

TOBACCO DIVISION BOARD OF MANAGEMENT

Minutes of the meeting held on Tuesday, 22nd October 1974 at 2.20

Present: Mr. P. Macadam (Chairman)
Mr. I.B.D. Bluett
Dr. S.J. Green
Mr. J.T. Husband
Mr. C.H. Stewart Lockhart
Mr. P. Sheehy
Mr. E.J. Symons
Mr. R.St.C. Walmisley

In attendance: Mr. B.G. Pearson (Secretary)
Mr. H.A. Morini (Minute B.608 only).

Absent: Mr. C.G. Bowra

Also Attended: Mr. P.D. Tindley (Minutes B.602-606)
Mr. T.E. Davies (Minutes B.598-606
and B.608)

B.598 Australia

Mr. Macadam reported on a visit. The country's economic recession is verging on severe.

In about five years the share of the cigarette market has dropped from 46% to 36%, largely because of weakness in the lower parts of the market. This is now being rectified and Willis hope to be up to 40% by the end of next year.

The other activities seen all appear to be well run but there are problems of control of such varied activities.

There is a gap below the top management but managers are moved frequently to gain insight into different aspects of the Group's businesses.

Profits are down, largely due to shortage of meat sales.

B.599 New Zealand

Mr. Macadam reported an enthusiastic team but lost sales due to production faults.

Profit is up, due to an exceptional item. Trading profit is down.

B.600 South Africa

Mr. Bluett reported on a visit.

There are continual small political changes but no major breakthrough is foreseen. The economic future is reasonably bright in spite of inflation.

Cigarette sales have been affected by a price increase and market share is down to 26%. Management is now more realistic and is taking more notice of views of staff of other ethnic groups.

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300053087

Willards is slightly increasing market share at about 40% but the main competitor will not agree to increase prices.

The confectionery business has an enthusiastic team and is ahead of target.

Profits are on target but will be down next year unless there is a cigarette price increase.

E.601 Central Africa

Mr. Bluett reported that morale is high, volume is improving, and market share is up to 62%. Profitability is slightly down but a price increase expected any day could double profits.

E.602 Brazil

Dr. Green reported on a visit.

The new laboratory has a young and promising team. It is hoped they will contribute to product knowledge, particularly with the need to combat PM. Their programme and budget were discussed and it is hoped that they will be able to benefit from Group research.

A waste-utilisation study group will be set up in Brazil and it is hoped to have a preliminary report by mid 1975.

E.603 USA

Dr. Green reported concern at an article in Marketing News, reprinted from the Financial Times, which it was felt could cause some embarrassment in USA.

The technical difficulties of Duolite and programmed filters have been overcome.

The research budget is relatively static.

E.604 Canada

Dr. Green reported that the basis of sharing research knowledge and the ownership of patents is not well understood in Canada and he will put it in writing for their consideration - after discussion with Mr. Symons.

The biological work in Canada is now effectively guided by Group R&D.

The R&D programme in Canada now looks relevant and effective.

E.605 Belgium

Mr. Stewart Lockhart reported on a visit to discuss the Benelux budget.

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The Belgian market share is 13%. There will be a 35% price increase in two stages over the next few months. Volume reduction forecast is 4%. This would mean no dividend this year but future years would be more satisfactory. But the volume reduction may well be more.

Pressure on production has eased but there are still some problems. The Mark 9s are now working better but there is still high wastage.

Communications within the management in Holland have been weak but will be improved.

B.606 Denmark

Mr. Stewart Lockhart reported that there are now two elected workers on the Board.

The dividend is unchanged.

The profit forecast this year is down slightly because prices cannot be increased.

Cigarettes contribute $\frac{1}{3}$ and cigars $\frac{1}{3}$ of profits.

B.607 USA

Mr. Walmisley reported on a visit.

A difficult FC season. ELT had to buy 17 $\frac{1}{2}$ % of a crop of 227 million pounds in face of heavy demand but they are on schedule and will fulfil requirements.

Quality is good. Average price about \$1.05 against under 89¢ last year. BAT export price will be about \$1.09.

ELT is now more efficient and morale is good. Weakness at the top but middle management is promising.

Processing is good and costs competitive. ELT has better equipment than B&W and throughput is 10% higher.

At Wilson, the warehouse is completed and the new processing plant nearly so. The new machinery is already installed and the old machinery will be transferred at the end of the year. Processing will start on 1st July 1975 and throughput will be two million pounds on double shift daily.

The final cost will be about \$15 $\frac{1}{2}$ million against the estimate of \$10 $\frac{1}{2}$ million - partly extra equipment, partly inflation.

There will be cash flow problems due to financing the new plant and cost of borrowing. The possibility of increasing charges is being studied.

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The Burley market opens soon. Quality is poor and the crop will be 555 million pounds against a demand of some 650 million. Average price likely to be \$1.15 against 92¢ last year.

