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# 2020 Index Methodology



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## Introduction

The 2020 Tobacco Transformation Index represents the first comprehensive effort to evaluate tobacco companies' commitments and actions as they relate to tobacco harm reduction. Specifically, the 2020 index assesses tobacco companies' activities concerning:

1. Phasing out high-risk tobacco products;
2. Developing and responsibly offering reduced-risk alternatives to support current users to move away from high-risk products;
3. Preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products, especially youth; and,
4. Ensuring consistency of tobacco harm reduction activities across all markets of operation, within regulatory guidelines.

The 2020 index methodology is the result of extensive stakeholder engagement, in-depth research, and expert review. It aims to define the priorities regarding tobacco harm reduction and how companies are expected to contribute.

In developing the methodology, the Index team has adhered to strict principles of transparency and accountability in all its work, including consultation with stakeholders and the tobacco industry on a voluntary basis. The Index team also believes that continuous improvement is essential to enhance the relevance and impact of the index over time, and to further accelerate the reduction of harm caused by tobacco use. With each iteration, we will undertake a thorough review and consult with stakeholders to understand opportunities for improvement of the indicators and the overall index program, with the aim of driving transformation of the target companies and industry as a whole.

### Methodology Development Process

The 2020 Tobacco Transformation Index's Methodology was developed in a structured and iterative manner, involving interactions with numerous stakeholders. During the methodology development process, the Index team collected inputs regarding the feasibility and application of the index, specific topics it should address, and the measures necessary to ensure its research process and outputs will be perceived as objective, credible, and effective. Key milestones in the methodology development process were:

- **Stakeholder Consultation** – Perspectives and opinions from stakeholders representing diverse disciplines, geographies, and backgrounds were sought. Multi-stakeholder dialogues and small-group consultations were held in seven countries between May and October 2019. Beyond the formal dialogue events, additional stakeholders were consulted via extended email exchanges, direct meetings, and phone conversations, in order to gather additional insights and perspectives.
- **Industry Consultation** – Acknowledging the importance of industry participation in order to increase access to information as well as test the feasibility of the indicators, the Index team has

consulted with tobacco companies on a voluntary basis. Ranked companies were given the opportunity to review proposed indicators, methodology (including weighting and per stick equivalent calculation) and the preliminary data used for scoring and ranking their performance. Sharing preliminary data with companies was important to ensure the most accurate and comprehensive picture of company activities and performance. 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.

- **Public Review Period** – In order to enhance the methodology and support ongoing dialogue with stakeholders, the Index team opened the preliminary methodology to public comment on the Tobacco Transformation Index website for a one-month period until May 31, 2020. Several valuable inputs were received and considered by the Index team when finalizing the index methodology.
- **Expert Review** – A selected group of stakeholders with different areas of expertise were identified to provide further written feedback on the preliminary methodology and engage in phone conversations on topics such as relevance of each indicator, weighting, and scoring approach.

## Design Principles

The following key principles were used to guide the development of the 2020 index methodology:

- **Focus and Scope** – The index focuses on measuring and evaluating company activities and performance only as they relate to tobacco harm reduction. Although other environmental, social and governance (ESG) issues are important and may impact a company’s overall performance, they are beyond the scope of this tool. Similarly, the index evaluates company activity in the tobacco and nicotine industry only. Shifting focus and investment to other industries may create certain societal benefits and/or reduce the tobacco-related harm that a company is directly responsible for; however, existing customers may simply migrate to high-risk products offered by other companies or via illicit channels. The index therefore focuses on what companies are (or are not) doing to support an industry-wide transition toward reduced harm, including supporting existing users to either quit or transition to reduced-risk alternatives.
- **Materiality** – Topics and indicators shall be selected and prioritized based on their materiality, or significance, to the goal of tobacco harm reduction and, in turn, the long-term impact and viability of the company. This acknowledges both financial and non-financial concepts of materiality, recognizing that the negative health impacts of tobacco products are a key concern of stakeholders and that a given company’s long-term financial performance will depend partly on its ability to minimize or eliminate such impacts.
- **Ability to Control/Influence** – Indicators should focus on matters that company management has reasonable ability to control or influence. An important principle is that companies should be neither rewarded nor penalized for simply following applicable law.
- **Utility** – Indicators should provide information and insight that is useful for investors and other stakeholders to engage with companies to drive change. The index alone cannot bring about the

desired scale or pace of change in the tobacco industry, nor can it dictate to companies all the actions necessary to effect such change. Rather, it works by providing relevant data and insight to stakeholders who can more directly influence companies.

- **Improvement** – The index recognizes the importance of continuous improvement and the acceleration of change over time. Therefore, where applicable, performance is assessed based on both point-in-time and rate-of-change indicators.
- **Feasibility** – Categories and indicators must be able to be reasonably evaluated based on information obtainable from public reporting, relevant research databases, primary research, and/or verifiable data provided directly by companies.
- **Transparency** – In many areas, the index recognizes the value of transparency in its own right, with indicators evaluating the presence and/or quality of disclosure itself, not just the performance or practices being disclosed. Where such disclosure is insufficient or absent, it will likely affect the scoring for both transparency and the underlying issue being evaluated.
- **Alignment** – To the extent possible, the index’s indicators should be aligned with issues, concepts, and/or measurements prioritized by other relevant frameworks, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) Tobacco Standard. However, it should also be made clear how and where the index differs, and why its approach is necessary and/or creates unique value relative to these other frameworks.

## Index Scope

The 2020 Tobacco Transformation Index assesses the activities and performance of the world's 15 most globally and regionally influential tobacco companies as they pertain to tobacco harm reduction. This includes analyzing and comparing companies' respective product offerings, sales performance, and capital investments for both high-risk tobacco products and reduced-risk alternatives. The 2020 index also compares companies' activities and performance across 36 countries, which are divided into groups of low-medium income (LMIC) and high-medium income (HMIC).

The index scope defines the specific companies, countries, and tobacco products that are covered by the analysis.

