

THE HOT SPRINGS AGREEMENT

1. Marketing and consumer research, manufacturing improvements and product development techniques and methodology should be exchanged freely. Although the bigger facilities in the operating Companies might be expected to make bigger inputs the size of these facilities is in proportion to Company sales, weighted for market sophistication, and all Companies will therefore benefit appropriately.
2. Product Developments, if successful, will be reflected in products. Successful products are the desired outcome and compensation will accrue to the producer in licensing such products to users.
3. Product and process developments which are patentable should be protected by the inventors and such inventions become licensable to users inside and outside the Group.
4. There should be a general agreement between all Tobacco Companies in the Division to give first options, lead times and "most favoured nation" treatment to other Companies in the Division with respect to product and process patents. It would also be agreed that exclusive licences will not be granted to competitors.
5. Machinery developments which are patentable may be licensed exclusively to appropriate machinery producers but the interests of the Division would be protected in order to give all member Companies preferential or 'no less favourable' terms.
6. For all patents the inventing Company would protect in such countries as it sees fit but in all cases Divisional H.Q. should be consulted and suitable arrangements made to assign or protect in such other countries as may be required.
7. In order to eliminate unnecessary duplication and to make R.& D. as effective as possible the Companies will agree to keep each other informed on programmes, to exchange methodology and to pool results subject to patent protection mentioned above.
8. Thus all R. & D. done by operating Companies is properly regarded as done and paid for by the Company concerned. The product from such R. & D. is the property of that Company and available for exploitation by that Company anywhere subject to the items above.

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The Hot Springs Agreement (contd.)

9. Research directed from the centre which is identified as research in support of general Group strategy is influenced by the financially contributing Companies and the research product is available to operating Companies for royalty free use within their area. Such research will be financed by a levy based on net turnover of operating Companies.
10. This arrangement is fair and self adjusting for inflation, volume and sophistication and represents a considerable advantage to the operating Companies none of which may use all or even most of the research product but all of which will have access to that product at a fraction of the cost to generate it.
11. Finally, it should be noted that a substantial part of the work directed by the Centre will continue to be paid for directly e.g. where it is commissioned by operating Companies for their own use or where it is paid for by Millbank.

SJG:DC
27th June, 1973

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