The Viceroy/Raleigh blend has been improved, with more air-cured and oriental and better density.

The South Carolina lawsuit is expected to die after elections next month. The Kentucky lawsuit is expected to drag on for a long time, and therefore cost money, but is likely also to die out.

B.608 Tanzania

Reference: Mr. Morini's note of 17th October 1974.

It was agreed to recommend to the CPC the draft Technical Consultancy Agreement, for BAT to provide BAT Tanzania with technical and consultancy services, and the Side Letter dated October 1974.

It was noted that:-

1. agreement for three years from 1st January 1975 provided receipt of down payment on the sale of the remaining shares, or from such payment;
2. fee of 0.65% of turnover plus agreed sums for UK expenses of expatriate staff;
3. satisfactory terms for expatriate staff who will remain BAT employees;
4. Wills and Players names and marks to be transferred to BAT except Embassy and Legation; and
5. six months' notice of termination on default.

B.609 Switzerland

Reference: MCF Form dated 18th October 1974.

It was agreed to recommend to the CPC the construction of a warehouse on land adjacent to the Geneva factory at a cost of S.Frs. 8,430,000 (£1,238,000).

B.610 Nigeria

Reference: MCF form dated 17th October 1974.

As part of a planned expansion and modernisation programme to increase secondary manufacture from 800 million to 930 million monthly by September 1976, it was agreed that Nigeria should order 5 x 20s 5,000 AMF soft-cup packers at a cost of N. 700,000 (£482,400).

(Mr. Dawson
Mr. Keen)

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B.611 Malawi

Reference: Mr. Bluett's note of 15th October and cable dated 13th October 1974.

It was agreed to recommend to the CPC that BAT (Malawi) increase the issued capital of Kw. 700,000 (£350,000 - 80% BAT, 20% TST) by capitalisation of Kw. 400,000 (£200,000) from reserves and then the issue of Kw. 300,000 or Kw. 366,000 at par to the Investment & Development Bank of Malawi, giving that bank either 21.43% or 25% of the total issued capital.

B.612 Sofical

Mr. Bluett reported that Sofical have suggested a joint holding company with possibly BAT 40%, Sofical 40% and MIC 20%. This would not give us control and our share must be higher.

Sofical have asked if a portion of our interests in some African companies could be included in our contribution e.g. Ghana, Nigeria and Zaire. However, if we are later required to increase the percentage of local shareholding, then we may thereby lose control. It was felt that we could agree that we were interested in exploring this idea up to a small percentage e.g. 5%. It was agreed to recommend this to the CPC.

B.613 Educational Assistance in UK

It was agreed that the proposals contained in Mr. Calvert's note of 25th September 1974 be referred to Mr. Dennis for urgent consideration but that implementation of any decision should be backdated effective the Autumn term.

(Mr. Dunbar)

B.614 Marketing Committee

The minutes of the meeting of the Marketing Committee held on 16th October 1974 were noted.

(Mr. Short)

B.615 Tobacco Division Staff Strength

The list showing Tobacco Division staff strength as at 1st October 1974 was noted.

It was agreed that the R&E establishment should be shown on the next return.

(Mr. Dunbar)

B.616 TDB Meetings

Reference: The Secretary's note of 18th October 1974. It was agreed to rescind Minute B.574 and, as BAT Board Meetings will generally be held on the last Tuesday in each month, Tobacco Division Board Meetings will, with effect from the first meeting in November, be held every Thursday at 10.30 a.m.

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B.617 TDB Outstandings

Reference: The Secretary's note dated 18th October 1974.

The list of outstanding items was reviewed and it was noted that:-

1. Project Bronze is abandoned;
2. Mr. Symons is studying the tax implications of expatriates in some countries being BAT employees on secondment;
3. some, but not all, Territorial Directors and teams have tried out the new management appraisal system;
4. Dr. Green will circulate a report on the growing and production of menthol; and
5. it was noted that all Directors' letters relating to policy and all other important matters should be circulated on the TDB Directors' Reading File.

E.618 Tobacco Division Projects

Reference: The Secretary's note of 18th October 1974.

The list of Tobacco Division Projects occupying management time in London was reviewed.

E.619 UK Market

Mr. Sheehy reported that American Tobacco may have acquired a common law right to Lucky Strike in the U.K. It is therefore unwise to continue importing the brand from them and he is urgently examining the necessity of supplies from a BAT source as soon as possible.

B.620 Brazil

Mr. Husbands reported an average 12% price increase from mid-October which will yield a substantial increase in profits, about Cr\$ 50 excess or £1,250,000 up to December 1974.

B.621 Mexico

Mr. Husbands reported that the price increase reported last month did not go into effect until 17th October 1974. Increase 10¢ to 30¢ per packet.

The meeting ended at 5.00 p.m.

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