### Company Scope

The 2020 index evaluates 15 tobacco companies, of which 9 are publicly listed, three are state-owned, and three are privately held.

Selection of the 15 tobacco companies was based on the evaluation of cigarette volume sales and total net revenue sales in order to ensure that the most important and influential companies were being captured. In 2019, the 15 companies selected accounted for approximately 90% of global tobacco product volume sales.<sup>1</sup> The geographic reach and relevance of product portfolios of nominated companies also acted as secondary selection criteria to guarantee extensive regional representation and a deliberately broad product scope. Considering their size, resources, and the above-mentioned criteria, each of these companies have a globally and/or regionally influential role in shaping current practices within the tobacco industry.

Company	Country	Ownership	Cigarette Volume Sales 2019 (mn sticks)
<b>Altria Group Inc</b>	USA	Publicly traded	104,553.4
<b>British American Tobacco Plc (BAT)</b>	UK	Publicly traded	669,155.3
<b>China National Tobacco Corp (CNTC)</b>	China	State-owned	2,311,433.3
<b>Djarum PT</b>	Indonesia	Privately held	38,395.8
<b>Eastern Co SAE</b>	Egypt	Publicly traded	79,294.6
<b>Gudang Garam Tbk PT</b>	Indonesia	Privately held	87,178.3
<b>Imperial Brands Plc</b>	UK	Publicly traded	219,006.9
<b>ITC Ltd</b>	India	Publicly traded	66,554.0
<b>Japan Tobacco Inc (JTI)</b>	Japan	Publicly traded	475,886.2

<sup>1</sup> Estimate from Tobacco Transformation Index research.

<b>KT&amp;G Corp</b>	South Korea	Publicly traded	80,856.8
<b>Philip Morris International Inc (PMI)</b>	Switzerland	Publicly traded	706,260.2
<b>Swedish Match AB</b>	Sweden	Publicly traded	-
<b>Swisher International Group Inc</b>	USA	Privately held	-
<b>Tobacco Authority of Thailand (TOAT)</b>	Thailand	State-owned	17,840.6
<b>Vietnam National Tobacco Corp (Vinataba)</b>	Vietnam	State-owned	47,412.1

**Source:** Data estimates from Euromonitor International Passport's Tobacco database

**Note:** 'Ownership' refers to the company's majority ownership. Eastern Co SAE is 50.5% owned by the Egyptian Ministry of Investment. ITC Ltd is publicly traded but state enterprises own 24.2% of the company; Japan Tobacco Inc is publicly traded but the Government of Japan owns 33.3% of the company.

## Country Scope

The 2020 index's geographic scope comprises 36 countries spread across all continents, accounting for approximately 85% of the current global population of adult smokers.<sup>2</sup> While the index assesses companies' activities with regard to harm reduction at global level, additional research was performed in the countries under scope to evaluate the consistency of these activities across HMICs and LMICs.

This set of countries was determined using the following three criteria:

- Largest countries by cigarette volume sales (both retail and illicit volumes)
- Largest countries by smoking population
- Representation of different world regions and low-medium income countries

Besides assessing companies on their activities in selected countries, the index profiles each country individually through Country Fact Sheets, in order to provide crucial context and acknowledge the influence of local legislative frameworks on companies' actions.

Country	Type	Cigarettes Volume Sales 2018 (mn sticks)	Retail Cigarettes Volume Sales 2018 (mn sticks)	Illicit Cigarettes Volume Sales 2018 (mn sticks)	Reported No. of Smokers 2018 ('000)
<b>Argentina</b>	HMIC	39,765.6	34,820.4	4,945.2	7,324.3
<b>Australia</b>	HMIC	14,488.1	12,951.8	1,536.2	2,650.8
<b>Bangladesh</b>	LMIC	94,235.7	91,572.9	2,662.9	n/a
<b>Brazil</b>	HMIC	104,183.0	48,291.7	55,891.2	18,244.7
<b>Bulgaria</b>	HMIC	11,915.2	11,228.1	687.1	1,872.4
<b>Canada</b>	HMIC	34,372.8	27,301.5	7,071.3	4,474.0

<sup>2</sup> Euromonitor International. (n.d.). Euromonitor's Passport Tobacco Database. <https://www.euromonitor.com>

<b>China</b>	HMIC	2,466,115.3	2,368,760.3	97,355.0	305,866.6
<b>Egypt</b>	LMIC	100,683.8	96,251.9	4,431.9	17,510.2
<b>Ethiopia</b>	LMIC	8,776.0	6,222.8	2,553.2	n/a
<b>France</b>	HMIC	49,697.0	40,277.4	9,419.6	13,348.2
<b>Germany</b>	HMIC	82,186.0	75,226.1	6,959.9	14,871.5
<b>India</b>	LMIC	108,960.3	82,504.2	26,456.1	58,030.7
<b>Indonesia</b>	LMIC	331,556.1	307,094.1	24,461.9	65,790.9
<b>Italy</b>	HMIC	73,236.9	68,618.2	4,618.8	10,697.2
<b>Japan</b>	HMIC	132,739.3	132,685.0	54.3	18,804.1
<b>Kenya</b>	LMIC	8,136.1	7,301.9	834.3	10,697.2
<b>Mexico</b>	HMIC	35,870.5	29,827.6	6,043.0	15,916.4
<b>Myanmar</b>	LMIC	9,267.1	9,248.0	19.0	n/a
<b>Nigeria</b>	LMIC	22,083.3	17,171.2	4,912.0	10,603.8
<b>Pakistan</b>	LMIC	79,126.4	51,986.9	27,139.4	25,156.4
<b>Philippines</b>	LMIC	72,930.0	64,402.8	8,527.2	15,560.1
<b>Poland</b>	HMIC	47,742.0	42,897.5	4,844.5	7,446.4
<b>Russia</b>	HMIC	258,519.9	236,519.9	22,000.0	38,533.1
<b>Saudi Arabia</b>	HMIC	24,641.0	22,679.0	1,962.0	7,104.6
<b>Singapore</b>	HMIC	2,803.3	2,701.0	102.2	592.1
<b>South Africa</b>	HMIC	22,520.7	16,939.8	5,581.0	7,120.7
<b>South Korea</b>	HMIC	63,990.6	63,350.3	640.3	8,577.6
<b>Spain</b>	HMIC	52,752.9	47,820.5	4,932.4	8,351.8
<b>Sweden</b>	HMIC	5,940.0	5,640.0	300.0	827.9
<b>Switzerland</b>	HMIC	9,740.3	9,209.9	530.4	1,785.6
<b>Thailand</b>	HMIC	41,516.3	39,311.8	2,204.5	11,904.5
<b>Turkey</b>	HMIC	128,405.5	118,541.7	9,863.7	16,055.7
<b>UK</b>	HMIC	34,470.1	30,095.7	4,374.4	7,293.7
<b>Ukraine</b>	LMIC	63,641.7	60,881.7	2,760.0	7,058.7
<b>USA</b>	HMIC	250,468.1	240,888.3	9,579.8	33,952.8
<b>Vietnam</b>	LMIC	98,039.0	80,865.8	17,173.2	15,088.2

