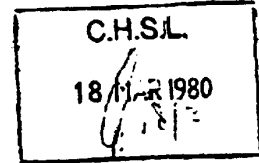


P. O. BOX 8800
MONTREAL, CANADA
H3C 3L4



March 12, 1980

Mr. C.H. Stewart Lockhart,
Westminster House,
7 Millbank,
London SW1P 3JE,
England

Dear Kit,

Thank you for your letter of February 21 and copies of the 1980 R & D Program. I am pleased to read that you plan to budget three years ahead as this will be a useful input to our budgetary process.

You may be aware that R. Bégin has been corresponding with K. Etherington to arrive at a research "agreement" in such a form that the agreement, together with appropriately worded invoices and other supporting documents (R & D Program, research reports, etc.) will comprise evidence of value received that is satisfactory to tax inspectors and our auditors.

The proposed agreement is carefully worded to distinguish between GR & DC work on behalf of "Participants" (covered by the agreement), and what is done for the benefit of "Affiliates" and "BAT" (not within the scope of the agreement). The cost allocations given in the 1980 Program raise a question which you may be able to clarify. The Program "Introduction" states that 40% of the budget is in support of operating companies and Millbank departments, but Table 3.3 shows a total of 20.4% for these two categories. It is important to us to be able to relate the relevant parts of the program and their costs to the terms of the "agreement".

I understand there is to be a meeting of research heads in September to examine the program and to consider the question of relationship between R & D programs, so I shall not comment on details of the program at this time.

Kindest regards,

Sincerely,

L.E. Ricard/cod

10984179