



BRITISH-AMERICAN TOBACCO COMPANY LTD

Member of the B-A-T Industries Group

ALH/SC

10th July 1990

Mr. J-L. Mercier,
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Dear Jean-Louis,

R&D Funding

During my recent visit to Imperial you asked me to let you have net turnover of the CAC tobacco companies contributing to the funding of FRC in Southampton. The data is:

	Net Turnover £ (mns.)
B&W	1,578
BATCF	415
BATCo.	1,482
ITL	480

If we try to cause minimum disturbance by retaining company contributions at the same size as today, but basing them on a mathematical formula, my calculations suggest an equation as follows:

$$C_i = F \left(\frac{0.5 \times T_i}{\Sigma T_i} + 0.125 \right)$$

- Where:
- C_i = individual contribution
 - T_i = net turnover of contributor
 - ΣT_i = total net turnover of contributors
 - F = cost of Fundamental Research Programme

This effectively means that each contributor pays a fixed "club membership" equal to 12.5% of the total cost of the Research Centre plus a second component related to its turnover as a fraction of the total turnover of contributors. Since there are four contributors the "club membership" element amounts to $4 \times 12.5\% = 50\%$ of the total cost.

Incorporated in London Number 24074 Cables: Vemiculac London SW1

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The comparison of contributions required by this formula in relation to the existing empirical base is:

	T_i	$T_i / \Sigma T_i$	C_i (Calc. Contrib.)	Actual Contrib. (Empirical)
B&W	1,578	0.399	1.176	1.089
ITL	480	0.121	0.673	0.690
BATCF	414	0.105	0.644	0.690
BATCo.	<u>1,482</u>	<u>0.375</u>	<u>1.134</u>	<u>1.162</u>
Total	<u>3,954</u>	<u>1.000</u>	<u>3.627</u>	<u>3.621</u>

I welcome your comments. At this stage, whilst schemes are being considered, I would not like the data to be used beyond Imperial senior management.

If you are agreeable, I am prepared to pursue the recommendation of this formula.

With kind regards,
Yours sincerely,

Alan

A.L. Heard

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