

RESTRICTED

TOBACCO DIVISION BOARD OF MANAGEMENT

Friday, 25th June 1975 at 10.00 a.m.

Present: Mr. P. Sheehy (Chairman)
Mr. C.H. Stewart Lockhart
Mr. I.B.D. Bluett
Mr. C.G. Bowra
Mr. B.P. Garraway
Mr. N.W. Goddard
Dr. S.J. Green
Mr. R.St.C. Walmisley
Mr. P.L. Wright

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

Also attended: Mr. G.L. Dennis
Mr. P.J.H. Rackham (D.138)

D.138 Planning

The purpose of the meeting was to identify the issues facing us in the next ten years, so as to be able better to plan the next three years at the November planning meeting.

The meeting considered and, subject to certain changes and clarifications, approved the following papers:-

The shape of the tobacco industry
Assumptions and strategies for marketing
The shape of the process
The shape of our business
A financial view of the Division

Specific points made were:-

1. In certain selected areas, particularly in the developed and profitable countries and in export markets, we may have to be prepared to forgo some immediate profits in order to match competition by investing more on advertising and promotion and in development work in areas which are seen to have a long-term future, but only after we are confident that the product is right.

2. The present big four companies (which may become the big three) will increase their total world market share and this implies company acquisitions.

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3. There is need for consumer testing in developed markets on PRT vs. PCU before committing ourselves by heavy investment.

4. Consideration should be given to R&D work moving away from the emphasis on saving money in production processes towards quality and control of the product, i.e. consumer acceptance and lowering biological activity as well as cost control. For example, possible new methods of cutting tobacco which do not employ the compressed 'cheese' technique.

5. It was reported that the Group will search for a flavour house as a possible acquisition.

6. There was a discussion on Dr. Kilburn's technological forecast that, as the major cost of secondary manufacture is labour, reliable computer controlled machinery should be developed; and that this will not be achieved by the machinery manufacturers following their present policies. It was felt that such machinery was realisable although development of it would involve many other considerations, including decisions on the extent of our involvement. Mr. Bowra will prepare a paper on setting up a group to pursue this, with a considered time limit of perhaps 3-4 months for the group to report.

7. In countries where BAT moves into a minority situation, our authority and influence would be exercised by one or more of the following: a Board representative; brand ownership; T&A arrangements; approval of appointments of senior managers; and training of future top managers. If it is not possible for the representative on the Board (holding a proxy from BAT) to be a Millbank based or Millbank owned expatriate then, to avoid a possible conflict of interest, he should not be a locally employed national.

8. On the question of future central support for overseas companies the following points were made:-

- (a) Continued BAT authority implies continued BAT support.
- (b) The dilemma that the smallest profit earners tend to need the greatest support; that the degree of support must be in proportion to total income; but that consideration must also be given to the possibility of long-term improvements in profitability in each case.
- (c) Support must be reduced to countries in which we move into a minority situation and which cannot repay the support by total income to U.K.

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9. Before the November planning meeting it will be necessary to review:-

- (a) The degree of authority desirable and possible in the case of each company.
- (b) The level of support to be provided to each.
- (c) The projected number of Millbank-owned expatriates.
- (d) The Millbank organisation.

10. Because of the number of companies likely to move from subsidiary to associated company status over the ten year period, consideration will be given to recommending equity accounting to the BAT Board, so that BAT's percentage of the principal associated (minority holding) companies appears in BAT's published Balance Sheet and Profit and Loss Account instead of simply being included in dividends received.

11. Substantial funds are likely to be available for investment, in addition to any likely tobacco acquisitions, and consideration must be given to the use of those funds. The past ad hoc approach is no longer acceptable. There should be an integrated Group approach to future diversification and it would be desirable if there could be diversification into an industry in a developed country which could tie in with development of operations in developing countries.

(Mr. Rackham)

D.139 Chairman's Report

Mr. Sheehy reviewed the principal activities since the last TDE meeting.

D.140 Finance Director's Report

Mr. Garraway reviewed:-

1. The flow of cash from Tobacco Division to GHQ.
2. The proposed corporate structure after the TST/BAT merger.

D.141 Canada

Mr. Sheehy reported on a visit.

The Retail Division comprises miscellaneous comparatively small businesses. Most are profitable and doing satisfactorily.

Progresso Foods in USA is profitable and has ambitious plans.

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D.142 Oriental Leaf

Mr. Walmisley reported on a visit to Greece, Yugoslavia and Turkey with Mr. W.H. Scott from B&W.

It has been a sellers' market for the past 2-3 years due to small crops and big demand. Prices have increased approximately 100% over the last 3 years in Turkey to US\$3.65 per kilo, with sharp increases in other countries.

However the 1976 crop in Turkey has greatly increased. Prices will level off in 1977 and may go down for some types.

B.A.T. total oriental purchase this year will be 6,800,000 kilos. Owing to a big increase in B&W requirements, anticipated purchase in 1977 will be 11,500,000 kilos.

Staff has been reduced to three, headed by Mr. J.M. Westwood who is doing an excellent job.

The net income to the centre in respect of commissions and buying expenses will be \$850,000 in 1976-77 and is forecast to be \$1,300,000 in 1977-78.

D.143 Malaysia

Mr. Goddard reported on a visit.

Incidence of communist inspired violence is more widespread than published and there is concern about the ability of the military to control the situation in the longer term.

The real growth in GNP last year is estimated at 2.5% but forecasts are 6% for 1976 rising to 8% subsequently; the inflation rate is currently 4½%.

Market share remains 72% (1975 = 68%) and main brands are selling well.

The 1976 leaf crop is of better quality but 25% lower in quantity and this will enable the over-stocked position to be rectified.

Profit after tax is estimated at 55% higher than last year and the cash position continues to improve.

D.144 Schweitzer - Reconstituted Tobacco

Reference TDB minute D.136 of 27.5.76.

Dr. Green reported that a payment of 1p per kilo on the Schweitzer British patent has been agreed by Schweitzer and a formal agreement is being prepared.

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