissioners. The industry advertising working group will update its strategy to fight the ad ban directive under the upcoming Dutch Council presidency on Dec. 3.

TRADE

- In an interview for a local business magazine in Spain, Pablo Isla, Director of the State Patrimony (the entity which holds the Government's TSA shares) made comments regarding the privatization of Tabacalera (TSA):
 - ◊ The possibility of the State retaining some share (following the French model) exists, but the percentage to be sold has not yet been defined.
 - ◊ The future and privatization of Tabaqueira (Portugal) will directly affect Tabacalera.
 - ◊ There is not yet a fixed date for the sale of Tabacalera.
 - ◊ Employees and retailers are being encouraged to participate in the company's capital, as a part of the privatization process.

Also, Josep Pique, Minister of Industry, has stated in the press that the privatization of the State tobacco company may be delayed until 1998.

- In the second week of November, the Government of Portugal delayed the decision on the privatization of Tabaqueira and ordered a report on how the sale would affect the competition. RJR sent a letter to the Council of Competition, with copy to the Minister of Economy, to express RJR's opposition to PMI winning the privatization. The Minister of Economy has commissioned a study from Portugal's competition council that is expected to lead to conditions designed to safeguard fair competition. Everything points to a Government decision by mid-December.

GOVERNMENT RELATIONS

- Messrs. Goldstone and Langner visited Spain (Nov. 20) to review the business, and met with Mr. Rodrigo Rato, Vice President of the Spanish Government. Mr. Goldstone also met with Mr. César Alierta, Chairman of Tabacalera.
- RJR executives met with Congressman Angel Martinez, the influential Vice President of the Economic Commission of the PSOE (Socialist Political Party) in Spain and an elected member of the Parliament from La Rioja.
- Technical issues pertaining to the application of tax control stamps when APET is used, were reviewed with the Spanish monopoly government delegate and the head of the Tribute Department.
- There is some dissent within the Opposition Party in Azerbaijan about RJR's new joint venture. An advertising ban is being considered; the industry is meeting to discuss. A new excise tax structure is also under consideration; we have been asked for input by the government.

We sponsored a dinner for the UK Ambassador of Azerbaijan, in London. In Azerbaijan, we will spotlight the fact that RJR is supporting Azerbaijan's attempts to gain greater international recognition.

TAR AND NICOTINE

- The Russian domestic tobacco industry attempts to delay the implementation of new, more stringent T&N norms scheduled to come into force on January 1, 1997. Professor David G. Zaridze of the Oncological Scientific Center in Moscow will play a key role in preparing recommendations to the government as to how to implement new T&N norms for Russia. Zaridze participated in the recent European Tobacco and Health conference in Helsinki, where new EU-wide norms were discussed, including one option which would see maximums fall to 12 mg/1 mg by December 31, 1997, and by 10% every year thereafter, until 5 mg/0.5 mg levels are reached. He was confident that these norms will become policy in the EU, and that they should also be applied to Russia as well. There likely will be a conciliation commission created to iron out differences; but for the moment, the Russian domestic industry proposal and the Zaridze proposal will be submitted to Government separately.
- In response to the EU directive reducing maximum "tar" levels by January 1, 1998, to 12 mg, a meeting with the German Health Ministry will occur on Dec. 4 to agree on a voluntary adjustment (reduction) of the tar figures of the Lights segment by the industry.

