

11th January 1979

MR. B.P.GARRAWAY.

RESEARCH LEVY: CANADA.

A few points come to mind:

1. ITL R&D figure of \$2,110,000 is not comparable with the research levy. It's like adding apples and oranges (or lemons!!)

The S&H industry 'research' may be regarded as P.R. - it would probably not be permitted under U.S. regulations as research.

The in-house company "R&D" is virtually all or at any rate mostly work of a routine nature for product modification which would similarly be excluded.

Even so their total at 0.85% net turnover is 'average' for a cigarette manufacturer.

2. As far as our levy is concerned however neither the S&H or 'own R&D' is relevant. Results from both are exchanged 'outside the levy' for similar results from other companies in the Group.
3. The present basis is indeed already a fixed fee (i.e. % net turnover) plus charges for anything we formally agree to be done for their own benefit.
4. 'Club research' was discussed at Hot Springs - I don't believe it's practical.
5. Possibly a levy based on volume could be considered but we would have to get some agreed weighting of sophisticated products or markets. On balance I believe the present system is the best we can devise subject only to some minor tuning on some additional basis.
6. The fixed fee to give access etc. would give access to nothing if we had no programme. But if it seemed expedient rather than logical we could talk in terms of an equal fixed fee (for the main sophisticated companies) - say £200,000 each p.a. for access to facilities plus a share on turnover basis of the cost of the research programme. This could be designed to leave things more-or-less as they are.

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