**Notes:** (1) Smoking population refers to the number of adult smokers aged 18 years and over – i.e., people who currently use any nicotine product (smoking and/or smokeless tobacco) on a daily or non-daily basis.

(2) LMICs and HMICs are identified based on classifications from the World Bank. Different income groups are identified using gross national income (GNI) per capita, in US dollars, converted from local currency using the World Bank Atlas method. Estimates of GNI are obtained from economists in World Bank country units, and the size of the population is estimated by World Bank demographers from a variety of sources, including the UN's biennial World Population Prospects. In particular, the World Bank currently divides economies into four income groupings: low, lower-middle, upper-middle, and high. For the scope of the index, two main income groups have been identified: LMIC (Low-Middle Income Country): GNI per capita of USD12,375 or less; and HMIC (High-Middle Income Country): GNI per capita of USD12,376 or more.

**Sources:** Data estimates from Euromonitor International Passport's Tobacco database.

## Product Scope

The index focuses on the most popular tobacco product types offered by the companies under review. See *Approach to Scoring* for additional details regarding classification of products as high-risk or reduced-risk.

Product	Type	Definitions
<b>High-Risk Products</b>		
<b>Chewing Tobacco</b>	Smokeless	Chewing tobacco consists primarily of two types of product: Asian-style and US-style available in those specific geographic areas; and other chewing tobacco available in all other markets.
<b>Cigarettes</b>	Combustible	The definition of cigarettes for the purposes of the index is duty-paid, machine-manufactured white-stick products. This product category also includes hand-rolled kretek cigarettes present in Indonesia and other brands of cigarettes that do not use white paper. However, it excludes non-machine-manufactured products such as bidis/beedis (India) and papirosy (Russia), and other smoking products made with tobacco but that either do not resemble cigarettes as recognized in the US or Europe, or those that are not machine-manufactured.
<b>Cigarillos</b>	Combustible	Cigarillos are defined as miniature cigars, with a ring gauge of <29. Ring gauge is usually listed under a brand as Length/Ring and is a number indicating the circumference of the cigar's cross section and is enumerated in sixty-fourths of an inch (64/64 = 1 inch). Length does not matter as much in determining cigarillo vs cigars as some cigarillos can be quite long. However, six inches is the maximum length a cigarillo tends to be.
<b>Cigars</b>	Combustible	Cigars are made of tobacco wrapped in leaf as opposed to paper. The product varies considerably in terms of price, quality, and size. Different terms are used to describe the various types of cigar depending on the country. Cigars generally consist of three sections: the filler, the binder, and the wrapper. Cigars are defined as having ring gauges of 30 or more.
<b>Fine Cut Tobacco</b>	Combustible	Fine Cut tobacco is usually sold in plastic or foil pouches, metal tins or plastic tubs. It can also be flavored.
<b>Moist Snuff</b>	Smokeless	Moist Snuff is either loose or pre-portioned in miniature sized 'teabag' pouches that are placed on the gum and sucked on. Moist snuff is distinguished from Snus by its processing: Moist snuff is fermented; compared to snus which is pasteurized (heat-treated).

Product	Type	Definitions
<b>Pipe Tobacco</b>	Combustible	Western-style pipe tobacco includes cut tobacco sold in packaged format for smoking in pipes and available in pouches, tins, and cans.
<b>Shisha</b>	Combustible	Middle Eastern-style water pipe tobacco is also known as 'shisha', 'hookah', or 'nakhla'. Shisha tobacco is also referred to as molasses tobacco and is moist and sweetly flavored – often with fruit.
<b>Reduced-Risk Products</b>		
<b>Cartridges</b>	Vapor	This product category consists entirely of the sales of pre-filled pods or capsules for use with a non-cig-a-like closed system device. Currently, these are universally proprietary in nature (pods are useable exclusively with a single specific hardware device).
<b>E-liquids</b>	Vapor	E-liquids include nicotine and non-nicotine bottled e-liquids which are decanted by the consumer into a tank for heating and inhalation. E-liquids can have different nicotine levels and flavors.
<b>Heated Tobacco</b>	Vapor	Heat-not-burn devices include products, generally manufactured by major tobacco companies, which allow the consumer to heat rather than combust a tobacco product. Heated tobacco is the consumable element of heat-not-burn devices, which comes in the form of pods or in specially designated cigarette sticks.
<b>Non-Tobacco Nicotine Pouches</b>	Smokeless	Non-tobacco nicotine pouches are manufactured in a similar way to snus using ingredients such as filler, flavors, stabilizers, and nicotine but do not contain tobacco.
<b>NRT Products</b>	Smokeless	Nicotine-based products such as gum, lozenges, patches, and inhalators used to aid smoking cessation. It also includes nicotine-based products sold as capsules, micro-tabs, or sprays.
<b>Snus</b>	Smokeless	Snus is either loose or pre-portioned in miniature sized 'teabag' pouches that are placed on the gum and sucked on. Snus is distinguished from Moist snuff by its processing: Snus is pasteurized (heat-treated); compared to moist snuff which is fermented.

