

1994 Key Area: Leaf - Security and Economy of Leaf Supplies

1. Domestic Tobacco Production

- 1.1 **Quantity:** Plans for domestic crop must reflect the Operating Companies requirements for domestic use (based upon the individual Operating Company duration policy) and for exports (see later section on exports). Uncontrolled expansion with "the hope" of exporting any surpluses (ie no commitment) is not acceptable.
- 1.2 **Quality:** Plans must show quality improvements and how these will be obtained, particularly with regard to improving grade turnout.
- 1.3 **Yield:** Minimum target yields/ha must be set for the next crop (1995) for each type grown. Yields must show progressive improvement. However, these must not be to the detriment of quality.
- 1.4 **Price:** Annual cost of production surveys (tobacco and competing crops) must be carried out to establish realistic and competitive purchase prices so that farmers' returns stimulate the required production without adversely affecting essential food crop production. Export pricing implications must also be considered.

Net returns to farmers should be competitive with returns achievable from non-tobacco crops. Returns should be increased by a combination of improved yields, reduced real cost of inputs/labour etc (ie efficiency) rather than having to resort to automatic price increases.

- 1.5 **Master Farmer Schemes:** Where not already implemented, each Operating Company must establish a scheme for identifying and rewarding (prizes, greater range of crop inputs available, etc) the better farmers. It is appreciated that these farmers will have higher yields and better grade outturn. However, plans must clearly show your scheme (Master farmer, category A farmers, etc), how you intend to identify these farmers and actions to support and motivate them to achieve better quality and to provide a greater percentage of your purchases.
- 1.6 **Afforestation:** Every Operating Company using woodfuel (for all or part of the curing - flue/fire - and for barn construction, etc) must have an afforestation programme with the objectives of achieving self sufficiency in wood supply over the shortest realistic time period. Plans must show target dates for self sufficiency. Further specific details will be forwarded to each company in due course.

Afforestation schemes should be based around farmer plantings, and where feasible, be supplemented by company managed plantations. Improvements in specific fuel consumption (amount of fuel used to cure one kg of tobacco) must be achieved, ie targets set and actions shown.

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have tight contracts with dealers. This is particularly important now when there is a world surplus of tobacco.

- 2.2 **Run of Crop:** Exports should be run of crop otherwise there is a danger of debasing your domestic cigarette quality which is unacceptable in any market and even more serious in a competitive market. If exports are not run of crop it is difficult to truly cost these exports and we would question your profit figures.
- 2.3 **Price/Profitability:** Exports must be profitable on the accounting basis established by BATCo Finance (paper circulated December 1991), unless there is an overriding need for forex earnings, however if the latter is the case this must be clearly stated in the plans and agreed by your Regional Director. Exports must be profitable even without any local currency devaluations. Devaluations are a bonus and not a realistic reason for pushing exports.

The "BATCo Leaf Export Policy", circulated to all exporting Companies on September 1 1993, clearly states the direction the Group is taking with regard to exports. The policy must be followed and any exceptions can only be approved by Leaf Department and the RBU.

Margins in a normal year should be sufficiently large enough to cater for fluctuating export prices (ie current world tobacco surplus has depressed prices in 1994 - recovery to some extent expected in 1995 for flavour tobaccos and 1996/7 for filler tobaccos).

- 2.4 **Other Factors:** Tobacco quality must be acceptable, continuity of supply must be assured, crop chemical residues must be below permitted levels, processing specifications must be met, and infestation controls well established.
- 2.5 **Export Contracts:** New Leaf Export Contract Guidelines have been circulated. Each Company must incorporate the recommendations/points made in these Guidelines when their respective Export Contracts are next renewed (usually every year).

### 3. GLT Processing

- 3.1 **Quality Control Protocols:** All Operating Companies have already received the new quality control protocols (ie methods for measuring processing specifications). These must be implemented so that you/we have confidence in the various specification measurements reported and that the figures are comparable over our industry. The new International Coresta screens must be used as they are an integral part of the protocol.
- 3.2 **Processing Specifications:** All Operating Companies have already received the new processing specification targets. Whilst these are for tobaccos purchased internationally by BATCo they should be used as a standard by all Operating Companies. Most companies must plan to meet and even exceed these standards and the targets must be clearly shown in the forthcoming

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Company Plans. Some companies, with older equipment, may have difficulties in the short term. However, in these cases, progressive improvements must be shown/stated, actions required to achieve this improvement and a target date set for meeting/exceeding BATCo standards.

