Industry Consultation Summary
Industry Consultation Process

Acknowledging the importance of industry participation to access information and perspectives on company behavior as well as strengthen the practical design of the index, the Index team consulted ranked companies on a voluntary basis.

Ranked companies were given the opportunity to review and comment on proposed indicators, methodology (including weighting and per stick equivalent calculation) and the data used to finalize a company’s scoring and ranking. Companies were also invited to ask any clarifying questions related to the vision of the index, funding and governance, and the development and research process. Four key phases were established in the consultation with tobacco companies:

1. Introductory Letter and Preliminary Index Design
2. Preliminary Index Methodology
3. Formal Data Request
4. Data Validation

For each phase, companies were given an opportunity to review, comment and relay feedback. Multiple touch points across these four phases and extensive communication with updates throughout this iterative process, helped to reinforce a collaborative approach to index development. Feedback was strongly encouraged, even if final determination of the methodology and scoring of the companies was at the sole discretion of the Index team, including Euromonitor International and Sustainability. Apart from written feedback, the Index team offered conference calls to provide companies with the opportunity to share more details on their feedback, ask questions directly to the Index team and have a productive conversation. The nature and content of interactions with tobacco companies is available for public review via the Index website.

The timeline below sets out key milestones in the process.
<table>
<thead>
<tr>
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<th>Tobacco Transformation Index</th>
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<tbody>
<tr>
<td>Introduc</td>
<td>Introductory Letter and Preliminary Index Design</td>
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<tr>
<td>Nov 11</td>
<td>Preliminary Index Design with draft indicators released to companies</td>
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<tr>
<td>Nov 11 - Dec 6</td>
<td>Companies share written feedback and/or questions via email</td>
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<tr>
<td>Jan 17</td>
<td>Companies receive consolidated reply from Index team</td>
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<tr>
<td>Feb 3 - Mar 6</td>
<td>Consultation via conference call as needed to answer questions related to Preliminary Index Design</td>
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<tr>
<td>Preliminary Index Methodology</td>
<td>Mar 9</td>
<td>Preliminary Index Methodology including updated list of indicators, weightings and per stick equivalent model shared with companies</td>
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<tr>
<td>Mar 9 - Apr 3</td>
<td>Companies share written feedback on Preliminary Index Methodology</td>
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<tr>
<td>Apr 6 - May 1</td>
<td>Consultation via conference call as needed to answer questions related to Preliminary Index Methodology</td>
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<tr>
<td>May 1</td>
<td>Companies receive consolidated reply from Index team</td>
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<tr>
<td>Formal Data Request</td>
<td>May 12</td>
<td>Formal data requested, and companies invited to provide their responses via a secure data collection platform following the signing of non-disclosure agreements (NDAs)</td>
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<tr>
<td>May 12 - May 29</td>
<td>Consultation (via email or phone conference) as needed to answer questions related to data verification and/or the collection process</td>
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<td>Jun 8</td>
<td>Deadline for companies to share data for inclusion in the index</td>
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<tr>
<td>Data Validation</td>
<td>Jun 15</td>
<td>Preliminary data set (including publicly available data and estimate) shared with each company</td>
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<tr>
<td>Jun 15 - Aug 14</td>
<td>Companies review data informing the preliminary score and propose clarification of any discrepancies</td>
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<tr>
<td>Sep 2020</td>
<td>Final Index publication</td>
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**Company Response**

An extensive list of contacts was assembled for each company by reviewing company websites and leveraging networks in the tobacco industry. Following the introductory email from the Foundation for a Smoke-Free World, Euromonitor International reached out to companies via an Index-specific email address (tobaccotransformationindex@euromonitor.com). Each company received an introductory email, multiple follow-up emails, and phone calls to confirm addresses and receipt of the messages. For companies located in non-English speaking countries, Euromonitor International leveraged its network of in-country researchers working on the project to reach out to companies via phone.

An additional consultancy was engaged to contact China National Tobacco Corp (CNTC). However, due to the evolving COVID-19 situation in China, they were unable to fulfill their role. As such, Euromonitor International took over consultation with CNCT and contacted the company in April 2020.

Seven of the companies contacted replied to the invitation to engage on the Tobacco Transformation Index. Three of these companies decided not to participate by sharing concerns around its current vision and objective, although some relayed support for the concept of the Index. Euromonitor International offered to share subsequent material and requested opportunities to discuss in more detail, via conference call, to encourage future participation.

Four companies shared feedback on Index Design and Preliminary Methodology, three of whom accepted further engagement via conference call. Each company had a separate call with the Index team to discuss the schedule for consultation, feedback on indicators and weighting, inputs on the per stick equivalent conversion model, and any specific questions about the Index program. All conference calls resulted in an open and productive discussion; companies shared inputs beyond the initial feedback and noted the collaborative and constructive spirit of the consultation. The company feedback process was facilitated by Euromonitor International on an individual basis, allowing for no interaction among companies.

