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26 JUL 1993

H.B.

Imperial Tobacco Limited



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U.H.
REC'D - 27 JUL 1993
Ansd _____

R. Don Brown
Chairman, President and
Chief Executive Officer

July 6, 1993

Mr. Ulrich Herter
B.A.T. Industries
Windsor House
50 Victoria Street
London SW1H 0LN
England

Copy to H. Zuta

Dear Ulrich,

RE: 'TAR' LEVELS - CANADIAN MARKET

At the last T.S.G. meeting, you asked for a report on the structure of local markets with regard to 'tar' and nicotine content levels.

There are no regulated 'tar' bands or structures, nor maximum levels in Canada. Manufacturers use descriptors such as mild, light, extra light, ultra light, etc. as they decide, usually for brand positioning reasons. Until 1988, the industry's voluntary code with the Department of Health & Welfare included a maximum tar level (21 mg as I recall) and a "sales weighted average tar" target for the industry, the most recent being 12 mg. However, with the legislating of the Tobacco Products Control Act in 1988, the voluntary code fell away, and the Act includes no mandated ceilings nor 'tar' brand designations.

In this market, light or mild descriptors are used (and understood by the consumer) in relation to a brand. Brand names have a clear and fairly accurate perceived position, with the light version accepted generally as "slightly" milder than the parent brand (3-5 mg), "extra light": 3-5 mg milder yet, and so on. Most popular brands are sold in both regular length (72 mm) and K.S. (85 mm) confusing the 'tar' issue further.

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Mr. Ulrich Herter
Page 2
July 6, 1993

Although 'tar', nicotine and C.O. numbers are printed on all packs and used by consumers for reference, perceived strength measured through image studies is a more important brand positioning measure for us.

Attached, for your reference, is an explanation and list of a few brands as well as a complete 'tar' and nicotine listing of our market.

Please note: the actual vs perceived strength list omits one category at the bottom of the scale. Medallion (I.T.L.) and Viscount (RBH) are the only significant 1 mg brands, totalling slightly more than 1% of market and stable.

I trust this is as required.

Regards,



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