Export customers processing specifications must be met.

It is important to remember that the domestic cigarette factory is also a customer just like any export customer.

- 3.3 **Processing Costs:** Whilst it is fully appreciated that we need to upgrade plant and equipment with the knock-on effect of depreciation increasing processing costs, we must remain fully competitive. Processing costs in some operations are still too high and every effort must be made to reduce these, targets must be shown and actions clearly stated to achieve these targets.
- 3.4 **Infestation Control:** Good housekeeping and cleanliness are the basis of good infestation control. The selection, use and storage of infestation control chemicals must be strictly in accordance with BATCo policy (issued February 1992 with updated additions).

#### 4. Imported Tobaccos

- 4.1 **Purchase Requirements:** All orders/requirements for imported tobaccos must be placed through BATCo Leaf Department, Woking, who are responsible for coordinating, supervising and negotiating prices for Group purchases.
- 4.2 **Buying Commission:** The BATCo Board have agreed to a standardised worldwide buying commission of 3% which is now applicable to all tobaccos from all sources.
- 4.3 **Import Restrictions:** Where imported tobaccos are essential to enhance the smoking quality of domestic tobaccos and thus provide a competitive advantage, Government pressure to reduce/eliminate imports must be resisted.
- 4.4 **World Supply/Stocks:** There is currently a world surplus of all types of tobacco and prices have, in most cases, dropped significantly; the exceptions are those sources with a market support system (eg USA, Canada).

Government bodies/dealers etc in a variety of countries are now holding surplus stocks of tobacco which are also depressing prices. Whilst many of these stocks are not within our grade/processing specifications they present an opportunity for requirements for unplanned business (tender sales etc).

Most major supply countries have cut 1994 production to such an extent that there could well be at least 20% less flue cured and 25% less Burley available for international trade this year as compared to 1993 (Oriental to remain unchanged, fire cured to increase slightly).

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1995 production is not likely to increase (Oriental to decrease dramatically) unless there is a major shift in overall demand and price. This could cause a major supply problem in 1995/1996 for quality tobaccos with a violent swing to a shortage situation and rapid escalation of prices.

However, the situation continues to be volatile and BATCo Leaf Department will provide updated information through their quarterly review.

- 4.5 Visits: BATCo Leaf Department have to approve and coordinate all visits from BATCo Operating Companies to major producing areas.

5. Stock Duration Policy/Stock Registers

- 5.1 Durations: BATCo Operating Companies must establish stock duration levels within the policy guidelines given by the BATCo Board, recognising the intrinsic differences between "filler" and "flavour" tobaccos, the ageing period required and the use of two crop blending for flavour grades - essential contributors to smoking quality and hence consumer acceptance.

However, given the volatile nature of sales in certain markets and the tobacco supply scenario (see above), BATCo Operating Companies should work within the flexibility given in the guidelines, to maintain higher than normal stock durations of those imported tobaccos considered to be at risk or to take advantage of depressed world tobacco prices.

Any decision to purchase extra tobaccos at depressed prices against future years requirements must be first approved by BATCo Leaf Department and the RBU.

- 5.2 Stock Registers: Both the Imported Tobacco Stock Register and a Domestic Stock Register are now operational. BATCo Operating Companies are requested to participate in returning information for these schemes so that better control and potential movement of stocks can be organised within the Group.

6. Functional Expertise

- 6.1 Recruitment: BATCo Operating Companies must continue to recruit high calibre, high potential local national leaf staff. Particular emphasis must be given to recruitment for leaf blending and product development.
- 6.2 Training: Training/development programmes must be drawn up and carried through for all managers identified as having high potential with particular emphasis on the Leaf Functional Training Courses being offered by Souza Cruz, the Oriental Courses being offered by BATCo and the Blending Courses being offered by BATCo. All leaf managers should at some stage of their career attend a detailed finance course and need to be fully aware of the financial impact of their decisions on the Company as a whole. All requests for training must be channelled through BATCo Leaf Department who will approve and assist companies with their training requirements.

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