

The ninth meeting of the team set up to review the strategies for the Group's Tobacco activities was held on 5th November 1987.

Present: Mr. P. Sheehy, Mr. G.L. Dennis, Mr. E.A.A. Bruell,
Mr. D.L. Slobom, Dr. R. Salter (Secretary).
Mr. B.P. Garraway was unable to attend the meeting.

Mr. A.L. Heard and Dr. R.E. Thornton attended for items 1-7.

1. The minutes of the meeting held on 7th April were agreed.

2. It was noted that:-

(a) The DIET plant in Berlin was to be mothballed and would be sold after the patents expired in September 1988.

It had been hoped that it might be sold to Souza Cruz but owing to Brazil's import restrictions this was impracticable. It was now hoped that it might be possible to arrange a sale to China.

(b) The APEX development was proceeding but progress was delayed pending completion of inhalation toxicology tests. These were expected to be successful but had been held up by problems at the testing laboratory.

(c) An offer had been made to the other shareholders in Skandinavisk but this had been rejected and no further progress is possible at present. However, the offer has been left open and it may be possible to re-open negotiations at some time in the future if there is a change of attitude by any of the other shareholders.

(d) Good progress was being made in increasing sales in the Japanese market. Details of this were given in a brief report which had been circulated.

(e) It was still hoped that it might be possible to invest in Turkey but this project would not be progressed until after the elections. In the meantime, exports to the country were being promoted and a trial order for 500 cases of Barclay had been received.

(f) Progress on manufacturing rationalisation was continuing and negotiations were in hand with the Unions regarding the closure of Ahrensburg. Once these agreements were in place, further changes would be considered. The review by Mr. Slobom, of the options for manufacturing rationalisation in Europe would be complete by the end of the year. A special meeting would then be arranged at which these options could be evaluated.

(g) Progress in promoting a more rational view of the effects of passive smoking had been limited but it was hoped to organise a conference on low risk epidemiology in March 1989. In the meantime, efforts to influence public opinion towards a more objective view would continue, concentrating on providing reasoned criticism of the work purporting to link passive smoking with health problems. Mr. Bruell also intended to organise an internal Group seminar on the subject.

R&D/RJR Smokeless Cigarette

3. The significance of the new 'smokeless' cigarette developed by R.J. Reynolds was discussed. It was noted that this was being taken extremely seriously by RJR who, in addition to investing in new production equipment, had also approached the Surgeon General to obtain his reaction to the proposed marketing of the product. This had apparently led to advice that it should be evaluated by the American Health Foundation.

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4. Mr. Heard believed that the design of the product was such that the nicotine was derived from the tobacco and hence the product was likely to be classified as a cigarette rather than as a drug. He believed that the product could have a major impact on the market and that BAT should build up research effort specifically aimed at competing with this initiative.
5. Mr. Heard presented a paper proposing a programme of basic research for the BAT Group, similar in cost and content to the programme presented last year. However, he also suggested that, in addition to this basic programme costing £2m in 1988, there should also be a supplementary programme to provide a competitive response to the RJR smokeless cigarette. Initial estimates were that this would cost a further £1m in 1988, £1.8m in 1989, £2.7m in 1990 and £2.5m in 1991.
6. It was suggested that the funding of the £3m programme in 1988 should be shared between the 'CAC' companies with the USA providing £0.9m, the UK £0.75m, Germany and Canada £0.57m each and Australia £0.21m.
7. Both the research programme and the proposals for its funding were accepted as a reasonable basis on which to proceed. It was also noted that the next review of R&D would be in the autumn of 1988, at which time a progress report would be presented on the work related to the RJR smokeless cigarette.

Barclay

8. Mr. Bruell reported continuing good progress with Barclay in most European countries. However, Germany continued to be an exception.

It was intended that the Spanish monopoly would be offered both this product and Capri under licence, during Mr. Pritchard's visit in December.
9. Mr. Bruell would also discuss with Mr. Pritchard whether an approach should be made to Gallahers, offering to licence the product to them. Assuming Mr. Pritchard agrees, Mr. Bruell would then sound out Mr. Cameron to see whether an approach would be welcomed by Gallahers.
10. The Chairman reported the current view in the USA which was that although there was considerable goodwill in the Barclay name, the credibility of the actron filter offer would be difficult and expensive to revive. Brown & Williamson were now likely to promote an ultra-slim version of Barclay but this would not be pursued until Capri had been exploited to the full.

Capri

11. Regarding Capri, the Chairman had already reported to the Board on progress in the USA, which continued to be encouraging.
12. Mr. Bruell reported that progress on launching the brand in European markets was up to schedule and, following trial shipments in December, Capri would be launched nationally in Belgium and Holland in January 1988, using supplies from Germany. In Germany itself, the brand had been launched in Munich under the name Caprice and early sales were up to expectations. Elsewhere, the only set back had been in Italy where the Mayor of Capri was objecting to the use of the name. The Germans believed that this problem could be overcome by using the name Caprice but Mr. Bruell believed that the problem should be faced directly and the arguments against the use of the name should be opposed.
13. Mr. Dennis reported that Capri was to be launched in Australia and the Chairman again emphasised that he believed the product should be sold at a full or premium price.

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14. The Chairman asked Mr. Dennis to check on the position in Canada and to report back to him on this.
15. Mr. Bruell reported that the testing of the special properties of Capri was still in hand. Attempts were being made to obtain agreement to a standard test for sidestream smoke. In addition, the development of a chromosome test by an external laboratory was also being monitored as being potentially useful.
16. The Chairman again emphasised the importance of taking full advantage of the ideas that have been developed in the USA for the promotion of the brand.

Rationalised Leaf Buying

17. The paper by Mr. Bruell on the rationalisation of leaf buying for Europe was noted. Commenting on the time period proposed for integrating the buying requirements of BATCF, the Chairman suggested that the aim should be for BATCF to be fully integrated by the end of the 1989 buying period, rather than allowing 2-3 years for this to be completed.

European Tax Harmonisation

18. The progress report by Mr. Bruell was noted. Commenting on the paper, the Chairman thought that it was unrealistic to expect immediate agreement on Tax Harmonisation from those countries which would suffer major changes in the market price and/or tax revenues from cigarettes.

While it was obviously necessary to continue to push for the optimum system, BATCo. would need to plan on the basis that only the major countries were likely to be amenable to either the Commission's scheme or the modified scheme proposed by BAT.

Representation in Italy

19. It was noted that Brown & Williamson, BATCF, BAT (UK & Export) and Henri Wintermans had all expressed satisfaction with the quality of service and coverage of the Italian market provided by Italtabacchi.
20. However, the Chairman was not convinced that the company provided the depth of distribution that might be provided by an alternative distributor. In particular, he questioned whether the assessment had been sufficiently wide ranging, considering non-Tobacco as well as Tobacco based companies as alternative options.
21. Mr. Bruell agreed to reassess the options for Italy during Mr. Pritchard's visit at the end of the year, prior to visiting Italy to assess the situation at first hand, early in 1988.

Team Composition

22. The Chairman informed the meeting that he was considering changes to the composition of the team to increase its effectiveness through more direct representation of Brown & Williamson, BATCF, and possibly of the other major Tobacco subsidiaries.

A paper would be prepared for the CPC and the team would be informed in due course of any changes that had been agreed.

RS/DJA
20th November 1987

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