PHILIP MORRIS COMPANIES INC. INTER-OFFICE CORRESPONDENCE
120 PARK AVENUE, NEW YORK, N.Y 10017

TO: Hamish Maxwell DATE: December 5, 1989

FROM: R. William Murray and Murray H. Bring

SUBJECT: Proposal for Support of Biomedical Research by Philip Morris

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I. Introduction & Recommendation

For the past several months, a Task Force consisting of William Murray, Murray Bring, Frank Resnik, Alex Holtzman, Jim Charles, and Pat Sirridge of Shook, Hardy has been examining the desirability and feasibility of Philip Morris' establishing a major program for supporting basic biomedical research. Although Philip Morris has for years made gifts, either directly or indirectly through the CTR, to several scientific research institutions, some members of the Philip Morris Board, and the Senior Management of the Company have indicated their belief that a more substantial and long-term program of support is worthy of consideration.

Based upon the interviews and internal analyses that have been conducted, the Task Force recommends that Philip Morris launch a major program of financial support for basic biomedical research. Specifically, we recommend that Philip Morris contribute $100 million to a newly created Philip Morris Scientific Foundation for the purpose of awarding research fellowship grants to twenty recipients a year. The income from the initial endowment, approximately $7-8 million a year, would be used to fund the grants and to pay for the administrative costs of the Foundation. The grantees would be selected by an independent Scientific Advisory Board, and would be young postdoctoral Ph.D.'s and M.D.'s who are recognized as having significant potential, but who have not as yet achieved the stature and reputation that would make it possible for them easily to obtain NIH or other grants. Hopefully, a number of the grantees would be among the next generation of Nobel laureates. Grants would be made to support basic biomedical research, with a principal focus on cancer research. The grants would be unrestricted.

The size and scope of this program would qualify it as one of the most significant corporate undertakings in America in support of basic scientific research. Accordingly, the creation of the foundation and the launching of the program should be accompanied by appropriate announcements in the scientific and lay media. This would not only serve to publicize the program among prospective applicants, but would also identify Philip Morris as the sponsor of a program which should have an important and meaningful impact on the advancement of scientific research.

II. Reasons for the Program

For many years, Philip Morris has engaged in substantial corporate philanthropy in a variety of areas. It has attained a unique position as one of the country's leading supporters of artistic and cultural events. In addition,

it has also funded a number of scientific research projects at several leading institutions around the country. This support has generally been undertaken in conjunction with other cigarette manufacturing companies. We believe that support of a new major initiative in the area of basic scientific research would be consistent with the Company's long history of corporate philanthropy and is justified for two principal reasons:

1. Philip Morris is now the largest food company in the United States, the largest consumer products company in the world, and the largest tobacco company both in the United States and throughout the world. A number of the products manufactured by the Company have been implicated by some in one way or another with various chronic human diseases. Because of the controversy that relates not only to cigarettes, but also to beer, caffeine, and cholesterol-containing products, and because of our prominence in the industries which manufacture these products, we believe that it is appropriate for the Company, as an act of corporate responsibility, to commit significant resources to scientific investigation which focuses on the etiology of these diseases

2. With respect to cigarettes in particular, but also with respect to other products manufactured by the Company, we have taken the position publicly that until the fundamental biological mechanisms of cancer and other chronic diseases are understood, no categorical conclusions about the role of any product can be reached. Recent developments in scientific research have suggested that some important breakthroughs are possible, and may improve our understanding of the process by which these diseases occur. Since this information may be vital in resolving many of the open questions, Philip Morris should assist in bringing these efforts to fruition. To put it in the colloquial, if we believe that more research is necessary, then, we should "put our money where our mouth is", and participate in a significant way in finding the answers to these perplexing issues.

