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25 JUL 1979



Imperial Tobacco Limited/Limitée

1979, the Standard Series  
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July 19th, 1979

Mr. K. Etherington  
Westminster House  
7 Millbank  
London SW2P 3JE

B.A.T. Research & Development  
Group Research Funded  
by Operating Companies

Dear Ken:

We have received a statement from S.J. Green which outlines the various points agreed to by operating Companies at the Hot Springs Conference in 1976.

I believe this should become the basis of a formal agreement which could be prepared and issued to operating Companies. This would then partly answer to the need to have on file sufficient documentation setting out the purpose and mechanism governing the research activities of the B.A.T. research group for the benefit of operating Companies.

However, as we have discussed during your visit, we are in the opinion that the present formula using a standard levy of .21% for three years to be applied on the turnover of the Company to establish its share of research costs will be viewed as arbitrary and inadequate by Canadian Income Tax Authorities.

The rapid growth and size of the current amount to be paid by us on account of group research activities and the disclosure requirements imposed on Canadian Companies will obviously make this expenditure an item for review on future audits by Tax Authorities.

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We have indicated previously and we believe that a formula to allocate research and development expenditures should be based on costs accumulated and not perceived as a contribution which fluctuates in direct proportion with the turnover of the beneficiary Company.

If it is proven more logical to use the turnover as an element of the method to allocate costs, then each Company should be provided with data reflecting each year:

*Handwritten:*  
- ASIA  
- TURNOVER  
- TOTAL T  
of *Partners*

- a) Total costs estimated to be incurred for the year for the operating Companies.
- b) The amount of such costs allocated to each Company determined from that proportion that the turnover of each Company is of the total turnover of the benefiting Companies.

It must be understood that any change in the formula cannot increase the amount already agreed to be paid by our Company based on the present levy.

We would appreciate to know if your thinking on the need to modify the formula and specific observations by other Companies is still in line with our concern on this subject.

Yours faithfully,

R. Bégin  
Vice-President, Finance

RB/sv

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