

TOBACCO STRATEGY REVIEW TEAM

The purpose of this note is to provide background on the terms of reference and issues for the Tobacco Strategy Review team meeting arranged for 31st October 1988.

Terms of Reference

1. When the team was set up in December 1984 it was agreed that its principal aims should be to ensure that the Group mounts a coherent strategic thrust in Tobacco, that there is effective technical and marketing co-operation between the Group's Tobacco businesses and that there is a unified approach on Smoking Issues.
2. It was noted that the team would be concerned with major new initiatives and with removing structural and other obstacles to effective marketing or technical co-operation.

It was not intended that the team should be concerned with monitoring progress in areas where co-operation is already proceeding satisfactorily or with issues which are specific to only one Operating Group. However it may be used as a means for sharing information in cases where this appears to be appropriate (e.g. where a particular development in one company could be of wider interest).

Issues

Issues which have previously been covered by the team or which have been suggested for consideration are outlined below. In each case, the current status of the issue is reviewed and reports due to be presented to the meeting on 31st October are noted.

1. Policy/Action on Smoking Issues: BATCo. are responsible for the production and dissemination of the Smoking Issues Compendium and for organising seminars to discuss the issues. Following an internal seminar on Passive Smoking, a public seminar on low risk epidemiology has been arranged for March 1989. Mr. Branley is due to report progress.
2. R & D: In the past, the team has reviewed the centrally controlled element of the Group R & D programme and has commented on:-
 - (a) Priorities.
 - (b) Levels of expenditure.
 - (c) The allocation to individual operations of the work and of the charges for this activity.

Mr. Heard, who is responsible for co-ordinating the R & D programme will be invited to present his proposed programme for 1989. At the same time, he will also report progress on projects Airbus and Greendot. Mr. Pritchard will be asked to provide information on the reception in the market to the launch of the RJR smokeless cigarette.

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3. Process Development

- (a) The team has monitored the development of the APEX expanded tobacco process and Mr. Bramley will provide a report on the current situation.
- (b) It was noted that the DIET plant located in Berlin would be sold after the patent expires in September 1988. Mr. Bramley will report on the current situation.

4. Leaf Buying

The team has noted the benefits of centralised leaf buying and the current aim is to have BATCF fully integrated in this system by end 1989. Mr. Bramley will report progress.

5. The Development and Marketing of New Products

The team has initiated action to accelerate the dissemination of Barclay and Capri into a wide range of markets. Mr. Bruell is due to report on this and will also report, with Mr. Pritchard, on the possibility of licencing these products to the Spanish monopoly and to Gallahers.

6. Implications of Europe 1992

The team has noted action being taken by BATCo. and BATCF in relation to the EEC initiative to create a Single European Market by 1992:-

- (a) Preparing proposals to the Commission on Tax Harmonisation and trying to preserve, for as long as possible, the Duty-free trade.
- (b) Preparing proposals for marketing and manufacturing rationalisation.

Mr. Bruell and Mr. Bramley are due to report on these issues.

7. Exports

It has been suggested that the team should review the current situation with regard to exports and should consider whether some general guidelines should be established for deciding where and to what extent export opportunities should be pursued.

A background paper on this subject will be circulated before the meeting and there will also be a separate paper from Souza Cruz regarding the potential for exports from Brazil.

8. Other Strategic Options/Issues

Other issues which have been considered previously by the team but which are not due to be discussed at the meeting are as follows:-

- (a) The potential, priorities and responsibility for new initiatives to become established or to improve market shares in markets where there is an identified opportunity to do so (e.g. Japan, China, Turkey, Thailand).

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- (b) The possibility of acquiring the outside shareholding in Skandinavisk. This is being kept under review but it does not appear practicable to pursue it at present.
- (c) The possibility of improving the representation in Italy (considered by Mr. Bruell and Mr. Pritchard).

9. Management Development

Although not specifically covered by the terms of reference, it has been suggested that the team may wish to consider the potential for improvements in the arrangements for Manager Development, reviewing the contribution made by the courses at Chelwood and considering whether it would be advantageous to organise more transfers between Tobacco companies in different Operating Groups in order to accelerate the development of the managers concerned and to benefit from the greater exchange of knowledge and experience which should result. This has therefore been included on the Agenda.

10. Conclusion

Most of the items detailed above can be dealt with relatively briefly.

However, it is anticipated that there will be more substantive discussion on the following issues:-

- (a) R & D (Introduced by Mr. Heard).
- (b) Europe 1992 (Introduced by Mr. Bruell and Mr. Bramley).
- (c) Exports (Introduced by the Chairman and including consideration of the paper from Souza Cruz on Brazilian Exports).
- (d) Management Development (Introduced by the Chairman).

RS/DJA
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