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TO: Mr. Pierre de Labouchere
Mr. Andrew J. Schindler

*For info:
for your information
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ETS/ACCOMMODATION

- The Department of Transportation issued a proposed rule regarding air travel by handicapped persons. Part of the proposal is seeking comments on whether airports should be required to protect individuals from ETS. If granted, the petitions would lead to a proposal that carriers and airports ensure that an individual with a severe respiratory disability "triggered" by exposure to tobacco smoke have available a path of access from the terminal entrance to the aircraft free from exposure to tobacco smoke. According to the proposal, the Transportation Department "would not intend to ban smoking in all terminals" by providing a number of compliance options. Written comments on the rule are due by Jan. 30, 1997.
- The National Licensed Beverage Association announced the findings of a nationwide survey of restaurant and tavern owners and managers concerning OSHA's proposal to ban smoking in all workplaces. The survey showed that 83% of bar owners and 49% of restaurant operators anticipate at least a 5% loss in revenue should OSHA's proposal be implemented. Two-thirds of those surveyed predicted the rule would result in employee layoffs.
- The National Restaurant Association, National Licensed Beverage Association, Nevada Resort Association, and American Hotel & Motel Associations, have all stated their intention to continue their opposition to any federal rulemaking which will result in a virtual ban on smoking in hospitality and lodging locations.
- Smokers' Rights United filed a class-action lawsuit in the U.S. District Court on behalf of 50 million smokers. The suit charges that the U.S. Environmental Protection Agency (EPA) has no legal or scientific basis to classify ETS as a Group A carcinogen. According to the group, "the results of EPA's virtual falsification of data on secondhand smoke has been a rash of anti-smoker restrictions" and an unprecedented discrimination against smokers.

YOUTH NON-SMOKING

- Coordinated visit by actor Danny Glover to a Mississippi middle school. Four television stations and two daily newspapers covered this appearance.

- Three state attorneys general (from Nevada, New York and Connecticut) have endorsed the "We Card" youth non-smoking retail program. RJR has received orders for more than 312,000 retail kits. Working with the Outdoor Advertisers Association of America on billboard advertising campaign communicating the "We Card" message. Space is donated by individual outdoor advertising companies within each state. K-Mart is incrementally fulfilling all of its 2,000 stores with a special order. Super K-Mart is also digitizing the program to go into a computer training program.

RESTRICTIONS

- In Mesa, Arizona, a City Council study concluded that the city has taken a five percent loss in tax revenue since a smoking ban took effect in July. Citizens have filed a petition to repeal the ban; and if 4100 of the 7500 signatures are registered voters, the City Council will have to consider the issue.
- In Honolulu, Hawaii, the City/County Council is considering a proposal to ban smoking in all public places, including bars, restaurants, and nightclubs.

COMMUNITY AND CORPORATE AFFAIRS

- The Community Affairs staff participated in the National Hispanic Corporate Council Institute, a four-day program designed to provide information regarding the \$300 billion U.S. Hispanic market.
- RJR hosted 40 teachers at the Tobaccoville plant as part of the Teacher Workplace Learning project, to show teachers how business operates in today's global environment.
- During November, Community Affairs processed 46 Community Involvement requests for a total of \$11,500; 127 Education Matching Grants for a total of \$39,410; and 29 Arts Matching Grants for a total of \$6,212.

LITIGATION

- Illinois became the 17th state to sue the tobacco industry to recover Medicaid expenses for smoking related illnesses.
- The tobacco industry was denied a motion to move Connecticut's Medicaid liability lawsuit to federal court from a state superior court.

- The Arizona Attorney General amended the state's lawsuit against tobacco companies, accusing them of "contributing to juvenile delinquency," and seeking alleged profits from the sale of tobacco products to children, plus civil penalties of \$10,000 for every sale to a minor.

REGULATORY ISSUES

- Legislation introduced in Michigan would require manufacturers of tobacco products to disclose nicotine content and the ingredients of any products sold to Michigan consumers.
- FDA Commissioner Kessler resigned Nov. 25. According to media reports, Kessler will officially leave his post when a successor is named. No frontrunner candidates have emerged at this time to fill the vacancy.