None of the companies decided to share data with the Index team. However, four companies responded to the preliminary data set that was shared with each company. A large proportion of the responses were requests for further insight into how data estimations had been calculated. A few of these companies shared additional publicly available documents to address certain discrepancies in data or nuances specific to their financial reporting. Only one
company requested a conference call to ask specific questions on data discrepancies. As a result, the data sets used by the Index team to compile the index scoring and ranking consisted of (1) publicly available data, and (2) proprietary estimates developed by Euromonitor International.

Given the strict principles of transparency and accountability, the Index team communicated to tobacco companies that the timing, nature, and content of interactions with companies would be publicly disclosed. Consultation summaries were shared with participating companies after the conference calls and are included below.

While certain companies voluntarily and independently provided feedback regarding the Index, this was not indicative of actual or intended coordination. The index development process included safeguards to ensure that data was not shared between competitors. Under no circumstances was company scoring and ranking discussed with any company.
Consultation Summaries

I British American Tobacco (BAT)

First Consultation
Monday, February 3, 2020
1:15-2:00PM GMT

Topics Discussed

1. Introduction of team and process
   - All participants on the call introduced themselves.
   - Context was provided for the project.

2. Discussion of feedback

Preliminary Index Design:
   - Need for science-based classification of potentially reduced-risk products.
   - Potential bias towards competitors’ business models.
   - Philosophy implied by underlying questions – reduction in cigarettes versus increase in potentially reduced-risk products.
   - Need to think holistically about the reduction in cigarettes, with two examples:
     - One indicator of a company’s commitment would be its efforts to combat illicit trade.
     - Consider other measures for agricultural transition.
   - Degree of subjectivity that could impede the establishment of a level playing field and request for more clarity around weights.

Additional feedback:
   - Improving the precision of language: e.g. total nicotine vs total tobacco, high-risk and low-risk products.
   - Reconsidering indicators focused on pricing: these may not be very useful, since pricing is dictated by the local market and other measures (e.g. volume sales) are likely better indications of the impact sought by the index.
   - Discussion on considering attempts to advocate for sensible regulations and standards development.

3. Discussion of next steps

   - Company feedback will be considered in concert with other stakeholder feedback received through the consultation process.
   - Detailed design and methodology reports to be released in advance of index publication.
   - The Foundation has commissioned a scientific literature review which will inform classification of product types according to relative risk.
Second Consultation

Thursday, May 7, 2020
1:00-2:30PM GMT

Topics Discussed

1. Introduction and process update
   - Index team provided general update on project.

2. Discussion of feedback

   Preliminary Index Methodology:
   - Discussion on product classification and risk spectrum, including update on literature review currently in progress.
   - Relative importance of indicators considering the ratio between reduced-risk and high-risk products versus indicators focused only on phasing out high-risk product sales and investments. The discussion concerned indicators in Product Offer, Product Sales, and Capital Allocation categories.
   - Role of excise tax structure and illicit market across different countries.

   Formal Data Request:
   - Need for clarity on the NDA about collection and storage process to ensure that data shared can only be assessed by Euromonitor International staff responsible for analyzing and assigning scores.
   - Companies that elect not to share data will be scored and included in the final ranking, based on the best assessment possible using a triangulation of publicly available data, non-company sources of information (e.g. commercial databases), interviews with industry experts, and in-country research.

   Project Timeline:
   - Companies to receive their own data sets in June, to allow them to propose clarifications of any discrepancies.

3. Discussion of next steps
   - The Index team will share the summary of the consultation, written answers to feedback received, and updated timeline.
**Third Consultation**

**Thursday, May 22, 2020**

1:00-2:30PM GMT

**Topics Discussed**

1. **Introduction and process update**
   - Index team provided general update on project.

2. **Discussion of feedback**
   
   **Preliminary Index Methodology:**
   
   - Discussion on the feedback received and answers provided in the *Consolidated Response to Companies* document.
   - Discussion on the development process of the index methodology, including review of public comments as well as feedback received from Advisory Panel and selected group of expert stakeholders.

   **Project Timeline:**
   
   - Confirmation that final index methodology will be published in conjunction with the final results in September 2020.
   - Discussion of how individual company data sets will be shared with each company on June 15, to offer an opportunity to share selected verifiable data and solve discrepancies.
   - Future index publications planned every two years, in line with other indexes.

3. **Discussion of next steps**
   
   - BAT to provide feedback on the NDA and share research to inform the per stick equivalent calculation.
   - The Index team will share data on June 15.
Philip Morris International (PMI)

First Consultation
Tuesday, March 3, 2020
2:00-3.30PM GMT

Topics Discussed

1. Introduction of team and process
   • All participants on the call introduced themselves.
   • Context was provided for the project.

2. Discussion of feedback

   Preliminary Index Design:
   • Number of countries where reduced-risk products are offered.
   • Idea behind reallocating resources away from cigarettes towards reduced-risk products.
   • Share of reduced-risk and high-risk products as well as associated cost related to sales force marketing expenditure, incentives to retail trade, etc.
   • Marketing codes and company behavior through the evaluation of marketing activity across different companies can increase the subjectivity of the index.
   • Limitations in terms of research of company behavior: transparency and level of commitment are weighted and will be published in conjunction with the final index report.
   • Number of violations of the law and how the company’s marketing code helps to evaluate company’s behavior.
   • Rationale for inclusion of the countries and companies under scope.
   • Price as a complex area, which is influenced by product development and marketing costs. Discussion of how affordable price does not guarantee higher acceptance of switching by current high-risk product users.
   • Different approaches from countries in promoting or providing a favorable legislative framework for reduced-risk products.

