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SECRET

A meeting of the Tobacco Strategy Group was held on Thursday 27th July 1995.

Present: Mr U G V Herter, Mr D P Allvey, Mr B D Bramley, Mr N G Brookes, Mr A M de Castro, Dr B Schweitzer, Mr P Viner, Miss H C Barton

Lord Cairns, Mr S P Chalfen, Mr N Davis, Dr E Kausch, Mr G Read and Dr L Rudge were present for items 1 to 41. Mr P Radford was present for items 2 to 14. Mr K S Dunt and Mr D G Stevens were present for items 50 to 54.

Minutes of Previous Meeting

1. It was agreed that minute 12, "the CEC should be informed in advance about possible decisions that could lead to accounting provisions", should be qualified. Mr Allvey will amend the accounting instructions, either to specify the type of items which should be communicated, or to specify a limit.

Product Contamination Control Procedures

2. Mr Read outlined the current product contamination control procedures around the Group. Generally the Group aims to work to the most stringent national regulations, but not all companies have the same level of sophistication. Wherever possible, incoming materials are specified to be of food grade.
3. Procedures are being extended to the audit of supplier processes. For example, B&W is the only company to ask for the history of use of tankers, and Souza Cruz is the only company to insist that smaller quantities are delivered in new, non-reusable drums. Information has been exchanged in this area, but this will not of itself ensure that best practice is adopted.
4. Maintenance and service are times of high risk for product contamination. They are controlled by custom and practice at the moment. A start has been made in ensuring that procedures are documented and auditable, but the total Group procedures will not be complete until the end of 1996.
5. Mr Read recommended that finished product samples should be taken for sensory analysis from each blend lay-down; the practicalities of this were questioned, but the recommendation was accepted. Some manufacturing operations have a policy of taking cigarette samples following manufacturing material batch changes (i.e. casings/adhesives); whilst encouraged, it is not considered mandatory with good supplier quality and in-coming material controls.
6. Mr Read further recommended that the product leaving Southampton should be marked with the year and machine of manufacture, as now, but the month of manufacture should be replaced with the week of manufacture, this would ensure that BATCo would have one week to recall product if any problems were identified. This was agreed.

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BATCO CONFIDENTIAL - CATEGORY I - MINNESOTA TOBACCO LITIGATION

BATCo document for Province of British Columbia 25 October 1999

7. The importance of continuous operator training was agreed, but it was noted that this will become less effective as factories are automated.
8. All materials are cleared for use by AMGP, however, it excludes some products bought in from other manufacturers. It was agreed that we should ask product suppliers to disclose their materials, on a confidential basis, in order to meet our duty of care.
9. Mr Chalfen reported that, in the US, all manufacturers disclose their additives to a US law firm and the consolidated list is available for regulatory purposes world-wide in support of US export trade. BAT needs a procedure whereby all the additives used throughout the Group are added to this list. Suppliers of finished product should then be asked to certify that their product contains nothing that is not on the list. The creation of a Group-wide consolidation of this list with any additional BAT additives world-wide was endorsed at the KIC and this should now be implemented. Mr Chalfen will report back to the November TSG meeting on what has been agreed.
10. In summary, best practice is not implemented everywhere. It was agreed that there is a need to apply rigorous Group standards. A comprehensive manual is being established. Companies will be asked to certify that it is being followed, and it will be checked through production audits.
11. Mr Radford reported that the procedures adopted for disaster recovery can be used for product recall. The need is for broad-based guidelines. The Operating Groups would then develop detailed procedures tailored to their different distribution channels. The guidelines should cover contract manufacture.
12. Mr Radford will draft a guideline based on best practice from the Operating Groups and external benchmarks, for discussion with the Operating Groups.

Internet

13. It was called to the attention of the Operating Group Chairman that it is the Group's policy that connection to the Internet is prohibited. A note to this effect has been sent to the Heads of MIS, but the Operating Group Chairmen must ensure that this prohibition is known and enforced. Mr Radford will ensure that Imperial Tobacco, Canada, is aware of BAT's concerns, and Mr Bramley will communicate with BATCo's associate companies.
14. A review is being carried out of whether attachment to the Internet might be permitted in some stand-alone situations. Mr Herter urged that the review should be completed as soon as possible to ensure that competitive advantage is not lost.