FDA issued a final rule implementing the medical device recall authority provided in the Safe Medical Device Act (SMDA) of 1990 because of its potential applicability to tobacco. (The FDA stated in its final rule on tobacco that removing tobacco products from the market would cause more harm than good to public health and safety.) The SMDA says that if FDA finds a reasonable probability that a device intended for human use would cause serious, adverse health consequences or death, FDA would be required to issue an order to cease distribution of the device. A recall may occur only after FDA: (1) makes the requisite finding; (2) issues a cease distribution order to the manufacturer; (3) gives the manufacturer an opportunity for a regulatory hearing; and (4) determines that recalling the device will not present a greater health risk than not recalling it from use. The final rule will become effective May 19, 1997. Public comment on the rule's information collection requirements are due Jan. 2, 1997.

- Sent letter to head of Coalition for Tobacco-Free Kids regarding the misrepresentation of RJR documents in its advertisements.

MILITARY SALES

- The Pentagon raised the price of cigarettes Nov. 1 at military-base stores by \$4 a carton to discourage smoking.

CIGARETTE EXCISE TAXES

- Oregon voters approved a measure to increase cigarette taxes by 30 cents per pack. Massachusetts tax revenues are down 8.5 percent since July 1 due to a 50 cent a pack cigarette tax increase that took effect Oct. 1. The Maryland governor proposed to double the current state excise tax rate of 36 cents per pack.

ELECTION RESULTS

- The Republicans lost several seats in the House of Representatives, but still maintain a majority. They also increased their advantage in the Senate.

House Republicans and Democrats recently met to elect their party leaders for the next Congress. Despite several rumblings that there would be a challenge to Speaker Gingrich, it never materialized and the leaders from the last Congress were unanimously reelected. The tone of the week was "cooperation," with both sides promising a conciliatory approach to governing with the other party. This is in sharp contrast to the combative tone between Republicans and Democrats during most of the last session of Congress.

INTERNATIONAL

BRAND ACTIVITIES

- Salem's year-end "Celebration of Dance and Music" in Malaysia will feature the current top act in dance music, "La Bouche", with "Snap", "Frente", and "Freebee" in one giant dance concert on Dec. 27. 8,000 free invitations will be given for this event to the winners of Salem's car sticker contest. Salem will also throw a series of New Year's Eve parties in major cities, complemented by a series of dance and music performances running from mid to late December in the country's leading disco clubs. The shows will feature a range of entertainment from hip hop to ballroom dancing; from pop and alternative music to Latin sounds.
- During a session of the Federal Tobacco Commission in Switzerland on Nov. 7, a representative of the Anti Tobacco Lobby (AT) announced that they will initiate a media campaign denouncing the "cynical" advertising methods used by RJR. AT falsely claims the Camel Lights Animal Game promotion is focused on children. The claims will of course be refuted.

MEDIA/PUBLIC RELATIONS

- Interview on November 21 with the Moscow daily *Segodnya* focused on the excise tax debate in Russia; interview with the Moscow trade publication *Kynok* focused on manufacturing sites for RJRI products in the FSU.
- Held media training sessions for General Managers and/or ER staff in Spain, Turkey, Malaysia and Japan; additional training sessions with RJRI executive committee members completed. Virgil Scudder is scheduled for January 22 sessions in Cologne and Geneva.

- A NASCAR race was held in Suzuka Circuitland in November, with Team Camel participating in the race with a Japanese driver. The combination of American Team (Camel) and a Japanese driver attracted Japanese and US media. Two magazines and three TV programs did pre-race publicity on the race and Camel driver. During the NASCAR race, RJR-Japan distributed 4,500 portable ashtrays for adult smokers.
- Responses were prepared for a Czech magazine inquiring about the prospects for tobacco companies in a hostile environment.

