



EXECUTIVE SUMMARY

ES97-03
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President

SPECIAL THIS WEEK...

Tobacco Weekly 97-03
World Alert 97-03
Legislative Bulletin 97-02
Leaf Bulletin 97-01

On January 14, the cigarette industry filed eight motions in Maricopa County, Arizona Superior Court to dismiss the State's Medicaid recovery lawsuit, which was amended to seek a prohibition on the sale of tobacco products. According to Paul Eckstein, an attorney representing Brown & Williamson Tobacco Corp., "The Arizona Legislature has not chosen to ban the sale or use of tobacco, but rather regulate and profit from it... This lawsuit would create a direct and irreconcilable conflict between the judicial and legislative branches of government." The State collected \$111.35 million in tobacco taxes in fiscal year 1995. ● In a ruling handed down the first full week in January, US District Judge Catherine Blake ordered that since four Maryland distributors are included in the State's Medicaid recovery suit, the suit will be heard in a State Circuit court in Baltimore. Defendants had filed a request to move the case to Federal court. ● San Francisco, California Superior Court Judge Paul Alvarado ruled on January 8 that cigarette companies could not use exemptions to the State's product liability statute to have the City's Medicaid recovery suit dismissed. The Judge did rule, however, that two of the suit's three claims dealing with accusations of marketing practices aimed at minors and prevention of safer cigarette introductions needed to be more specific, leaving the City 20 days to amend the complaint. ● In related news, California Lieutenant Governor Gray Davis (D) will reportedly join the Medicaid recovery suit as a named plaintiff. The move is allegedly the first arrow in what is expected to be a race for the Governor's seat in 1998, which could see Davis battling current State Attorney General Dan Lungren (R) for the seat. Lungren has thus far refused to join the suit (Los Angeles Times 1/15, TW97-03).

According to a report by the Florida State Board of Administration, which oversees the State's retirement fund, Florida Governor Lawton Chiles (D) and others sitting on the Board could be held financially responsible if they decided to divest the State's tobacco company holdings and were sued later for "harming the financial health of the pension fund." The report has allegedly led Chiles to lessen his efforts at divestment, though he claimed he would continue to question the investments of the money managers handling the accounts. ● Also in Florida, Palm Beach County Circuit Court Judge Harold Cohen ruled on January 10 that cigarette companies named in the State's Medicaid recovery suit must give the State "full financial disclosure" while allowing the State's punitive damages claims in the suit. Defendants will still have the right to fight the claims, which allow the State to triple its monetary award, later, the judge claimed. Florida attorneys claim the net worth of the companies is needed to allow jurors to decide a potential award. Cohen did grant defendants' request for a hearing on the evidence of the State to pursue punitive damages, but defendants' attorneys waived the right, claiming that the hearing would only present the State's side and might influence potential jurors. ● A lawsuit was filed in Hillsborough, Florida Circuit Court against RJ Reynolds Tobacco Co. and Philip Morris, along with Winn-Dixie Stores, by Gloria Knight, who claimed the companies manufactured and sold cigarettes that are allegedly addictive and harmful, and that they failed to warn consumers. Knight is suing on behalf of her deceased husband, who suffered from throat cancer and other illnesses Knight claimed were caused by his smoking (TW97-03).

A 1996 survey by researchers at the University of California at Los Angeles reported a significant increase in smoking among college freshmen, with 15% of respondents claiming they smoked frequently, compared to less than 9% in 1987. ● Rhode Island State Senator John Celona (D) introduced a bill on December 18 to prohibit smoking in motor vehicles used for driver training. ● By the end of January, the Malaysian Health Ministry announced, restrictions on smoking will be extended to schools, bus and train terminals, restaurants and eating places, among other public areas (TW97-03, LEG97-02, WA97-03).

In a draft version of President Clinton's budget, expected to be submitted to Congress on February 6, the President is reportedly requesting \$5 million to enforce new FDA regulations to curtail advertising and the sale of tobacco products, with an additional \$26 million requested for other use prevention efforts. ● The first of the FDA rules is scheduled to take effect on February 28 and will require age verification for all sales of tobacco products. Opening arguments in the suit filed to block the regulations is set for February 10 in Federal District Court in Greensboro, North Carolina (The Herald-Sun (Durham, North Carolina) 1/15). ● The advertising industry is reportedly issuing anti-smoking public service messages targeting youth smokers in an attempt to curtail use (Advertising Age 1/13, TW97-03).

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October 1996 sales figure show Philip Morris' Virginia Slims cigarette brand as South Korea's leading import brand, with a 33% market share among imports. Mild Seven Lights, the usual front-runner, came in second with a 23% market share. Virginia Slims may owe its market success to recent advertisements depicting masculine themes, a reported attempt to capture the male market. Seven of the ten foreign brands sold in Korea are light cigarettes, with foreign brands accounting for an overall market share of 13%. ● Tabacalera announced expectations for superior growth in 1997, despite the possibility of an additional hike in the cigarette tax. Reacting to a July 1996 increase, the company raised its cigarette prices about 10%, but results of this increase may not be seen in earnings until this year or possibly 1998. ● Former lawyer and Conservative Party member Anthony Samuelson is petitioning the United Kingdom's Privy Council to investigate tobacco industry contributions to the Conservative Party. Samuelson, who claims the Council has not been petitioned for an inquiry in hundreds of years, plans to run in the South Wiral by-election as an anti-tobacco candidate. ● Foreign investments in Poland reached \$4 billion in 1996, up from \$1.4 billion in 1995. Major investments include Philip Morris' purchase of the Krakow cigarette factory and Reemstma's acquisition of the Poznan facility. ● Through the end of November, Azerbaijan's trade with Russia increased 42% over last year, with Russia the country's third leading trade partner. Imports totaled \$135.7 million, while exports rose to \$93.9 million. Tobacco exports to Russia are worth \$5 million. ● DIMON Inc. acknowledged on January 14 that it entered negotiations to acquire leaf tobacco dealer Intabex Holdings Worldwide SA, though no definitive agreement has been reached (WA97-03, TW97-03).

