

To: David Bishop/Staines/GB/BATCo @ BAT, Chris Dufty/Staines/GB/BATCo @ BAT
cc: Simon Smith/Staines/GB/BATCo @ BAT
From: John Selby/TS/UZ/BATCo
Date: 31/01/95 13:43:02 ZE4
Subject: EXCISE - URGENT

Since getting back we have been working on a suitable excise structure to present to Government. As you know I want to work extremely quick as the little knowledge given to them from the visit can be a dangerous thing. I am seeing Irena (the Tax Policy lady) tomorrow morning and will phone you around 5pm today your time. We have come up with the following:

1. The principle is to hit Marlboro by keeping the ad valorem system at around the present level for imports. Naturally I will try for a reduction on domestic rates but I can see the principle of differential tax being applied when they introduce Import Duties as from 1.7.95. I shall try to find out their proposals on this to ensure cigarettes are included.

2. As so much of the import market is at the bottom end and is already adversely impacting upon our pricing levels we are advocating a 'de-minus' specific rate to ensure the cheap product being dumped here is hit. Taking Marketing's view on what they believe the market can absorb at the bottom end in terms of pricing we have come up with \$3.50 per mille for filters and \$1.20 per mille for plains. For ASTRA, our principle brand for the time being, this should put up the retail price, in real terms, from Soms 2.50 to Soms 4.00 per pack without any additional tax on us on the de-minimus. Ideally the minimum would not apply to us but assuming it will, then the Som 4 price just reaches the minimum limit thereby ensuring any under invoicing/dumping will be caught at the price level Marketing is happy with.

On the question of pricing we are considering social problems that Government will be pleased to hear we are considering. The retail price of Soms 4 per packet for ASTRA applied as from 1.7.95 just allows us to break even in 1995 given the increased salary levels introduced. A hard currency de-minimus will ensure prices at the bottom end of the market are kept up in real terms which will feed through to price increases for our domestic product.

3. This outline was discussed with Tony Dykes and Joe Lim during their visit here last week.

4. Our Production constraints for applying banderoles have been discussed amongst ourselves and I will try to obtain an exemption for ourselves for at least a year. Marketing are happy with this and it will allow imports to be hit as quickly as possible allowing us to increase prices further then we are already doing.

5. From the above you will have guessed that we are looking at only two categories, filters and plain. I feel strongly that we must keep this simple if we are to avoid the Russian system which is very basic and simple for them.

I have attached a model for your perusal. We shall continue to play with the figures. I shall be as general as possible with Irena but I have to know our position so that if anything is already being proposed I can come out with something definite there and then.

Will speak to you later. Thanks.



GOVREV.W

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