ETS/ACCOMMODATION

- Press briefings were held in Amsterdam and Madrid with Biff Naylor, Chairman of the US National Restaurant Association (NRA), presenting results of survey on preferences of restaurant clientele. Positive media coverage in both countries, including the aspect of smoking accommodation in restaurants. Next step: discussion with Biff Naylor and RJRT to set strategy for activities in 1997.
- The recent announcement by the Minister of Health in Malaysia on the inclusion of another eleven non-smoking zones triggered a local town council to formally inform tobacco firms to remove and refrain from placing posters outside retail premises. The industry has initiated activities to defend against and limit proposed smoking restrictions by the Ministry of Health. Potential allies include Ministry of Tourism, the media and assorted associations of restaurants, pubs, etc. that will be directly impacted by the new regulations. We are hopeful that the collective voice will limit the severity of the proposed regulations and delay any further initiatives.
- Tobacco Institute Of Japan conducted a smoking courtesy campaign in November using TV, radio and magazines.
- On Nov. 12-13, two draft bills were tabled in the Bonn (Germany) Federal Parliament to protect non-smokers rights. The first bill, by 136 MPs from the ruling CDU/CSU/FDP-coalition as well as the Social Democrat's opposition, proposes to ban smoking in public buildings, workplaces and on public transport. Another bill, by the oppositional Green Party, calls for a general ban in most public areas and pubs/hotels, and a ban on cigarette vending machines. Compared to an earlier bill, the interparty motion does not cover a smoking ban in restaurants and hotels. Under this bill, smokers might be fined up to DM 100 and employees up to DM 5000 if a smoking ban is not enforced. These bills were broadly covered by German media. Germany's biggest daily "Bild Zeitung" conducted a telephone survey among some 30,000 readers in which 74.8% were against a smoking ban in the workplace. The industry will defend against passage of either of these bills.

- In the Aargau Canton (Switzerland), after two years of discussions between RJR and political parties, a new law was passed that does not include mandatory non-smoking areas in restaurants. Wettingen is the largest town in Canton Aargau, where for two years it has been forbidden to smoke in the City Hall. According to the Mayor of Wettingen, this had led to a "noticeable deterioration of the working climate." RJR proposed alternative measures to the community council on Nov. 7, 1996, which voted to cancel the ban, assign smoking areas on every floor, and permit smoking in those offices where all inhabitants agree to it.

YOUTH NON-SMOKING

- Continuation of youth non-smoking program preparation for priority markets. A retail program in Spain now includes RJR, PM, BAT, Tabacalera and the Tobacconists' Association. A meeting is being held with PMI on Dec. 5, to discuss possible joint programs in Hungary, the Czech Republic and Poland. Our goal is a program that will be led by PMI, who would also bear the bulk of the cost.
- The Canadian industry is placing an ad on the back page of the publication *Your Convenience Manager* (distributed directly to 45,000 convenience outlets nationally) in English and French. The ad will profile the "Operation ID" campaign, encouraging retailers to join in.
- Many of EU Commissioner Flynn's proposals focus on the youth issue, recommending a study on youth smoking initiation, a charter for children's right to a smoke-free environment, and banning vending and self-service counters except in "secure areas."
- Fedetab has launched a pilot youth access project in Belgium, involving 16 retailers on a voluntary basis in Gent (Flanders). A second pilot project in Namur (Wallonia) will follow soon. If successful, it will gradually be spread throughout the country. Initial press and political reactions are positive.

LEGISLATION

- Canadian Health Minister Dingwall announced his intentions to table new tobacco control legislation covering four main areas:
 - ◊ further limits on youth access
 - ◊ restrict promotion of tobacco products
 - ◊ increase health information on tobacco packages
 - ◊ establish powers to regulate tobacco products.

Youth access provisions include prohibiting self-serve displays (except in duty-free stores); banning vending machine sales; banning mail-order distribution; and requiring photo-identification to confirm age. Restrictions on promotion of tobacco products include prohibiting tobacco advertising on broadcast, billboards, street signs, transit and point-of-sale displays; information about products and brands will be permitted in print publications with at least 85% adult readership, and in direct mail; and signs pertaining to availability and price will be permitted at retail.