# Index Methodology

The 2020 Tobacco Transformation Index evaluates companies' activities and performance against 35 indicators across six distinct measurement categories, exploring several facets of company behavior relevant to tobacco harm reduction.

The index is a relative ranking, meaning companies are compared to each other rather than against an ideal state. The focus of the index is on differentiating between companies to increase competition and accelerate transformation, in the same way that other indexes have operated.

## Measurement Categories

The 2020 index consists of six measurement categories, each covering a distinct area of corporate activity and/or performance related to tobacco harm reduction. Each category is further broken down into subcategories which are measured based on quantifiable indicators.

## Indicators

The methodology includes 35 indicators that characterize a given company's activities and performance in multiple areas. Each indicator has been included based on its relevance, feasibility, and materiality. For purposes of assessing companies, each indicator is resolved to a numeric value based on analysis of relevant quantitative and/or qualitative metrics.

## Strategic Pillars

Each indicator is linked to one of three strategic pillars in order to provide a fully rounded view of each company's approach to transformation. The three pillars are defined as follows:

- **Commitment:** Addresses the extent to which the company has incorporated the goal of tobacco harm reduction into its vision and strategy, its internal policies and codes of conduct, and its public stance and subsequent action.
- **Performance:** Addresses the company's quantifiable progress in phasing out high-risk tobacco products, along with performance and investments associated with reduced-risk alternatives. Associated indicators represent the tangible results of the company's strategy.
- **Transparency:** Addresses the company's disclosure of information necessary for stakeholders to effectively monitor and evaluate its commitment and performance.

## Scoring

Indicators are distilled and translated into a single score for each category and subcategory, and the overall index, using a transparent and balanced system of weights, metrics, and scoring.

- **Weight:** Each technical category, subcategory, and indicator is assigned a relative weight which represents its significance with regard to tobacco harm reduction.
- **Metrics:** Each Commitment and Transparency indicator has metrics against which the company's performance are scored. These metrics identify the necessary requirements the companies need to satisfy to achieve a full score for each indicator. Where the company is asked

to fulfil more than one requirement to get a full score, the metrics description includes an ‘AND’ in capital letters to separate those requirements. Performance indicators are normalized and scored on a relative basis.

- **Score:** The company is assigned a score for each indicator based on its performance against the specified metrics, normalization process, and any other adjustments, which is then calibrated according to the relative weight assigned. Quantitative indicators

Additional details are provided under *Approach to Scoring*.

## Summary Table

Category		Weight	Sub-Category		Weight
1	Strategy and Management	10%	1A	Vision and Management Systems	80%
			1B	Stakeholder Engagement	20%
2	Product Sales	35%	2A	Volume Sales of Tobacco Products	80%
			2B	Value Sales of Tobacco Products	20%
3	Capital Allocation	25%	3A	Capital Allocation	100%
4	Product Offer	10%	4A	Product Portfolio	80%
			4B	Pricing	20%
5	Marketing	15%	5A	Marketing Policy	55%
			5B	Marketing Compliance	30%
			5C	Marketing Expenditure	15%
6	Lobbying and Advocacy	5%	6A	Lobbying and Advocacy	100%

The sections below provide details on each category and subcategory and the individual indicators within them.

Each section also identifies comparable indicators and/or measurement areas in other relevant reporting frameworks, such as the Sustainability Accounting Standards Board (SASB) Tobacco Standard, the Global Reporting Initiative (GRI), and the SAM Corporate Sustainability Assessment, as used by the Dow Jones Sustainability Indices (DJSI). Additional details can be found under Comparison with Other Indices and Frameworks, in the Appendix.

# 1 Strategy and Management

Tobacco harm reduction is more likely to be prioritized if a company has made a well-defined commitment that is integrated with its core business strategy, with clear accountability rooted at the top of the organization. Effective strategy and management are further demonstrated by companies that set clear goals, track performance, and disclose pertinent details to all stakeholders. Robust stakeholder engagement and public reporting of its results also enhance accountability and effectiveness.

## 1A Vision and Management Systems

Assesses whether the company has made a specific commitment to tobacco harm reduction and how this is embedded within its business strategy and management systems.

1A.1	Harm Reduction Strategy
<b>Description</b>	Commitment to phase out high-risk tobacco products and responsibly develop and offer reduced-risk alternatives
<b>Rationale</b>	A clear commitment and comprehensive strategy signal that tobacco harm reduction is a strategic priority for the company.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company acknowledges its role in, AND<sup>3</sup> states a formal commitment to reducing, tobacco-related death and disease</li> <li>– Company has a policy or mission statement to phase out high-risk tobacco products AND offer reduced-risk product alternatives</li> <li>– Company links its overall competitive strategy/future outlook to tobacco harm reduction by providing a comprehensive explanation of its business risks and opportunities</li> <li>– Company sets measurable AND time-bound goals and/or targets for tobacco harm reduction</li> </ul>
<b>Pillar</b>	Commitment
<b>Weight</b>	25%

1A.2	Disclosure of Harm Reduction Targets and Performance
<b>Description</b>	Public reporting on specific targets and performance in achieving tobacco harm reduction
<b>Rationale</b>	Transparent reporting of harm reduction targets and performance enables company accountability and enhances visibility for all stakeholders.

<sup>3</sup> When the metrics description include an ‘AND’ in capital letters, the company needs to satisfy two different requirements to receive the full score.

