

PRIVATE & CONFIDENTIAL.

TOBACCO DIVISION BOARD OF MANAGEMENT

Minutes of Meeting held on Tuesday, 31st July 1973.

Present: Mr. P. Macadam (Chairman)
Mr. K.E. Haines
Mr. C.H. Stewart Lockhart
Mr. P. Sheehy
Mr. E.J. Symons

In Attendance: Mr. B.G. Pearson (Secretary)

Absent: Mr. J.T. Husbands
Mr. A.D. McCormick
Mr. T.A.H. Slack

Also attended for part of first two items:

Mr. R.P. Dobson
Mr. P.D. Tindley
Mr. T.E. Davies
Mr. P.W. Longland
Mr. R.J. Ogle

10/1. Tobacco Substitutes

Dr. Green talked about tobacco substitutes.

Tobacco substitutes may be synthetics or those from natural materials such as wood pulp. All substitutes referred to in this minute are natural fibres.

Substitutes may merely aim at a cheap blend constituent (Polystrep and Shaw) or may aim at a S. & H. contribution: Ansel's 'Cytrel', I.D.L.'s 'N.S.M.', B.A.T.'s 'Batflake', and Courtauld's, Rothman's and Gallaher's products.

Cytrel is essentially sodium carboxymethylcellulose with inorganic additives. N.S.M. is partially oxidised cellulose. Rothman's is calcium alginate fibre. Courtauld's is probably regenerated cellulose. Gallaher's is similar to N.S.M. Batflake is largely chalk with a cellulosic binder.

Costs were indicated as about 100z/lb. for N.S.M. and 60z/lb. for Cytrel to under 40z/lb. for Batflake.

The first Batflake was inorganic and non-combustible but had poor filling power, affected the tobacco in the cigarettes, and showed poor results in biological tests. A foamed version has now been produced which has increased filling power and reduces TPM, but is combustible. Consumer tests are now being conducted.

The Hunter Committee will probably lay down the relevance of certain tests to the smoker. The Committee is unlikely to approve specific cigarettes or materials, only the approved tests and the relative importance of each. It is likely that the tests will affect government policies in other countries. It is guessed that the Committee will report by the end of 1974. Both I.D.L. and we and presumably others should have completed the required tests by then.

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We are not behind others in research but are behind on productive capacity, although we can buy from others if necessary.

The PRT-71 project might well lead to a hybrid non-tobacco/reconstituted-tobacco material. It is probable that B.A.T. now has the technology to instal a plant for reconstitution of waste tobacco, perhaps in Brazil. Dr. Green thought this could well be profitable but urged that it should have sufficient flexibility built in to take advantage of research results indicating product changes.

10/2. World Leaf Supply

Mr. Walmisley reported on the world shortage of good quality flue-cured and oriental tobacco, exacerbated by the short 1972/73 crops, largely due to drought conditions.

The long-term total world leaf supply situation gives cause for concern. Growing is not keeping pace with consumption. It is predicted that by 2000 A.D. 50% of the contents of cigarettes could necessarily be non-tobacco materials.

The 1972/73 crop shortages forced up prices on average between 12% and 15% in US\$ terms.

The U.S. market opened a week ago. The crop is higher than last year but prices are already up 7% and expected to increase (although a price decrease for Germany, Benelux, etc.)

There are no available stocks in any country and it is expected that virtually all the U.S. crop will be sold.

The Canadian crop is higher and it is expected that the low domestic stocks will be improved.

As regards the B.A.T. Group, apart from Canada, stocks are generally good and our costs have not risen as much as our main competitors. The U.S. and Antwerp stockpiles are high and additional purchases have been made from various countries. The use of Brazil tobacco is increasing.

The short-term outlook is optimistic. Increased acreages are planned in several countries and prices can be expected to level off in 1974. We are still making sales to Imperial and others.

However, in view of the long-term world situation, growing will be developed wherever it is feasible and economic, e.g. Nigeria and Ghana.