   Formal Data Request:
   • Discussion on data quality if not all 15 companies decide to participate and share data.

3. Discussion of next steps
   • Preliminary Index Methodology to be sent in coming weeks.
Second Consultation  
Friday, May 1, 2020  
1:00-2:00PM GMT

Topics Discussed

1. Introduction and process update
   • Index team provided update on project and launch of the website.

2. Discussion of feedback

  Preliminary Index Methodology:
  • Definition of net sales as well as product price used in indicators under Pricing category.
  • Product Portfolio indicators and definition of product category.
  • Countries under scope.

  Industry Consultation Process:
  • Publication of company responses and industry consultation process.
  • Comments in the Consolidated Industry Response document that are not allocated to individual companies but positioned as the Index team’s overall interpretation.
  • Nature of the Industry Consultation document published on the website.

  Formal Data Request:
  • Consolidated data set being shared in June to offer the opportunity for companies to share data or sources in case of discrepancies. The discussion included confirmation that anything shared in this regard by companies would be covered by a non-disclosure agreement.
  • Discussion on how non-publicly available company data will not be published.

3. Discussion of next steps

   • The Index team will share the summary of the consultation, written answers to feedback received, and updated timeline.
Swedish Match

First Consultation

Friday, February 7, 2020
1:00-2:00PM GMT

Topics Discussed

1. Introduction of team and process
   - All participants on the call introduced themselves.
   - Context was provided for the project.
   - Swedish Match stated openness to the index process.

2. Discussion of feedback
   Preliminary Index Design:
   - Difficulty of identifying a robust classification of harm across the different nicotine and tobacco products, given the limited scientific research available.
   - Moist snuff being classified as reduced-risk and differentiated from Asian-style chewing tobacco.
   - Limitations of using nicotine content as a key metric for conversion, as actual intake depends on delivery system.
   - Discussion of how currency conversions would be accounted for, with it being confirmed that local currencies would be used.
   - Discussion of anti-trust issues in regard to sharing pricing and broader unwillingness to share data that is not already publicly available.
   - Concerns about measuring marketing costs: tobacco companies operate in highly regulated markets, thus what would be classified as “marketing” in tobacco is not necessarily comparable with marketing activity in other industries; marketing expenditure on reduced-risk products does not necessarily indicate a long-term, sustainable commitment to industry transformation; marketing expenditure may result in unintended consequences, such as youth and non-smoker initiation.
   - Norway and Sweden offering strong "proof of concept" on reducing demand for cigarettes.
   - Discussion of indicators around low-medium (LMIC) and high-medium income countries (HMIC) and how the score will impact companies that are not present in LMICs.

   Stakeholder Engagement Process:
   - Discussion of the stakeholder engagement process and advisory panel structure.

3. Discussion of next steps
   - Company feedback will be considered in concert with other stakeholder feedback received through the consultation process.
• Detailed design and methodology reports to be released in advance of index publication.
• The Foundation has commissioned a scientific literature review which will inform classification of product types according to relative risk.
• Companies will be given a further opportunity to provide feedback before final questions and weightings are determined.

**Second Consultation**

Tuesday, April 28, 2020
3:00-4:30PM GMT

**Topics Discussed**

1. **Introduction and process update**
   - All participants on the call introduced themselves.
   - An overview was given of industry consultation to date and public disclosure.

2. **Discussion of feedback**

   **Preliminary Index Methodology:**
   - Product definition and per stick equivalent conversion for some categories, particularly cigars.
   - Product differences and classification as high-risk or reduced-risk for chewing tobacco, moist snuff, and snus.
   - Applicability of certain indicators to companies that are not present in low-income countries. It was clarified that the index model will be tested to account for such aspects.

   **Stakeholder Engagement Process:**
   - Stakeholder consultation process and type of stakeholders engaged. It was also communicated that the Stakeholder Engagement report will be available on the Index website in May.

   **Project Timeline:**
   - Discussion on timing of index publication.

3. **Discussion of next steps**

   - The Index team will share the summary of the consultation, written answers to feedback received and updated timeline.
   - Discussion of timeline for data sharing and additional information provided on the process.
**Third Consultation**

Tuesday, August 11, 2020
3:00-4.00PM GMT

**Topics Discussed**

1. **Introduction and process update**
   - An overview was given of timeline and publication of the index.

2. **Discussion of feedback**
   
   Preliminary Data Set:
   - Scoring methodology for qualitative indicators.
   - Marketing and youth prevention policy.
   - Median pricing for cigars and cigarillos in the US.
   - Stakeholder engagement, difference with public policy interactions, and its necessity to be linked to tobacco harm reduction.

   Project Timeline:
   - Confirmation that publication will be in September.

3. **Discussion of next steps**
   - Confirmation the literature review was finalized and products will be weighted within the index according to this scale.
   - After the publication, the Index team will be available to meet with the companies to review findings.