III. Summary of Task Force's Activities and Outline of its Proposal

When the Task Force commenced its work, it sought principally to determine whether there was a unique niche that a program sponsored by Philip Morris could occupy. We did not want to formulate a proposal that simply emulated what other corporations may already be doing. Nor did we want to recommend a program that would not have a significant impact. In particular, we were looking for an opportunity to support research that would be at the "cutting edge" of current scientific investigation, and could lead to a major advancement in the state of scientific knowledge.

To determine whether such a program was feasible, we decided to consult some of the leading experts in scientific research, with particular emphasis on programs that are funded by the private sector. We have now conducted in-depth interviews with the following individuals:

> Dr. David Baltimore -- Until recently the head of the Whitehead Institute at M.I.T., and now the newly appointed head of the Rockefeller Medical Institute. Dr. Baltimore is also a Nobel laureate.

Dr. James Wyngaarden -- Until recently, the head of NIH and currently the Deputy Science Advisor Designate to the President of the United States.

Dr. Purnell W. Choppin -- The head of the Howard Hughes Medical Institute, which is the largest privately funded scientific research organization in the country. It has an annual budget in excess of $100 million.

Dr. James Watson -- The head of the Cold Spring Harbor Laboratory, which is embarked upon a $3 billion project to map the genetic composition of the human cell (the Human Genome Project). Dr. Watson is also a Nobel laureate.

Dr. Alfred Knudson -- A member of the CTR Scientific Advisory Board, and one of the leading researchers in genetics, especially as it relates to cancer.

Dr. Jack Rowe -- The head of Mt. Sinai Hospital.

Dr. Robert Glaser -- The head of the Markey Trust Foundation, which is a large grant-making privately funded foundation.

Dr. James Glenn -- The Scientific Director of CTR, and a person knowledgeable about the current state of biomedical research.

Duke University -- We have supported research at this institution for several years, and we met with a number of the key researchers at Duke who are working in the area of stress related causes of cancer and other chronic diseases.

Dr. Elizabeth J. McCormack.

Clifford Goldsmith.

Representatives of Pfizer and Smith, Kline & Beckman -- Both of these companies support large scientific research programs.

In addition, members of the Task Force conducted a site visit at the University of California at San Diego to interview the administrators and research scientists at that institution, and to inspect the facilities proposed for use as a new division of molecular and genetic medicine for which the University has requested a capital grant from Philip Morris.

The consensus that emerged from these interviews was that Philip Morris could play an important role in a manner that would satisfy the criteria described above. The principal need which was identified by many of those to whom we spoke relates to support of young, postdoctoral investigators who show great potential, but who have not as yet acquired sufficient stature to qualify for grants from NIH and other large funding organizations, such as the Howard

Hughes Institute. The problem is exacerbated by the recent reduction in Government spending, and by the tendency of both the Government and large private sector programs to give the bulk of their financial support to already established investigators. There is a feeling among most that we interviewed that the next generation of Nobel laureates may be hampered in their work because of an absence of funding from presently available sources. For example, we were advised that NIH grants given to investigators have been reduced substantially in recent years, to the point that a young investigator must now, on the average, submit four successive applications before one is accepted.

Accordingly, the Task Force believes that we have identified an area in which a major program by Philip Morris could make a difference -- to wit, the granting of fellowships on an annual basis to young investigators located throughout the country who might otherwise find it impossible to obtain support for their work. We are advised that, in order for the program to be meaningful, and for Philip Morris to be an important player in the field of basic scientific research, we should initially commit approximately $100 million. Such an amount would place Philip Morris among the top private supporters of scientific research.

While the specific details for implementing such a program should be developed by those who will administer it, the basic outline of the program should be as follows:

1. The work of the Foundation would be conducted primarily by a full-time Executive Director, who would be a highly prestigious member of the scientific community. He would need a support staff of two or three employees. The Foundation would award twenty fellowships annually for three-year terms, renewable for an additional three years if appropriate. Thus, at the end of the third year, and for each successive year, there would be sixty investigators working under Philip Morris fellowships at most of the important scientific research institutions in the country.