Existing restrictions on free distribution, and the use of promotional gifts, cash rebates, contests, and lotteries remain in force. Use of tobacco brand names or logos on non-tobacco products that are youth-oriented or have lifestyle connotations is prohibited; format of sponsorship advertising will be regulated to restrict tobacco brand name and logos to bottom 10% of display surface; sponsorship advertising containing tobacco brand names will be prohibited in all media except print publications with primarily adult readership, direct mail, and onsite at event; on-site promotional materials will be restricted in size and duration; and broadcasting of events is permitted.

Tobacco packaging rules include prohibiting false or misleading claims; requiring prominent health messages; requiring increased information about toxic substances in the product and smoke; and requiring information on health impact of those substances.

This legislation gives government power to regulate tobacco products and smoke constituents. As information grows and the market evolves, control measures will be put in place. Enforcement provisions include tougher fines and penalties. Tax changes include a federal excise tax increase of 70 cents per carton, with matching provincial-level increases in Ontario, Quebec, Nova Scotia and New Brunswick; and the surtax on profits is extended at same rate for another 3 years.

- In Puerto Rican elections, incumbent Governor Pedro Roselló was re-elected. This pediatric surgeon was responsible for the anti-smoking legislative package approved in 1993. He is reportedly working on legislation to further limit cigarette advertising and promotions. In the Legislature, the newly elected President of the House and the new President of the Senate, Rep. Charlie Rodríguez, are avid anti-smokers. Rep. Rodríguez urged Governor Roselló to sue the tobacco industry to recoup medical expenses related to smoking, just before the elections. The new Mayors of San Juan and Yabucoa, and several other elected legislators, have a good relationship with RJR.
- In 1997, Ukraine is joining the EAN system of bar codes. Beginning July 1, 1997, it will be required to have bar codes on all exported and imported products.

LITIGATION

- The Secretary of the Justice Department is investigating the possibility of having Puerto Rico join 17 states and the City of New York in a legal challenge against tobacco companies claiming to recoup millions of dollars spent on treating smoking-related diseases. The Spanish press in Puerto Rico has not picked up on this information and no media inquiries have been received to date.

ADVERTISING/MARKETING FREEDOMS

- Debate continues, as Russian and foreign advertising experts argue for self-regulation, and claim the Russian Law "On Advertising" has revealed its shortcomings. Government participants from the State Anti-Monopoly Committee counter that strong regulations must be in place as a "backstop" to any attempts at self-regulation in an "unruly" industry. Video International (VI), one of the largest Russian advertising and media-buying organizations, seeks a more liberal advertising regime but believes that the only way to obtain this is by offering public service ads paid for by the industry. We are not encouraging a legally mandated percentage of advertising outlays (as VI favors) but a flexible approach based on the Industry Advertising Code, where youth smoking and youth access messages could be produced under our editorial control. Parliamentary hearings on advertising on TV will be December 15 in Moscow.
- The industry's Position Paper on Tobacco Advertising was approved by the Spanish tobacco association (AET).
- An advertising ban was passed in Turkey late in November, coming as a surprise to all companies. We probably need to look at our monitoring capabilities. The ban is total, though out-of-home advertising is given a year's grace. We are now assessing the situation and preparing a strategy for challenging the legislation.

RJR Turkey will hire a new PR agency and prepare a detailed media plan.

- The Health Council adopted a resolution on the reduction of smoking in the EU. It urges the member states to continue to promote strategies to reduce the prevalence of smoking and calls upon the Commission to carry out surveys on best practices conducted in the member states and their impact. Commissioner Flynn has tabled a draft communication on the proposed EU-role in combating tobacco consumption. It contains a detailed list of recommended actions largely based on the EU-cancer experts committee's recommendations. Commissioner Flynn's proposal contains the following elements: increase in size and improvement of visibility of health warnings; "generic packaging"; in-pack cessation leaflet; compulsory declaration of additives; and banning "light" or "low" claims. The industry continues its contacts with other Commissioners. The industry advertising working group will update its strategy to fight the ad ban directive under the upcoming Dutch Council presidency on Dec. 3.