U.K. profit on leaf sales is increasing and is now about £2½ million annually.

10/5. Biological Testing of Branis

A discussion on Dr. Green's note of 10th July was postponed until the next meeting.

(Dr. Green -)

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- 10/4. Travelling Allowances for Visitors from India, Pakistan and Ceylon
10/5. Bangladesh No.1

Consideration of Mr. McCormick's two notes of 26th July was deferred until the next meeting.

(Mr. McCormick -)

- 10/6. Zaire No.1

Reference: Mr. Sheehy's note of 26th July.

It was agreed that Mr. A.R.J. Christodolo be appointed No.1 in Zaire to replace Mr. Tice, who will be transferred to Millbank.

It was further agreed that should the appointment not prove successful or should Zaire fold up, Mr. Christodolo can return to Millbank as a Leaf Adviser, his present post, on a higher personal target.

(Mr. Sheehy Mr. Stewart Lockhart
Mr. Dunbar)

- 10/7. Brazil - Green Leaf Threshing

Reference: TAD's note of 30th July.

It was noted that the CPC on 17th July 1972 approved Cr.\$28.1 million (£1,814,000) for 4 green leaf threshing lines.

In view of the expansion of both the domestic market and the export business, the following were approved:-

- (1) 2 further green leaf threshing lines at a cost of Cr.\$14.9 million (£962,000); and
- (2) further investment of Cr.\$4.2 million (£277,000) for previously approved lines, arising from increased costs.

(Mr. Husbands Mr. Furdon
Mr. Price)

- 10/8. Brazil - Skol-Caracu

Reference: Mr. Price's note of 30th July.

It was agreed to recommend to the CPC that Continental subscribe Cr.\$4.9 million (£320,000) as its share of the capital increase in Skol-Caracu, due before 13th August.

(CFC -)

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10/9. Ghana No.1

It was reported that Mr. M.J.I. Stourton had accepted the post of No.1 in Ghana from mid-October, replacing Mr. Marjoram, who will be transferred to Millbank, and this appointment was agreed.

(Mr. Sheehy Mr. Stewart Lockhart
Mr. Dunbar)

10/10. MEC Minutes

The MEC Minutes of 26th July were noted.

10/11. MEC

Consideration of Mr. Slack's note of 30th July was deferred.

10/12. Tobacco Board Meeting

It was noted that the meeting due on Tuesday, 2nd October, will instead be held on Monday, 1st October, at 9.30 a.m.

10/13. Rothmans International

Mr. Stewart Lockhart reported that Mr. Kriel, Marketing Director, and Mr. Doms, Industrial Policy Director, of Rothmans International, Monaco, are visiting him on 1st August at 3.00 p.m.

10/14. Tanzania

Mr. Sheehy reported that a letter had been received from the National Development Corporation in Tanzania. They request that by 1st January 1975 we should supply only the Finance Director. This would be an impossible situation. The present agreement can be altered only by mutual consent. It was agreed to propose that they should buy our 40%. Mr. Sheehy will put up a note.

(Mr. Sheehy -)

10/15. Budget Summaries

Mr. Symons tabled forms:-

A = summary of each company when budget received; for territorial team and Mr. Symons, with accompanying notes.

B = summaries by areas of information in Forms A; for Tobacco Board.

C = summary of Forms B; for Tobacco Board and CFC.

These forms would present a consolidated picture of tobacco companies at the beginning of each financial year.

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The first set of forms can be prepared by the end of September and can be considered at the next QPR meeting in October.

(Mr. Symons -)

10/16. Legal Advice

It was agreed that it was not necessary for Mr. Morini to attend each meeting of this Board and that he could be called in for advice as necessary.

(Mr. Davies -)

10/17. Company Name

The Tobacco Board reiterated its view that the Group should retain the goodwill in the letters B.A.T. but that, if the Group name is changed to something different, the Tobacco Division should retain the initials B.A.T.

(Mr. Macadam -)

10/18. International Brands

Reference: Mr. Slack's note of 27th July.

