

Note for C.A.W. Ive, Esq.

Group R&D Costs

I suggest the following telex be sent to BATCo companies from whom financial returns are normally gathered. (A. Clarke at Windsor House should consider a similar telex to CAC tobacco companies.) At your suggestion, I did discuss this in detail with David August during my recent visit to Kenya and it includes some of his recommendations. He believes it would not be difficult to make a return by the end of February and even suggested he could set up fairly easily a monitoring system for the future which could make such an exercise easier should we need to repeat it.

"We are seeking to identify the R&D expenditure of the Group in greater depth than hitherto.

Under code 95223 on Consolidation Form C you are asked to return your expenditure under 3 categories: Basic Research, Applied Research and Development.

Our returns for 1985 show positive entries for only a few companies. Zero returns are considered improbable in view of the inclusion under category 3 of product and process development work.

The following guidelines are intended to assist you in identifying your true local R&D expenditure.

1. In all the following categories we should not be concerned where total entry per annum is less than £5,000 and we should use the criterion of where added cost is being incurred in an investigative phase as a prelude to specific cost or product improvement, i.e. we should try to avoid modifications which are made as part of a normal manufacturing operation.
2. All costs of product development carried out locally including assessment of new blends, other raw materials (papers, tipplings, filter tows, etc.) together with their evaluation costs (laboratory testing, panel testing) should be identified.

Estimates of the cost of running a Product Development team (meetings, trials, etc.) should be included.

3. The costs of making and evaluating process modifications should be identified. Assessment prior to use in production, of new machinery should be included. You should exclude costs associated with the purchase of modules of machinery already familiar in your company. Again, laboratory testing associated with this developmental work should be estimated.

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4. Companies carrying out leaf development work - assessment of new varieties or of alternative agronomic practices - should identify associated costs, again including costs of testing.
5. Companies may sponsor R&D work at universities or institutions either directly or through National Manufacturers Associations. These costs should be identified.
6. Fees paid to the Centre for R&D work carried out under BATCo auspices should not be included.
7. Finally, costs associated with steady production including cost of quality control and monitoring should not be included.

Please send returns for 1986 under categories 2 - 5 above to C.A.W. Ive at Millbank to arrive no later than 20th February."

I hope you can, in appropriate phrasing, stress that we are looking for good estimates rather than precise figures in this data although, inevitably, we are going to stir up many many questions in this enquiry. I still think it is best that this be issued by Finance Department.

ALH

A. L. Heard

c.c. E.A.A. Bruell, Esq.
A. Clark, Esq., Windsor House.

ALH/DET
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