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Philip Morris opens new research center

By Michael Felberbaum, Associated Press Writer

RICHMOND, Va. — With waning cigarette sales due to concerns about health, smoking bans and price increases, Philip Morris USA is staking its future in a new research center meant to develop products to reduce the risk of tobacco use.

The addition of the \$350 million, 450,000-square-foot Center for Research and Technology, with its facade of large windows, nearly doubles the company's research space and gives the Richmond company's scientists and engineers one facility to collaborate on new projects.

The center, which is currently occupied by about 100 employees, will be home to 500 scientists, engineers and support staff by the end of the year.

"The investment is large ... and we're pretty sure that it will bear fruit for Philip Morris USA both in terms of volume and profitability in the years ahead," Dinyar Devitre, chief financial officer for its parent company, Altria Group Inc., told analysts in a conference call last month on the company's third-quarter results.

Devitre said the center will give the company "a much brighter future" through improvements of current products and the development of new and reduced risk tobacco products. He said it also would give the nation's largest manufacturer "a leg up in the smokeless category," like snuff.

Philip Morris spokesman David Sylvia said the company's growth is going to be driven by development of new products and "work that we are doing to reduce the harm related to all of our tobacco products."

And while domestic cigarette sales continue to decline about 2 percent each year, Sylvia said Philip Morris is not turning away from the cigarette business because "that's where our expertise lies."

The company continued to hold a 50.6 percent market share in the third quarter, led by its signature Marlboro brand. Still the company will try to introduce new products to offer smokers new and innovative cigarettes, Sylvia said.

Philip Morris already has a reduced risk cigarette product that will put it at the head of the pack, Citigroup analyst Bonnie Herzog said.

"There's no doubt in my mind that Philip Morris is at the cutting edge of finding a way to reduce the risk in cigarettes," Herzog

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said in an interview with The Associated Press.

The product, being tested in focus groups, will be viable in the market, Herzog said. That means it needs to have the same taste, look, burn, drag and feel of a conventional cigarette.

Herzog said the innovation is why Philip Morris broke from its competitors to endorse regulation by the Food and Drug Administration. Proposed legislation would give the FDA authority to restrict tobacco advertising, regulate warning labels and remove hazardous ingredients.

The agency also would be given the authority to set standards for reduced risk products.

"One of our key reasons for supporting FDA regulation is our hope of reducing the harm related to tobacco," Sylvia said. "Right now there is no testing regimen in place to determine whether one product is less risky than another."

But the company is mum on what type of reduced risk product it is working on.

"I am more confident that there will be a product on the market that reduces the harm from smoking," said Rick Solana, the company's research and technology senior vice president. "Maybe it will be a cigarette, but maybe it will be something else."

Solana, who will oversee the staff at the new center, said there's already "plenty of pressure" to deliver something to the market.

"We understand the health concerns of our products," Solana said. "Not only aware with them, but understand them and are doing something about them."

To offset declining cigarette sales, Philip Morris also has charged its way into the smokeless tobacco segment on the wings of its Marlboro brand. The company is testing a spitless tobacco product called Marlboro Snus (pronounced "snoose") and a moist smokeless tobacco product under the Marlboro brand.

"What history teaches us about the quest for the safer cigarette is that smokers are very desirous of something that might be safer and to an extent, they want to keep smoking," said Dr. Lynn Kozlowski with the School of Public Health and Health Professions at the University of Buffalo in New York. "But we've known for a while that immediately a smoker could reduce a number of the health risks by switching to a smokeless product."

Philip Morris also is adding more Marlboro branded products to its lineup, including Marlboro Smooth cigarettes and Marlboro Virginia Blend cigarettes, using only Virginia-grown bright tobacco.

The move comes on the heels of Altria's scheduled spinoff of Philip Morris International and the relocation of its headquarters from New York to Richmond, a plan projected to save at least \$250 million annually. Altria also plans to close a plant in North Carolina and shift all domestic manufacturing to Richmond by the end of 2010.

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