2. The basic fellowship grant would be approximately $125,000 a year, which we are told would be sufficient to support significant research activities. The total cost in the first year would thus be $2.5 million; the total cost in the second would be $5 million; the total cost in the third year and in all successive years would be $7.5 million. There is an open question whether we should also fund all or part of the overhead expenses associated with the work of the investigators. Our preference would be to have the institutions with which the investigators are associated bear the bulk of the overhead costs.

3. The fellowships would be awarded to investigators working at one of the twenty-five to thirty principal scientific institutions throughout the country. No more than two fellowships in a given year would be awarded to investigators at the same institution. Recipients would be chosen through a competitive process, and the selections would be made by an independent Scientific Advisory Board composed of five eminent scientists from a variety of fields. Hopefully, most of the grantees would be involved with research units that are presently headed by investigators of recognized stature. It is possible that the Philip Morris fellowships might be utilized by the grantees' institutions as "seed money" for attracting additional grants from the Government or other private organizations.

The Task Force considered alternative approaches, but does not recommend them for a variety of reasons. One such alternative would be to make a substantial grant to a single institution in support of an entire research facility that would be named after Philip Morris. This is essentially the proposal that has been submitted by the University of California at San Diego. We do not favor this approach because it commits too much money to "bricks and mortar", as opposed to basic research. It also has the drawback of putting all of our eggs in one basket. Moreover, the need for this type of support does not appear to us to be as significant as the need for supporting a large number of young investigators who are without other readily available means of support.[1]

Another alternative which we considered was to make annual grants to a consortium of two or three leading research institutions, leaving it to those institutions to determine how the money would be spent. While this proposal has the attractiveness of simplicity in administration, it suffers from some of the same disadvantages as those associated with the single-institution approach. It is too narrowly focused, and there is a considerable danger that the money will be spent by these institutions to support already established programs. In addition, institutional politics could play a significant role in determining the way in which the money is spent. This is less likely to be the case with a program that is administered by a Scientific Advisory Board.

IV. Additional Issues

If Philip Morris were to proceed on the basis proposed herein, a number of specific issues would have to be addressed, as follows:

A. Structure for Grant-making

An initial question is whether the program should be set up to operate through a Foundation, or whether Philip Morris should simply award the grants each year from general corporate funds. For a variety of reasons, we propose that a Foundation be established. The creation of a Foundation with an initial grant of approximately $100 million would guarantee a constant income flow that could be used to cover the cost of the grants and administrative expenses. Moreover, administration of the program through a Foundation and a Scientific Advisory Board would eliminate the need for establishing an elaborate internal mechanism at Philip Morris to implement the grant program. The establishment of a Foundation would also be seen as a permanent commitment to make a serious, long-term contribution to basic

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[1] While we do not recommend the proposal made by UCSD, we do think it would be advisable to consider sponsoring a worldwide conference on biomedical research at that institution. Such a conference would enhance the reputation of the University, and would provide an opportunity for Philip Morris to become better known in the biomedical research community. Indeed, we may want to consider announcing our new program at a conference of this type. While the University will undoubtedly be disappointed at our rejection of their original proposal, we think there is a good chance that they would embrace the more modest suggestion of a conference to be sponsored by Philip Morris.

research. In order to build a program of high quality and attract the best qualified applicants, there must be some assurance that the granting organization will remain in existence for a substantial period of time. If Philip Morris were to act as the granting body, the program might be seen as existing only at the pleasure of the existing management and subject to dissolution should changes at Philip Morris occur.

A Foundation also has the advantage of independence from the business activities and reputation of the founder. This may be important from the standpoint of attracting scientific advisors who may not wish to be associated directly with a tobacco company. While the trustees of the Foundation would presumably be Philip Morris corporate officers, its grant program should be implemented by an independent board of scientific advisors and a full-time Executive Director who would not be controlled by the Trustees or the Company.

