



# BRITISH-AMERICAN TOBACCO COMPANY LTD

A member of the B.A.T. Industries Group

Registered Office  
PO Box 462 Westminster House  
- Millbank London SW 1P 3JE  
Telephone: 01-222 1222  
Telex: 27364 BATTGB G  
Facsimile No: 01-222 3659

ALH/SC

1st May, 1990

Mr. J-L. Mercier,  
Imperial Tobacco Co.  
Montreal,  
Canada

Dear Jean-Louis,

I am now able to respond to the various concerns expressed in your letter of 12th April.

Whilst I have generally tried to ensure that VPs of R&D are aware of the issues raised at BAT Industries level (by circulating draft material, etc.) you will appreciate that issues associated with the restructuring of Southampton were necessarily held very close because of the potential staff losses (not even Dr. Binns was involved). From my many contacts with Group R&D personnel and with their Chairmen I felt confident that centralisation of Fundamental Research was a concept which would gain support; by the same token I had a good idea of the additional topics which would gain general support. Contrary to the view conveyed to you by Pat Dunn, I can assure you that all other companies represented at the recent Southampton meeting fully endorsed both our progress on existing projects and our new proposals (subject to some final detailing by specialists, arranged for 25th-26th April).

The issue of attaining agreement among all Group companies on the different R&D project proposals is always a challenge - we often find problems in finding common ground for instance between the US and Canadian interests. In broad terms US would support smoking quality improvement projects whereas Canada would support Regulatory Issues. In 1987 recognising this polarisation we set out to achieve a 60/40 split in effort allocation between smoke quality and regulatory projects. Over the recent years they have risen to practically 90% regulatory projects. i.e. heavily oriented to Canada's interests. In the new projects we have included one major smoke quality project - together with a few smaller projects and they received unqualified support from the companies other than Canada. ETS research will be somewhat lower than previously, but this reflects a directive from TSRT.

Incorporated in London Number 147473 - Capital: Variable London SW1

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BATCo document for Province of British Columbia 20 April 1999

The financial consequence of the restructure for Imperial Tobacco will not be as serious as you suggest. Firstly, I think if we are to consider invoiced costs we should work only in terms of your actual invoiced costs from BAT which for 1989 were £0.583 mn. and not £0.513 mn. as your letter suggested (see attachment). Whereas I indicated at last November's TSRT that the probable charge to IITL for Fundamental Research would be £0.76 mn. a closer analysis based on the new organisation indicates a likely cost to IITL of £0.690. This represents an increase over 1989 invoiced costs of 18%, which allowing for 8% general inflation is, hopefully, more acceptable than the 48% figure that you derived.

I hope this goes some way to responding to your concerns, and I look forward to further discussion with you on 17th May in Millbank. I then propose to visit IITL in June, to review R&D and continue discussions on how to improve the process of achieving a sound Group R&D programme.

With kind regards,  
Yours sincerely,

*A. L. Heard*

A.L. Heard

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