TRADE

- In an interview for a local business magazine in Spain, Pablo Isla, Director of the State Patrimony (the entity which holds the Government's TSA shares) made comments regarding the privatization of Tabacalera (TSA):
 - ◊ The possibility of the State retaining some share (following the French model) exists, but the percentage to be sold has not yet been defined.
 - ◊ The future and privatization of Tabaqueira (Portugal) will directly affect Tabacalera.
 - ◊ There is not yet a fixed date for the sale of Tabacalera.
 - ◊ Employees and retailers are being encouraged to participate in the company's capital, as a part of the privatization process.

Also, Josep Pique, Minister of Industry, has stated in the press that the privatization of the State tobacco company may be delayed until 1998.

- In the second week of November, the Government of Portugal delayed the decision on the privatization of Tabaqueira and ordered a report on how the sale would affect the competition. RJR sent a letter to the Council of Competition, with copy to the Minister of Economy, to express RJR's opposition to PMI winning the privatization. The Minister of Economy has commissioned a study from Portugal's competition council that is expected to lead to conditions designed to safeguard fair competition. Everything points to a Government decision by mid-December.

GOVERNMENT RELATIONS

- Messrs. Goldstone and Langner visited Spain (Nov. 20) to review the business, and met with Mr. Rodrigo Rato, Vice President of the Spanish Government. Mr. Goldstone also met with Mr. César Alierta, Chairman of Tabacalera.
- RJR executives met with Congressman Angel Martinez, the influential Vice President of the Economic Commission of the PSOE (Socialist Political Party) in Spain and an elected member of the Parliament from La Rioja.
- Technical issues pertaining to the application of tax control stamps when APET is used, were reviewed with the Spanish monopoly government delegate and the head of the Tribute Department.
- There is some dissent within the Opposition Party in Azerbaijan about RJR's new joint venture. An advertising ban is being considered; the industry is meeting to discuss. A new excise tax structure is also under consideration; we have been asked for input by the government.

We sponsored a dinner for the UK Ambassador of Azerbaijan, in London. In Azerbaijan, we will spotlight the fact that RJR is supporting Azerbaijan's attempts to gain greater international recognition.

TAR AND NICOTINE

- The Russian domestic tobacco industry attempts to delay the implementation of new, more stringent T&N norms scheduled to come into force on January 1, 1997. Professor David G. Zaridze of the Oncological Scientific Center in Moscow will play a key role in preparing recommendations to the government as to how to implement new T&N norms for Russia. Zaridze participated in the recent European Tobacco and Health conference in Helsinki, where new EU-wide norms were discussed, including one option which would see maximums fall to 12 mg/1 mg by December 31, 1997, and by 10% every year thereafter, until 5 mg/0.5 mg levels are reached. He was confident that these norms will become policy in the EU, and that they should also be applied to Russia as well. There likely will be a conciliation commission created to iron out differences; but for the moment, the Russian domestic industry proposal and the Zaridze proposal will be submitted to Government separately.
- In response to the EU directive reducing maximum "tar" levels by January 1, 1998, to 12 mg, a meeting with the German Health Ministry will occur on Dec. 4 to agree on a voluntary adjustment (reduction) of the tar figures of the Lights segment by the industry.

TAXATION

- The debate between specific excise versus ad valorem excise tax calculation in Russia has left parliamentary committee and will now be taken to the State Duma floor, as discussions over the 1997 budget continue. Since our last report, the Ministry of Finance has come around to the arguments in favor of a specific taxation system, a position defended by RJRI, PMI and Rothmans.