<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company regularly reports on its performance against tobacco harm reduction objectives, <b>AND</b> includes quantitative evidence of progress achieved</li> <li>– Company provides a detailed explanation of strengths, weaknesses, and implications/outcomes of its performance on harm reduction objectives</li> <li>– Company hires independent auditors to verify its performance in relation to tobacco harm reduction</li> </ul>
<b>Pillar</b>	Transparency
<b>Weight</b>	25%

<b>1A.3</b>	<b>Governance and Management Systems</b>
<b>Description</b>	Accountability structure and governance mechanisms within the company for achieving tobacco harm reduction objectives
<b>Rationale</b>	Senior-level accountability and integration of tobacco harm reduction into a company’s management system increases the likelihood that related strategy(ies) will be prioritized and effectively implemented.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company’s tobacco harm reduction policy and strategy are prioritized at board and/or senior level <b>AND</b> responsibility has been specifically assigned to senior leaders or committee(s)</li> <li>– Company’s strategic and day-to-day responsibilities and decision-making processes for tobacco harm reduction have been clearly defined within multiple levels of management, corporate functions, and/or geographies</li> </ul>
<b>Pillar</b>	Commitment
<b>Weight</b>	25%

<b>1A.4</b>	<b>Performance Management and Incentives</b>
<b>Description</b>	Performance incentives for achieving tobacco harm reduction objectives
<b>Rationale</b>	Monetary or other incentives encourage senior decision-makers to appropriately prioritize and ensure the company’s harm reduction objectives are met.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Incentives/remuneration to senior leaders and/or board members are linked to implementation of tobacco harm reduction policies <b>AND</b> there are no incentives/remuneration linked to high-risk tobacco products sales</li> <li>– Company discloses details of any incentives/remuneration to senior leaders and/or board members specifically linked to tobacco harm reduction</li> </ul>
<b>Pillar</b>	Commitment
<b>Weight</b>	25%

## Comparison to Other Reporting Frameworks

- **SASB Tobacco Standard** – Under Public Health, indicator code FB-TB-260a.2 stipulates that disclosures should include “discussion of the process to assess risks and opportunities associated with ‘tobacco harm reduction’ products.”<sup>4</sup>
- **Global Reporting Initiative** – GRI 102-16 requires “a description of the organization’s values, principles, standards, and norms of behavior.”<sup>5</sup> GRI 102-26 specifies the importance of reporting senior executive engagement, and GRI 102-35 extends this to remuneration requiring reporting on “how performance criteria in the remuneration policies relate to the highest governance body’s and senior executives’ objectives for economic, environmental, and social topics.”<sup>6</sup>

## 1B Stakeholder Engagement

Assesses how the wider viewpoints and interests of stakeholders are incorporated when developing and implementing harm reduction strategies to achieve transformation, and how these activities are disclosed.

1B.1	Stakeholder Engagement
<b>Description</b>	Clear systems for selecting stakeholders and incorporating insight focused on harm reduction
<b>Rationale</b>	Robust stakeholder engagement enhances accountability and ensures the company is fully aware of the potential impact of its policies and plans.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company states recognition of the benefits of stakeholder dialogue to inform its tobacco harm reduction strategy and activities, <b>AND</b> publicly commits to engage with its stakeholders on tobacco harm reduction</li> <li>– Company defines systems for identifying, consulting, and incorporating feedback from stakeholders in relation to tobacco harm reduction, <b>AND</b> engages with stakeholders such as public health experts, NGOs, academics, and/or other external stakeholders on a regular basis</li> </ul>
<b>Pillar</b>	Commitment
<b>Weight</b>	50%

<sup>4</sup> SASB. (2018). Tobacco Sustainability Accounting Standard.

<sup>5</sup> Global Sustainability Standards Board (GSSB). (n.d.). *GRI Standards*.

<sup>6</sup> Ibid.

1B.2	Disclosure of Stakeholder Engagement
<b>Description</b>	Disclosure of stakeholder engagement activities related to tobacco harm reduction
<b>Rationale</b>	Effective disclosure further enhances accountability and enables stakeholders to evaluate the robustness and influence of engagement activities.
<b>Metrics</b>	– Company discloses stakeholder engagement specifically related to tobacco harm reduction <b>AND</b> provides details such as principles of engagement, key topics, and outcomes
<b>Pillar</b>	Transparency
<b>Weight</b>	50%

### Comparison to Other Reporting Frameworks

- **Global Reporting Initiative** – GRI Disclosures 102-40, 102-42, 102-43, and 102-44 require reporting on stakeholder engagement, including documenting all engagements, how the participants were identified, how they were approached, and the topics discussed.<sup>7</sup>

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<sup>7</sup> Ibid.

## 2 Product Sales

Product sales strike at the heart of the index, as the level of harm is directly related to the type and volume of products that a company sells. The index therefore seeks evidence that companies are phasing out, as rapidly as possible and across all markets, sales of cigarettes and other high-risk products, and displacing them through sales of appropriate reduced-risk alternatives. Reducing dependence on revenues from high-risk products also demonstrates progress in tobacco harm reduction.

### 2A Volume Sales of Tobacco Products

Assesses volume sales of high-risk tobacco products in proportion to sales of reduced-risk alternatives, including rates of change. Also assesses consistency of performance across low-medium and high-medium income countries, if applicable.

2A.1	Volume Sales of High-Risk Products
<b>Description</b>	Volume sales of high-risk tobacco products (last financial year: 2019)
<b>Rationale</b>	Lower volume sales of high-risk products (relative to other companies) reflect less contribution to ongoing tobacco-related harm.
<b>Pillar</b>	Performance
<b>Weight</b>	5%
<b>Addl. Scoring Elements<sup>8</sup></b>	Relative Risk Assessment, Per Stick Equivalent Conversion

2A.2	Volume Sales of High-Risk Products – Rate of Change
<b>Description</b>	Evolution in volume sales of high-risk tobacco products (last three financial years: 2017, 2018, 2019) <sup>9</sup>
<b>Rationale</b>	Declining volume sales of high-risk products (relative to other companies) reflect a decreasing contribution to ongoing tobacco-related harm.
<b>Pillar</b>	Performance
<b>Weight</b>	5%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, Per Stick Equivalent Conversion, LMIC vs HMIC Multiplier

<sup>8</sup> See *Approach to Scoring* for details on additional scoring elements denoted here.