An excellent example of a Foundation in this field whose structure we may wish to emulate is the Markey Foundation. It now supports about sixty scholars at a cost of approximately $10 million per year. It has a Scientific Advisory Board which selects the investigators to whom grants will be given, and a full-time Executive Director who enjoys a high reputation in the scientific community. We were quite impressed with the Director, Dr. Glaser, who has offered to be of assistance should we decide to go forward in establishing our own program.

B. Type of Research

While our program would be devoted to the support of basic scientific research, most of the persons whom we consulted suggested that it would be advisable to have a specific focus for the research to be funded. We believe that the most logical point of focus would be cancer research, since that is the principal chronic disease which is implicated with cigarettes and some of the other products that we manufacture. It should be emphasized, however, that none of the research would be product oriented (which distinguishes this program from the typical research supported by the pharmaceutical industry), and it is quite possible that much of the research to be funded would have application to a variety of diseases.

With respect to the area of cancer research, we believe that the fields which offer the most promise for significant new discoveries are molecular and cell biology, molecular genetics, immunology, and stress-related research. Of course, the Scientific Advisory Board, once selected, would have to refine and carefully focus the specific emphasis of the programs which we would support.

C. The Tobacco Controversy

A question which we raised with each of the individuals whom we interviewed was whether the successful implementation of the type of program we are contemplating may be hampered by virtue of the fact that the money to support the program would be coming from a corporation which is involved in the tobacco business. The universal view was that, while there may be a few scientists who would not wish to become involved with the

program for that reason, the vast majority of qualified scientists would have no such reluctance. This would be especially true if, as we propose, the research to be funded would be wholly unrestricted, would be basic in nature, and would not relate to any commercial purpose or specific product. Indeed, virtually every person whom we interviewed thought very highly of the concept we are discussing and offered to be of assistance, even though many of them have publicly expressed views that are contrary to our own on the role of tobacco in the causation of some human diseases.

V. Implementation Procedures

If you are in agreement that we should proceed on the basis outlined in this recommendation, we believe that the following steps should be taken by way of implementation:

1. The proposal should be reviewed by Elizabeth McCormack (who has expressed interest and support for this program from the outset), Harold Brown, and Harold Burson. Their input would probably be helpful in refining the concepts set forth in this memorandum.

2. The proposal should then be reviewed with the Corporate Policy Committee prior to submission to the Board of Directors for approval.

3. Once Board approval has been obtained, counsel should be retained to draft whatever documentation is necessary for the creation of the Philip Morris Scientific Foundation.

4. A small search committee, composed at least in part of some of the individuals whom we have already interviewed, should be established to recommend someone of appropriate stature to be the Executive Director of the Foundation. Obtaining the right person to serve as Executive Director will be an important key to the success of the program.

5. The Executive Director, once selected and retained, should then work with the Search Committee in identifying candidates for the Scientific Advisory Board. Some of those whom we have already interviewed would probably be candidates for this Board, including Drs. Baltimore and Watson.

6. Once the Executive Director and the Scientific Advisory Board have been selected, a public announcement should be made of the creation of the Foundation and the launching of this program. We anticipate that this will be viewed as a major development in the scientific community, and appropriate public relations activities should, therefore, be planned. We recommend that Harold Burson be involved in this phase of the program.

7. As soon as the Foundation is created, funded and staffed (we will probably need two or three employees in addition to the Executive Director), the Executive Director and the Scientific Advisory Board should establish procedures for soliciting grant applications, and should be in a position to award the first group of twenty grants as

quickly as possible. Hopefully, the first grants can be awarded by the middle of 1990.

8. The Foundation should be housed in office space to be rented in New York, preferably in a location relatively near Corporate Headquarters.

9. An initial funding of $100 million as proposed in this memorandum should generate sufficient income to carry the contemplated program forward for many years. The work of the Foundation and the funding requirements should be reviewed periodically to assess the effectiveness of the program and to determine whether additional funds should be contributed to the Foundation in future years. This review should probably take place every three years, though the work of the individual investigators would be reviewed annually by the Scientific Advisory Board.