Smoking Issues

15. Dr Rudge reported on developments in smoking issues over the past year. Press statements and briefing materials are swiftly being communicated to the whole Group. The Operating Groups were asked to send any additional questions that should be in the questions-and-answers material to the Key Issues Council. The Key Issues Council will consider how communications can be dealt with pro-actively.

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16. A project has been set up, headed by Dr C Proctor, to run from September to December, to examine the possibility of "bringing sciences back into the public debate on ETS". It is intended that this should be piloted in the UK.
17. Other topics raised included: IARC ETS studies; the UK SCOTH review of ETS science; the publication of an analysis of B&W documents; the FDA regulatory proposal to President Clinton; and the potential class action in Australia.

Scientific Research Group

18. The SRG was established in 1986 to identify research relevant to smoking issues. External experts review project proposals, and the results of external research are published independently by the researchers.
19. Since B&W funded the work considered by them as most relevant to the US in the CTR, B&W withdrew from the SRG in 1994. The work of the SRG is not budget constrained, and additional funds would be provided for recommended projects.

Group Technical Programme

20. The World-Wide Best (WWB) programme has achieved parity in US FF. It has not achieved superiority, partly because of the re-engineering approach, and partly because no taste target was defined.
21. The requirements of smokers have barely changed over the years. They want more fullness, less irritation, less dryness, more naturalness and less artificiality. Some smokers would like more strength, but others would like less strength.
22. The identification of strengths and weaknesses in our own products and in Marlboro, is being used to establish future improvement programmes. Work will continue but progress will be very difficult.
23. The WWB Virginia programme took an innovative approach based on building blocks, which is achieving continuous directional improvements.
24. The WWB programme was asked to re-evaluate the impact of maturing of tobacco. Mr Brookes reported that PM's duration in the US is 28 months, against 15 months for B&W, and that Viceroy made from longer-matured tobacco achieves significantly improved smoking quality ratings from consumers. BAT Germany has recently raised the duration of its flavour grades to 24 months, although overall duration will not change. House of Prince is made using tobacco which has been matured for 2 to 3 years in whole leaf form. Once the impact of maturity on smoking quality has been re-evaluated, the financial consequences of any change in policy will be examined.
25. The WWB Lights blend has achieved parity with Marlboro Lights in CPT.
26. There is no WWB programme for Ultra-Lights as there is no benchmark. In its place, there is a project to draw up a tool box for improving Ultra-Lights products.

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27. The WWB programmes should ensure that knowledge gained from American Tobacco is shared around the Group.

Innovation

28. The Group Technical Programme has provided a forum for sharing information and has created an excellent team spirit. It has achieved parity on IBs and identified strengths and weaknesses, but we are now at the boundary of our current capabilities.
29. In 1991 the decision was taken to focus R&D effort on product development, and BATCo merged the Group research department into its R&D department. The decision is believed to have been the correct one with the elimination of duplication and R&D becoming more Marketing-driven. The focus of the last few years has been short-term with the need to address deficiencies. The focus now needs to switch to a more long term orientation, to ensure that we do not fall behind again in smoking or product quality. Battalio is addressing the question of innovation.
30. BAT's frequency of patenting is rising. Compared with competitors we are inactive in the areas of packaging and alternative products.

Coresta

31. Coresta has four study groups (Agronomy, Phytopathology, Technology, and Smoke) which concentrate on analytical methods, test methods, standards, consistency and scientific publications.
32. An emerging issues group has recently been formed by PM, RJR, Rothmans and BAT. Possible subjects for discussion include machine smoking, ignition propensity, filter fibres in smoke, ETS, smoke constituent yields and the Codex Alimentaris.
33. On the emerging issues group, PM presents a strong, unified focused approach. RJR is represented by their Research Director (who is a member of the RJR Board) and Rothmans by their Director for R&D, Legal and Corporate Affairs.
34. BAT should use its influence at Coresta, where it currently chairs two key committees, to ensure that it focuses on its core role of setting standards and avoids becoming directly involved in smoking and health issues per se. The BAT representatives must improve their knowledge of Group-wide positions, including regulatory and legal issues, so that they can contribute fully. Mr Read should brief the TSG annually on developments at Coresta.