<sup>9</sup> Rate of change is always calculated using the absolute difference between values in 2017 and 2019.

2A.3	Ratio of Volume Sales (Reduced-Risk vs High-Risk Products)
<b>Description</b>	Ratio of volume sales of reduced-risk alternatives to high-risk tobacco products (last financial year: 2019)
<b>Rationale</b>	A higher ratio of volume sales of reduced-risk products to high-risk products (relative to other companies) reflects a greater degree of transformation, as well as potential progress in transitioning consumers away from high-risk products.
<b>Pillar</b>	Performance
<b>Weight</b>	45%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, Per Stick Equivalent Conversion, LMIC vs HMIC Multiplier

2A.4	Ratio of Volume Sales (Reduced-Risk vs High-Risk Products) – Rate of Change
<b>Description</b>	Evolution of the ratio of volume sales of reduced-risk alternatives to high-risk tobacco products (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher rate of change away from high-risk products (relative to other companies) reflects greater progress toward transformation, as well as potential progress in transitioning consumers away from high-risk products.
<b>Pillar</b>	Performance
<b>Weight</b>	45%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, Per Stick Equivalent Conversion, LMIC vs HMIC Multiplier

## Comparison to Other Reporting Frameworks

- **SASB Tobacco Standard** – Under Activity Metrics, indicator code BF-TB-000.A stipulates reporting of volume sales of combustible and non-combustible products. Combustible products are defined to include cigarettes, cigars, and other smoked tobacco products. Non-combustible products are defined to include traditional smokeless tobacco, non-tobacco nicotine products, heated tobacco products, and nicotine replacement therapy products.<sup>10</sup>

<sup>10</sup> SASB. (2018). Tobacco Sustainability Accounting Standard.

## 2B Value Sales of Tobacco Products

Assesses value sales of high-risk tobacco products in proportion to sales of reduced-risk alternatives, including rates of change. Also assesses consistency of performance across low-medium and high-medium income countries, if applicable.

2B.1	Value Sales of High-Risk Products
<b>Description</b>	Net value sales <sup>11</sup> of high-risk tobacco products (last financial year: 2019)
<b>Rationale</b>	Lower value sales of high-risk products (relative to other companies) reflect less dependence on revenues from high-risk products.
<b>Pillar</b>	Performance
<b>Weight</b>	5%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, LMIC vs HMIC Multiplier

2B.2	Value Sales of High-Risk Products – Rate of Change
<b>Description</b>	Evolution in net value sales of high-risk tobacco products (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	Declining value sales of high-risk products (relative to other companies) reflect decreasing dependence on revenues from high-risk products, as well as potential progress in transitioning consumers away from high-risk products.
<b>Pillar</b>	Performance
<b>Weight</b>	5%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, LMIC vs HMIC Multiplier

2B.3	Ratio of Value Sales (Reduced-Risk vs High-Risk Products)
<b>Description</b>	Ratio of net value sales of reduced-risk alternatives to high-risk tobacco products (last financial year: 2019)
<b>Rationale</b>	A higher ratio of value sales of reduced-risk products versus high-risk products (relative to other companies) reflects a greater degree of transformation, as well as potential progress in transitioning consumers from high-risk products to reduced-risk alternatives.
<b>Pillar</b>	Performance
<b>Weight</b>	45%

<sup>11</sup> Net value sales refer to gross sales minus applicable sales returns, allowances, and discounts. Gross sales do not include cost of goods sold, operating expenses, excise tax expenses, or other charges.

<b>Addl. Scoring Elements</b>	Relative Risk Assessment, LMIC vs HMIC Multiplier
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<b>2B.4</b>	<b>Ratio of Value Sales (Reduced-Risk vs High-Risk Products) – Rate of Change</b>
<b>Description</b>	Evolution of the ratio of net sales of reduced-risk alternatives to high-risk tobacco products (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher rate of change away from high-risk products (relative to other companies) reflects greater progress toward transformation, as well as potential progress in transitioning consumers from high-risk products to reduced-risk alternatives.
<b>Pillar</b>	Performance
<b>Weight</b>	45%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, LMIC vs HMIC Multiplier

## Comparison to Other Reporting Frameworks

- **SASB Tobacco Standard** – Under Public Health, indicator code BF-TB-260a.1 stipulates separate reporting of: (1) gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products.<sup>12</sup> Combustible products are defined to include cigarettes, cigars, and other smoked tobacco products. Non-combustible products are defined to include traditional smokeless tobacco, non-tobacco nicotine products, heated tobacco products, and nicotine replacement therapy products.
- **Global Reporting Initiative** – GRI 201-1 requires the reporting of financial information.<sup>13</sup>
- **SAM Corporate Sustainability Assessment** – Requires companies to report revenues.<sup>14</sup>

<sup>12</sup> SASB. (2018). Tobacco Sustainability Accounting Standard.

<sup>13</sup> Global Sustainability Standards Board (GSSB). (n.d.). *GRI Standards*.

<sup>14</sup> S&P Dow Jones. (2019). Dow Jones Sustainability Diversified Indices – Index Methodology. Retrieved August 10, 2020, from [https://www.spglobal.com/spdji/en/documents/methodologies/methodology-dj-sustainability-diversified-indices.pdf?force\\_download=true](https://www.spglobal.com/spdji/en/documents/methodologies/methodology-dj-sustainability-diversified-indices.pdf?force_download=true)

S&P Global. (2020). *SAM Corporate Sustainability Assessment (CSA) Weights Overview 2020*.

### 3 Capital Allocation

How a company allocates capital – to research and development (R&D), infrastructure, and mergers and acquisitions (M&A) – demonstrates where it hopes to operate in the future. In particular, the degree to which it invests in reduced-risk products versus high-risk products signals the extent to which it anticipates a future shaped by tobacco harm reduction, even though the outcomes and effectiveness of these investments are uncertain. Company investments outside the tobacco industry are considered out of scope of the index.