A number of separate discussions took place on this burning subject, some of which were attended by Messrs. Short and Brown. As a general comment, it was felt that our pipelines to Dunhill were delayed far too long; that we had been simply reacting to a market created by a competitor; and that our present efforts are too fragmented and that a coherent plan is needed.

Comments on particular subjects were as follows:-

- (1) Authority must be returned to the Tobacco Board for overall world-wide (including I.E.D.) marketing strategy of international brands: policies, priorities, expenditure, methods of attack, etc.

Mr. Macadam will ask Mr. Short to present to the Tobacco Board a plan of all the main international brands, covering present plans and gaps and proposed strategy and priorities. A skeleton should be ready within 2 weeks. This Board can then consider the strategy and how it is to be effected.

Further thought will be given to a Tobacco Board Marketing Committee comprising Mr. Macadam, the Marketing Director and Territorial Directors, with Messrs. Short and Doran. The Committee would only set strategy and need probably meet only quarterly.

- (2) Beneath the Tobacco Board must be a strong Central Marketing Services liaising with all companies, including I.E.D., on international brands. Or

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Brand Managers should present alternatives to the Tobacco Board for decisions. Effective control must not be with I.E.D. just because they control the U.K. factories. New international brands must not, as suggested by Mr. Slack, be handed over to I.E.D. for development at the earliest possible stage, although I.E.D. will naturally continue to control their own brands in their own way.

- (3) Consideration was given to development of a low tar delivery long-size filter brand. It was noted that R. & D. have already produced a 0.6 delivery blend but I.E.D. were not interested. It was, however, agreed to record the strong feeling that there is a market opportunity for B. & H. Luxury Mild.
- (4) Consideration was given to B. & H. Luxury Blend (CHARLTON) and B. & H. de Luxe Length (HIBERNIA).

The following points were made:-

- (a) Gallahers have tested both brands in U.K. and it is understood that CHARLTON was preferred.
- (b) CHARLTON had been agreed for Group use and we should not be deterred by the fact that Gallahers are now going for HIBERNIA (largely, it was felt, because of the crest).
- (c) HIBERNIA will have a large home base and I.E.D. therefore wish to use it, particularly in U.K. peripheral markets (e.g. duty free. Channel Islands).
- (d) It will, however, be impossible to keep the markets and advertising separate.
- (e) We should stick to one brand rather than two.
- (f) The one brand should be CHARLTON, mainly because the packing is preferred but also because it marries with B. & H. Luxury Mild.
- (g) There is no need to test both brands in I.E.D. markets if the understanding of Gallaher's test results is correct. If the brands are tested in I.E.D. markets, then they should also be tested in such markets as Switzerland, Hong Kong and Malaya.
- (h) HIBERNIA board is freely available but CHARLTON cannot be put on full production until March/April because of board shortages.
- (i) The 20 million CHARLTON on order, for which board is available, and which are due to be ready by the end of October, can be used by I.E.D. and the Far East are prepared to wait until the I.E.D. market is established.

It was agreed that:-

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- (i) CHARLTON should be our answer at international size (95 mm.) - Messrs. Short and Brown, who were present, agreed.
- (ii) The exact Gallaher test results should be obtained.
- (iii) All other possible sources of board should be explored, including Gallahers and the Continent.
- (iv) Mr. Macadam will try to get Mr. Doran's immediate agreement but, failing that, will agree to market tests being conducted.

(Mr. Macadam Mr. Slack
 Mr. Short
 Mr. Doran
 Mr. Brown)

10/19. Responsibilities of Tobacco Division

Reference: Minute 9/5 of 24th July.

Mr. Macadam reported that the CPC had approved the document subject to certain changes.

The finally approved document is attached to these minutes.

(Secretary Mr. Rawlinson
 Mr. Dunbar
 Mr. Ricketts
 Mr. Calvert
 Mr. Keen
 Mr. Timpson
 Mr. Pateman)

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