Technology Reviews

35. Mr Herter commented that, except for the B&W review, it was difficult to assess our standing relative to competitors from the reviews. The final reviews, which are due in on 18th August, should contain more competitor assessment, even where this is only our best judgement.

502578553

BATCO CONFIDENTIAL - CATEGORY I: MINNESOTA TOBACCO LITIGATION.

BATCo document for Province of British Columbia 25 October 1999

36. The investment programme has resulted in a good position with respect to machinery. BAT takes the lead in co-operating with machine manufacturers. PM has an advantage from its smaller range of products which allows it to negotiate better prices and delivery dates from machinery suppliers.
37. Mr Davis will co-ordinate a team to address again the subject of product specifications, for example, pack sizes, to make a recommendation to the TSG.
38. Most of our machinery is now very modern, but we must ensure that the position does not erode again over time. The machine buy-back policy should ensure that the machinery is kept up-to-date.
39. The overall position is that we have now achieved parity on smoking and product quality. Our average costs are slightly lower than those of our major competitors as a result of our factories in low-cost countries such as India and Indonesia.
40. We monitor our patents and the percentage of turnover spent on R&D relative to competitors, but this does not give a measure of innovation, or value for money in the spend. However, it can be said that the only commercially successful products in the past 15 years have come from BAT (the most recent was Capri, 8 years ago). The same, with the exception of DIET, can be said for processes (for example, HTD, direct cylinder casing, CLIFF, STS).
41. Co-operation around the Group is good on machinery, purchasing and R&D, but it has been less good on MSD. This is now being tackled, for example, the three different MRP systems are being linked through an interface. The Operating Group Chairmen must give a high priority to this large and urgent task.

Progress Reports

42. B&W should not hold back on the development of a lmg product in Japan, pending the negotiations with Rothmans.
43. Dr Schweitzer will advise Mr Brookes of any change to the forecast volume of Viceroy for East Europe.
44. The USIB report should be extended to include sales in the US domestic market.
44. BATCo and BAT Germany should propose to Mr Herter a detailed plan of how to take Hollywood into local manufacture in Russia.
45. Mr Herter has doubts that JPGL is the right brand for Russia. Using a US blend should be considered.
46. Mr Herter has doubts that Pall Mall can be extended to lmg. The test in Geneva should go ahead, but the results should be considered carefully before roll-out.
47. There is an extending pattern of price competition from PM, including Australia, where Marlboro is at the lowest price point in the market.

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BATCO CONFIDENTIAL - CATEGORY 1: MINNESOTA TOBACCO LITIGATION

BATCo document for Province of British Columbia 25 October 1999

48. Mr Bramley asked BAT Germany to provide BATCo Marketing Intelligence Department, on an ongoing basis, with the best estimates it has available of PM's volumes by market in Eastern Europe in order to up-date the Central statistics.

Statement of Trading Principles

49. There were no problems with the Statement of Trading Principles as presented.

Project Battalion

50. It was agreed that the strategic imperatives must be communicated consistently across the whole Group.
51. The preliminary findings of the Marketing and Regional Drive Teams were presented.
52. It was agreed that an outline organisation structure would be announced in early November, to be discussed in detail at a Conference in late November. This would then roll on into regional meetings to plan the implementation process.
53. There was disagreement about whether there should be an interim announcement in September, depending on what could be said vs what rumours might fill a vacuum.
54. The next TSG meeting on 29th September will be devoted to a discussion of Project Battalion.

H C Barton
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BATCO CONFIDENTIAL - CATEGORY I: MINNESOTA TOBACCO LITIGATION.

BATCo document for Province of British Columbia 25 October 1999