#### 3A Capital Allocation

Assesses companies' performance in allocating resources away from high-risk products and toward reduced-risk alternatives.

3A.1	M&A Expenditure on High-Risk Products
<b>Description</b>	M&A expenditure related to high-risk products over the last three years as a share of net sales (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher level of M&A expenditure related to high-risk products (relative to other companies) implies the company is investing in developing the market for high-risk products, undermining tobacco harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	6%

3A.2	Ratio of M&A Expenditure (Reduced-Risk vs High-Risk Products)
<b>Description</b>	Ratio of M&A expenditure on reduced-risk alternatives to high-risk products over the last three years (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher ratio of M&A expenditure related to reduced-risk versus high-risk products (relative to other companies) indicates a potential structural shift supporting tobacco harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	10%

3A.3	R&D Expenditure on High-Risk Products
<b>Description</b>	R&D expenditure related to high-risk products as a share of net sales (excluding expenditure related to legal compliance requirements; last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher level of R&D expenditure related to high-risk products (relative to other companies) implies the company is investing in developing the market for high-risk products, undermining harm reduction.

<b>Pillar</b>	Performance
<b>Weight</b>	10%

<b>3A.4</b>	<b>Ratio of R&amp;D Expenditure (Reduced-Risk vs High-Risk Products)</b>
<b>Description</b>	Ratio of R&D expenditure on reduced-risk alternatives to high-risk products over the last three years (excluding expenditure related to legal compliance requirements; last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher ratio of R&D expenditure related to reduced-risk versus high-risk products indicates a potential structural shift supporting tobacco harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	32%

<b>3A.5</b>	<b>Capital Expenditure on High-Risk Products</b>
<b>Description</b>	Capital expenditure related to high-risk products as a share of net sales (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher level of capital expenditure related to high-risk products (compared to other companies) implies the company is investing in developing the market for high-risk products, undermining harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	10%

<b>3A.6</b>	<b>Ratio of Capital Expenditure (Reduced-Risk vs High-Risk Products)</b>
<b>Description</b>	Ratio of capital expenditure on reduced-risk alternatives to high-risk products over the last three years (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher ratio of capital expenditure related to reduced-risk versus high-risk products (compared to other companies) indicates a potential structural shift supporting tobacco harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	32%

## 4 Product Offer

The types of products companies choose to offer and the prices they sell them for are two key factors that shape the landscape consumers face as they consider tobacco products with varying degrees of risk. Reducing high-risk tobacco products on offer and refraining from pricing strategies that encourage sales of these products are critical to support tobacco harm reduction. The responsible introduction of affordable reduced-risk alternatives could help adult smokers transition away from high-risk tobacco products and potentially quit altogether. These efforts should be applied across low-medium and high-medium income countries where a company operates, within local regulatory guidelines.

### 4A Product Portfolio

**Assesses the provision of reduced-risk alternative products, which may enable consumers to migrate away from high-risk tobacco products. The evaluation is made across countries and via a comparison of low-medium and high-medium income countries.**

4A.1	Ratio of Number of Countries (Reduced-Risk vs High-Risk Products)
<b>Description</b>	Ratio of number of countries where reduced-risk product categories are offered to the number of countries where high-risk product categories are offered (last financial year: 2019)
<b>Rationale</b>	A higher ratio of countries where reduced-risk products are offered (relative to other companies) reflects greater progress in making reduced-risk alternatives available across all markets where the company operates.
<b>Pillar</b>	Performance
<b>Weight</b>	25%
<b>Addl. Scoring Elements</b>	LMIC vs HMIC Multiplier

4A.2	Ratio of Number of Countries (Reduced-Risk vs High-Risk Products) – Rate of Change
<b>Description</b>	Evolution of ratio of number of countries where reduced-risk product categories are offered to the number of countries where high-risk product categories are offered (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	Increasing the ratio of countries where reduced-risk products are offered (relative to other companies) reflects greater progress in making reduced-risk alternatives available across all markets where the company operates.
<b>Pillar</b>	Performance
<b>Weight</b>	25%

<b>Addl. Scoring Elements</b>	LMIC vs HMIC Multiplier
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<b>4A.3</b>	<b>Ratio of Product Portfolio (Reduced-Risk vs High-Risk Products)</b>
<b>Description</b>	Ratio of number of reduced-risk product categories to high-risk product categories in global product portfolio (last financial year: 2019)
<b>Rationale</b>	A larger portfolio of reduced-risk compared to high-risk products (relative to other companies) reflects greater progress toward transformation and increases the available options for consumers to migrate away from high-risk tobacco products.
<b>Pillar</b>	Performance
<b>Weight</b>	25%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, LMIC vs HMIC Multiplier

<b>4A.4</b>	<b>Ratio of Product Portfolio (Reduced-Risk vs High-Risk Products) – Rate of Change</b>
<b>Description</b>	Evolution of ratio of number of reduced-risk product categories to high-risk product categories in global product portfolio (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	Increasing the ratio of reduced-risk products compared to high-risk products (relative to other companies) reflects greater progress toward transformation.
<b>Pillar</b>	Performance
<b>Weight</b>	25%
<b>Addl. Scoring Elements</b>	Relative Risk Assessment, LMIC vs HMIC Multiplier

### Comparison to Other Reporting Frameworks

- **SASB Tobacco Standard** – Under Public Health, indicator FB-TB-260a.2 stipulates that the entity should discuss “scope, success, and growth plans related to its current ‘tobacco harm reduction’ product portfolio and, where relevant, its plans to introduce future products and product categories.”<sup>15</sup>

<sup>15</sup> SASB. (2018). Tobacco Sustainability Accounting Standard.

## 4B Pricing

Assesses the affordability of reduced-risk alternatives to high-risk products by company. Affordability is assessed across geographies, including a comparison of low-medium and high-medium income countries.

