

Philip Morris Apologizes for Report

Cigarette Maker Says Czech Study Showing Savings From Smokers' Deaths Was Wrong

Research 'Exhibited Terrible Judgement,' CEO Says

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TRYING TO DEFUSE a widening public-relations crisis, a top executive at Philip Morris Cos. apologized for a company-funded report in the Czech Republic that called cost savings from smokers' early deaths one of the "positive effects" of cigarette consumption.

"We understand that this was not only a terrible mistake, but that it was wrong," Steven C. Parrish, a senior vice president, said Wednesday. "To say it's totally inappropriate is an understatement."

Philip Morris officials in the Czech Republic last month distributed an economic analysis concluding that cigarettes aren't a drain on the country's budget, in part because the government saves money on health care, pensions and housing when smokers die prematurely.

U.S. Sen. Dianne Feinstein, a California Democrat, last week wrote a letter to Philip Morris chief executive Geoffrey C. Bible after reading about the Czech report. Mr. Bible answered in a letter dated Tuesday, saying that the funding and release of the study "exhibited terrible judgment as well as a complete and unacceptable disregard of basic human values."

"All of us at Philip Morris, no matter where we work, are extremely sorry for this," he added.

Costs of Smoking

The Czech study, commissioned by Philip Morris and produced by consulting firm Arthur D. Little International, weighs the costs of tobacco use, such as medical care for sick smokers, against benefits, including revenue from excise taxes on cigarettes. The study found that in 1999 the Czech government had a net gain of \$147.1 million (€167.1 million) from smoking.

The study's conclusions were reported last week

The Czech Smoking Equation From Philip Morris

The public finance balance of smoking in the Czech Republic in 1999 is estimated at +5,815 million Czech Koruna (amounts in millions of Czech Koruna)

Income and positive external effects	21,463
Savings on housing for elderly	28
Pension & soc. expenses savings due to early mortality	196
Health care costs savings due to early mortality	968
Customs duty	354
Corporate income tax	747
VAT	3,521
Excise tax	15,648
Smoking related public finance costs	15,647
Fire induced costs	49
Lost income tax due to higher mortality	1,367
Days out of work related public finance costs	1,667
ETS related health care costs	1,142
Smoking (first hand) related health care costs	11,422
NET BALANCE	+5,815



in The Wall Street Journal and since then have sparked blistering commentary. "Tobacco companies used to deny that cigarettes killed people. Now they brag about it," columnist Ellen Goodman wrote in the Boston Globe newspaper. On ABC's "Politically Incorrect" program, host Bill Maher endorsed the study's conclusion that cigarette smokers aren't a drag on public finances, but called

Philip Morris "industrial scum" and said that "smoking is a drug" and "cigarette companies are the pushers."

The report and the outcry have dealt a serious blow to Philip Morris's efforts to rehabilitate its reputation. The company has been reaching out to its critics and pouring \$100 million a year into feel-good ads promoting corporate good deeds, such as donations to food banks and shelters for battered women. The goal has been to persuade politicians, potential jurors and the public that Philip Morris has changed.

The company also has been lobbying to have Congress give the U.S. Food and Drug Administration limited authority to regulate tobacco. The company wants to persuade lawmakers that it has reformed its business practices and is credible enough to have its views on regulation taken seriously. The Czech report threatens to undo some of the progress.

More Evidence

"This is just more evidence that they haven't changed," an aide to a senior Democratic senator said of the study. "It reinforces the notion that everything they say has to be taken with a great deal of skepticism."

The publicity surrounding the report "is obviously a big setback," said Mr. Parrish, who has played a high-profile role in efforts to repair the company's image. "Hopefully we'll be able to get beyond it."

Death Benefit

The price tag on the cadaver's toe reads: "\$1,227. That's how much a study sponsored by Philip Morris said the Czech Republic saves on health care, pensions and housing every time a smoker dies."

The image was the crux of a full-page advertisement by anti-smoking groups that appeared in major newspapers across the nation on Thursday, denouncing Philip Morris for funding a report that portrayed smoking as a boost to the Czech economy. Racing to minimize the damage from the study, which had been prepared to dissuade the Czech government from raising cigarette taxes, Philip Morris has apologized. Suggesting that the death of smokers saves money "exhibited terrible judgment as well as a complete and unacceptable disregard of basic human values," the company said.

At right, a chart from the report, translated into current dollars.

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