

Note for Tobacco Strategy Review Team
December 2nd 1991

Scenarios for the future of Fundamental Research

There are three possible scenarios in relation to the future of Fundamental Research projects currently undertaken at Southampton in the FRC.

1. The team and projects are retained as currently. This is clearly not acceptable to B&W and BATCF or even BATCo, but it is likely to be supported by Imperial Tobacco and possibly Souza Cruz.

An unlikely scenario.

2. The position which I recently put to B&W and BATCF (and indeed subsequently to ITL and Souza Cruz) in which 18 man years are transferred to BATCo's Virginia programme and the residual 32 man years covering all regulatory issues is centrally funded. This scenario has been rejected by B&W except for specified regulatory areas such as biological, additives etc. BATCF have much the same position but agree some effort in other of the regulatory areas eg tar/nic reduction. Again both ITL and Souza Cruz support the full 32 man year programme.

If the Company is really committed to the long term this is the recommended scenario. but clearly it will be heavily debated if funds are expected from US and Germany.

3. Following our discussion with U Herter I have constructed what I consider to be the minimum position for the future regulatory programme to be centrally funded and this is based on 17 man years. Both B&W and BATCF acknowledge the need for 7.5 of these man years (which effectively rounds to 10 if we include technical/administrative support) and BATCF have indicated a probable willingness to support the balance of 7 man years.

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This scenario is based on the following projects:

1. Bioassays	3.4
2. Additives/materials	3.6
3. Technical support to CAC.....	0.3
4. International standards	0.2
5. Sidestream formation.....	1.2
6. Specialised analysis.....	0.5
7. Chemical analysis.....	1.0
8. Tar modification	2.0
9. "Other noxa" in smoke	2.0
10. Technical/Admin support.....	2.7

Supporting notes for the above projects:

1 - 4 are accepted by all CAC's and presumably need no further amplification.

5 Sidestream formation - the work on mechanisms of sidestream formation is key to the future development of low sidestream products and enables BAT to challenge erroneous claims on sidestream composition/hazards.

6 and 7 represent the highly specialised analytical resources needed for the other projects covered in this portfolio eg other noxa.

8 Tar Modification - this work is specifically linked to the evolution of very low tar/normal nicotine product (Greendot). We have already achieved considerable success with a product development (4 mg tar/0.6 mg nic) that emanated from the early research. This work sets the basis for much lower tar/nic ratio products. Commercially the products are important in markets where deliveries are disclosed on the pack but it also meets the interests of various regulatory bodies.

9 "Other noxa" in smoke - this work anticipates the interest of regulatory bodies in specific toxic components (hydrogen-cyanide, acetaldehyde etc). Good progress has been made in 1991 in finding means of reducing many such components by enzymic treatment of tobacco followed by reconstitution.

10 Technical Admin/support - includes the MSD, personnel services and library/info costs associated with these projects.

I believe this scenario to be acceptable as a compromise although, ITL and Souza Cruz may consider it dangerously restricted.

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Consequences for BATCo

As already discussed, a proportion of the effort currently in FRC (23 man years) will be transferred to smoke quality related issues under the general banner of project OPTIMA, our major thrust in Virginia smoking quality. Additionally we envisage strengthening the BATCo R&D activities (Environmental/packaging team, Competitor Monitoring, and Product Development) using a further 12 man years of effort transferred from FRC under scenario 3. Allowing for a further 3 people to transfer to B&W and 3 to leave eg by retirement, all the staff currently in FRC are accounted for. In summary:

Current BTC	69	Current BTC	69
Current FRC	57	Optima	23
		Environmental/packaging	5
		Competitor Monitoring	3
		Product Developers	3

		Future BTC	103
		Transfers to B&W	3
		Retirements	3
		Losses	6
		Future FRC	17

Total	126	Total	126
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Under this scenario the FRC becomes so small that I see no case for keeping it as a separate Centre: it would be prudent to expand the BTC in its new building to house the additional BATCo funded personnel and, if possible, we should aim to have a Fundamental Research Dept. to cover the "Future FRC" projects, again housed in the new building.

Although in the past I have done simple pro-rata calculations to show the financial consequences of restructuring, the implied changes are so great (involving modifications to the new building concept) that I am reluctant to do this. If we progress in these directions it will be essential that a finance person calculates the consequence for BATCo and for the CACs.

alh/furfrco:

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