According to a circular letter issued by the Vietnamese government during the weekend of January 11, tobacco and alcohol advertisements are prohibited in print media, television and radio. Tobacco and liquor companies are also banned from using their name on promotional and sponsorship material. ● The following events are exempt from Australia's ban on tobacco advertising and sponsorship displays: Formula One Grand Prix and the Ladies Masters Gold Tournament. Waiting approval as exemptions are the 500cc Motorcycle Grand Prix and the Australian International Indy Car Race. ● On January 15, the Legislative Council in Hong Kong voted 29 to 22 in favor of a ban on direct and indirect tobacco advertising and a prohibition on tobacco sponsorship of social, cultural, and sporting events (South China Morning Post 1/15, 16). ● According to the Korea Times, the advertising of cigarettes outside retail stores on signboards, posters and stickers was banned by the government, effective January 1 (Korea Times 1/5). ● Officials from the New York Mets Major League Baseball team announced on January 13 that they plan to paint over the Marlboro cigarette advertisement housed in the outfield scoreboard at Shea Stadium before the season starts in April. The decision followed Philip Morris' failure to exercise a contract option for the ad that would have kept it in place for a few more years. According to team officials, the ad will not be replaced with another tobacco product advertisement. ● Billboards depicting RJ Reynolds's Joe Camel cartoon character will no longer be allowed in Madison, Wisconsin, after Adams Outdoor Advertising ended its contract with RJR due to their continued use of the character in ads. Town aldermen wrote to Adams General Manager Jon Kane to complain about the billboards, leading Kane to make what he described was a "difficult and costly decision." ● RJR is planning to launch a menthol version of its Camel brand cigarettes, and could invest up to \$15 million on the product introduction (Advertising Age 1/13, WA97-03, TW97-03).

Cigar production in Cuba is expected to rise to 100 million units in 1997 and to 200 million units by 2000. Production in 1996 was 70 million units and tobacco exports grew 30%. Thus far this year, 49,370 hectares of tobacco have been planted, with 60,300 planned for the next harvest. ● Tobacco exports from Zimbabwe in 1996 reached more than \$7 billion, while overall exports for the year were more than \$19 billion (World News Connection 1/15). ● In the US, gross sales for the burley tobacco auction market season through January 9 totaled 504.74 million pounds, returning \$192.25 per hundred, with the Burley Cooperatives receiving no tobacco so far this season. ● In Canada, gross sales for Ontario flue-cured tobacco, after 49 days of auctions, reached 70.75 million pounds, averaging \$130.86 per hundred. At this point last season, gross sales amounted to 62.67 million pounds, returning \$120.31 per hundred (WA97-03, LEAF97-01).

Tax revenues in China in 1996 exceeded government expectations by 107%, with total collections reaching \$77.62 billion, compared to \$12.78 billion last year. Tax collections on foreign enterprises rose 40%, while revenues for consumption and value added taxes jumped 14% to \$44.11 billion. ● Tax collections in Lithuania reached only 88.8% of government expectations in 1996, with the government losing \$26.4 million. VAT collections met only 90% of estimates, falling short \$62.5 million. The lower collections were due in part to the government's six month delay in imposing increases in alcohol, oil products and tobacco taxes. ● Effective January 10, the Ukrainian government began imposition of a policy to restrict individual imports of alcohol and tobacco products without a quality certificate from the State's Certification Committee; no more than one liter of alcohol, two liters of wine, or 200 cigarettes may be brought into Ukrainian territory without this certificate. ● Portugal's ad valorem tax increase on tobacco, which would raise the rate from 57% to 58%, has reportedly been postponed in anticipation of a finalization of a tobacco tax for 1997. The budget calls for an increase to 61% (WA97-03).

On January 8, Virginia Senator Madison Marye (D) introduced a proposal to increase the State's 2.5¢ per pack cigarette excise tax by 2.5¢ per pack until the year 2001, a total increase of 10¢ per pack. ● Florida Governor Lawton Chiles (D) may introduce an increase in the cigarette excise tax rate of 10¢ per pack as part of his proposed budget scheduled to be introduced on January 15. The increase, which would raise the tax from 33.9¢ to 43.9¢ per pack, is estimated to bring an additional \$90 million into the State coffers in the 1998 fiscal year. ● During his State of the State address before Maryland's General Assembly on January 15, Gov. Paris Glendening (D) proposed increasing the State cigarette excise tax by 36¢ per pack to 72¢ per pack, stating: "Study after study shows the direct link between higher cigarette prices and lower tobacco use — especially among young people" (PR Newswire 1/15). ● Minnesota Governor Arne Carlson (R) called for a 10¢ per pack rise in the State cigarette excise tax rate to fund creation of a new baseball stadium (Star Tribune 1/14, PR Newswire, Reuters 1/15). ● New Hampshire Gov. Jeanne Shaheen (D) said she would propose increasing the cigarette excise tax by 25¢ per pack to fund Statewide kindergarten programs (see ES96-52) (Reuters 1/14, LEG97-02, TW97-03).