To: Graham Burgess
cc:
From: Edward Watt
Date: 01/12/93 15:55:49
Subject: TSG update about Purchaing Executive Meeting

Below is a proposal which is being reviewed now by the other members. They may have changes - but do you have any comments? Norman has not yet seen this, nor Barry B. Unfortunately I will not be able to get the 'table of savings' produced before the TSG meeting. However I could include outline sourcing arrangements.

Thanks

Ed

Report of Procurement Executive Committee Meeting
Montreal, 22nd to 24th November 1993

Attendees:
B&W - Chuck Dawson, Tom Dunn, BATcf - Hermann Schneider,
BATCo - Ed Watt, Jim Campbell, I.T.L. - Tom Lee, Don McLeod,
Souza Cruz - Divaldo Gomes, Marcio Dederich

SUMMARY

The primary objective of the meeting was to agree the sourcing strategies to be adopted by each company, following supplier proposals for the whole Group's business for Filter Tow, Cigarette Paper/Plugwrap and Board. Tables identifying both the new Group sources and volumes, along with the calculations used to identify the value of savings to BAT of these new arrangements, will be circulated and agreed before year end, following further discussions with key suppliers.

Filter Tow - The most significant change will be the switch of tonnage from Celanese by BATCo in its entirety and by B&W in part. Volume gains will be made by Eastmans, Daicel and Rhodia, Courtaulds will hold ground. Actual Group wide cost savings from price only in 94 will be around $11 million with gains in all companies. This is $3 million more than had been estimated at the May meeting. Still to be progressed are the usage reduction benefits through grade rationalisation identified at $3.0 million in BATCo plus any potential established by other TSG companies.

Cigarette Paper and Plugwrap - A radical reduction in the supplier base to BATCo will take place, with consolidation by other companies. Major gains will be made by the Kimberley Clark/PDM group, Wattens and Ecusta, with Schoeller and Hoesch holding volume and Glatz becoming a marginal player, supplying Germany only. Other small, lower quality suppliers ie Fletchers, Job Lana, Miquel Y Costas will be dropped entirely. Group owned sources, ie Pirahy and Tribeni, are unaffected by these changes. Although details still have to be resolved, it now appears that cost reductions after implementation will be approximately $10 million pa.

Board - Agreement was reached about the tonnage split world-wide for Solid Bleached Sulphate (SBS) board. Iggesund, of Sweden, and Federal, of the USA, will be BAT's primary partners in 1994. Westvaco (USA) will continue to supply B&W and ITL with significant tonnage and International Paper will remain as a small supplier to ITL only. The major switch of tonnage is from Westvaco. Unfortunately, Westvaco, as a major supplier to B&W through their printer VFB, have refused to convert any other board than their own. Group global savings therefore may not be maximised in 1994, but B&W will aggressively pursue this restriction. Estimated cost savings for 1994 are now $5 million from price reductions. Weight reductions continue also to be progressed by each company.

502589304

SBS board tonnage represents 45% of BAT's world wide board consumption. Duplex boards account for the remainder and rationalisation and renegotiation for this element will be led by BATCo as the major user throughout 94. The establishment of a price and quality marker for SBS first will now enable a fresh perspective to be taken on duplex tonnage.

Overall cost savings from price reductions for 94 versus 93 should now be $26 million on these materials with additional savings from specification changes to be progressed of over $7 million.

Future Activities - The meeting identified that the next materials to be progressed would be Duplex boards, Inner Bundling, Wrapping Films and Printing Papers with a provisional meeting set for the 1st week of April 94, in Hamburg. Prior to that, data on all current purchases will be exchanged and key suppliers identified and approached. Tipping materials will be considered later in 94. The complexity of this product requires investigation and proposals for rationalisation first.

E Watt
1/12/93

502589305