In late January 1997, Duke University and the International Tax and Investment Center (ITIC) will host an RJRI-sponsored taxation conference on Russia, which will take place at Duke University in Durham (NC). Key Russian decision-makers in the legislative and executive branches, including Deputy Finance Minister Sergei Shatalov, are expected to take part. One day of the conference program will take place in Winston-Salem.

- The National Tobacco Board of Malaysia has decided to set up a committee to recommend changes required in view of Asean Free Trade Agreement (AFTA) regarding reduction of Asean tobacco tariffs, as well as reduction in Malaysian tobacco prices to make it competitive. The committee will include representatives from three Ministers, curers, manufacturers and the National Tobacco Board.

- Federal tax authorities in Switzerland unilaterally decided to increase tobacco tax by CHF 0.20 per pack as of March 1, 1997. A meeting between the members of the NMA and the tax authorities was held to try to re-negotiate this decision and to seek that future tax increase proposals will be discussed with manufacturers.
- The Ukrainian Tobacco Committee proposed to increase import duties for cigarettes. The stated aim of the increase is to protect the domestic brands that, according to the Tobacco Committee, have price disadvantage compared to imported product. However, the major issue is that tax compliance of importers is quite low, and increase of duties will not stimulate better compliance of importers. RJR will provide its viewpoint on this issue at the upcoming meeting of the Ukrainian tobacco industry with government and parliament officials.
- The Ukrainian government resolved to introduce new excise banderoles for domestic and imported cigarettes. New banderoles, apparently with better protection against forgery, are available as of Dec. 1. Imports of cigarettes with old-type banderoles will stop on April 1, 1997. On June 1, 1997, sale of imported products with old-type banderoles will be banned. RJR-Ukraine will take steps to sell out the product stock with old banderoles.
- Commissioner Flynn proposes that EU member states should annually increase the price of tobacco products in real terms and that the EU Council should work towards "a closer upward convergence" in tobacco taxation.

CONTRABAND

- Posters for the Spanish tobacco association's anti-contraband advertising campaign are close to being accepted by all the members. The message focuses on the loss of industry jobs as a result of contraband.
- The EP-committee on transit fraud heard testimony from Rothmans and the European tobacco retailers association. PM originally refused, but had to reverse its decision because of heavy criticism. It will be heard on Dec. 17, possibly together with the Confederation of European Community Cigarette Manufacturers (CECCM). The EU Commission's anti-fraud unit (UCLAF) heard the retailers and GITES. A Tabacalera spokesperson accused the multinationals of allegedly being implicated in contraband. The official GITES position contains a similar accusation in more diplomatic wording. CECCM will prepare a written submission for the EP-committee.

EMPLOYEE COMMUNICATIONS

- The first issue of the Ukrainian RJR newsletter for employees will be finalized by mid-December.

SPONSORSHIPS & CONTRIBUTIONS

- Recent Russian contributions include a one-time contribution of RUR 1 million (US\$ 181) to the Russian Red Cross office in St. Petersburg; one year contribution program of RUR 72 million (US\$ 13,057) to the Russian School" in Yelets (the only institution where the English language is taught in Yelets); and a one-time contribution of US\$ 500 to the Disabled Children Fund in St. Petersburg.

INDUSTRY RELATIONSHIPS

- BAT surprised its foreign "colleagues" and joined the new Russian National Manufacturers Association (NMA). The remaining members of the informal International Tobacco Companies Operating in Russia group (PMI, Rothmans, Reemtsma and RJRI) will meet in Moscow next week to consider future action, which may include the creation of a rival association.
- Rafael Malavé, spokesperson for Yabucoa's Committee for Quality of Life, wrote to request information on our new primary manufacturing process, claiming that a smell is affecting neighbors of our plant in Puerto Rico. We will meet with Mr. Malavé Dec. 10 to identify the source of the issue and more details on their concerns.

Tom C. Griscom

cc: David Fishel
Roger Mozingo
Tommy Payne
Ove Sorenson
Jaap Uittenbogaard
Peter Van Every
Jason Wright