4B.1	Ratio of Average Lowest Price (Reduced-Risk vs High-Risk Products)
<b>Description</b>	Average of comparison between lowest retail price of reduced-risk alternatives with that of high-risk products across all countries of operation under review (last financial year: 2019)
<b>Rationale</b>	A lower ratio of average lowest price between reduced-risk and high-risk products (relative to other companies) decreases the potential for price to be a barrier to consumers transitioning to reduced-risk alternatives.
<b>Pillar</b>	Performance
<b>Weight</b>	50%
<b>Addl. Scoring Elements</b>	Per Stick Equivalent Conversion

4B.2	Ratio of Average Lowest Price (Reduced-Risk vs High-Risk Products) – Rate of Change
<b>Description</b>	Evolution of average of comparison between lowest retail price of reduced-risk alternatives to high-risk products across all countries of operation under review (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A declining ratio of average lowest price between reduced-risk and high-risk products (relative to other companies) reflects greater progress in improving accessibility of reduced-risk alternatives, in order to support consumers in transitioning away from high-risk products.
<b>Pillar</b>	Performance
<b>Weight</b>	50%
<b>Addl. Scoring Elements</b>	Per Stick Equivalent Conversion

### Comparison to Other Reporting Frameworks

- **World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC)** – The FCTC Indicator Compendium encourages parties (countries) to track “retail price of a pack of the most widely sold brand of tobacco product”.<sup>16</sup> This is related to Article 6, which covers price and tax measures to reduce demand for tobacco.

<sup>16</sup> FCTC. (2003). WHO Framework Convention on Tobacco Control. Switzerland: WHO Document Production Services.

## 5 Marketing

Tobacco companies rely heavily on marketing activity. Tobacco harm reduction requires companies to develop and implement responsible marketing practices which should include a focus on preventing any tobacco product uptake by non-smokers, clear health risk communication, and avoidance of misleading advertising. The disclosure of any breaches of such a policy reinforces transparency. As part of a harm reduction trajectory, it is expected that expenditures on marketing of high-risk products will contract over time, both in absolute terms and in proportion to expenditures on marketing of reduced-risk products.

### 5A Marketing Policy

Assesses how the company’s marketing policy supports a transition away from high-risk tobacco products, while also mitigating potential unintended consequences of new alternatives.

5A.1	Marketing Policy
<b>Description</b>	Presence, content, and robustness of internal marketing policy
<b>Rationale</b>	A robust internal marketing policy with a focus on health-risk communication, non-misleading advertising, and preventing new user adoption helps address regulatory gaps and ensure the company responsibly contributes to tobacco harm reduction.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company has a marketing policy including well-defined principles <b>AND</b> specific practical guidance and procedures</li> <li>– Marketing policy includes specific provisions concerning health warnings <b>AND</b> advertising</li> <li>– Company provides guidance and procedure for specific marketing channels such as in-store, television, radio, print media, billboards, and social media</li> <li>– Marketing policy effectively covers all product types, including reduced-risk products</li> <li>– Company outlines clear procedures for monitoring and responding to complaints and/or reported violations of marketing policy</li> <li>– Company trains customers/retailers/other trade partners on marketing policy <b>AND</b> provides evidence such as the number of sessions and/or number of representatives trained</li> </ul>
<b>Pillar</b>	Commitment
<b>Weight</b>	25%

5A.2	Disclosure of Marketing Policy Violations
<b>Description</b>	Publication of reported violations and established breaches of the company's marketing policy
<b>Rationale</b>	Disclosure of reported violations of the company's marketing policy and any actions taken in response enhances accountability.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company discloses numbers <b>AND</b> details of reported violations, and established breaches of the company's marketing policy</li> <li>– Company discloses outcomes of investigations and/or remediation of marketing violations</li> <li>– Company audits compliance regularly with external auditor <b>AND</b> a statement is published communicating the level of compliance</li> </ul>
<b>Pillar</b>	Transparency
<b>Weight</b>	25%

5A.3	Youth Access Prevention Policy
<b>Description</b>	Presence, content, and robustness of youth access prevention policy
<b>Rationale</b>	Effective youth access prevention policies help reduce the risk of new adoption of any tobacco or nicotine products by young people.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company addresses youth access prevention with principles <b>AND</b> practical guidance and procedure</li> <li>– Policy covers all product types or provides extra guidance for reduced-risk products</li> <li>– Company outlines clear procedures for monitoring and responding to complaints and/or reported violations of youth access prevention policy</li> <li>– Company trains customers/retailers/other trade partners on youth access prevention policy <b>AND</b> provides evidence of this such as the number of sessions and/or number of representatives trained</li> </ul>
<b>Pillar</b>	Commitment
<b>Weight</b>	25%

5A.4	Disclosure of Youth Access Prevention Policy Violations
<b>Description</b>	Publication of reported violations and established breaches of the youth (and other vulnerable segments of the population) access prevention policy
<b>Rationale</b>	Disclosure of reported violations of the company's youth access prevention policy and any actions taken in response enhances accountability.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company discloses numbers <b>AND</b> details of reported violations and established breaches of the company's youth access prevention measures</li> </ul>

	– Company audits compliance regularly with external auditor <b>AND</b> a statement is published for the level of compliance.
<b>Pillar</b>	Transparency
<b>Weight</b>	25%

## Comparison to Other Reporting Frameworks

- **SASB Tobacco Standard** – Under codes FB-TB-270a.1 and FB-TB-270a.2, SASB requires analysis of advertising, promotion, and packaging against international standards, principally the World Health Organization FCTC (Articles 11 and 13).<sup>17</sup> Article 11 puts restrictions on packaging and labeling, while Article 13 stipulates bans on advertising, promotion, and sponsorship to which tobacco companies must adhere, as implemented by national governments.
- **Global Reporting Initiative** – GRI 417: Marketing and Labeling requires reporting of approaches to marketing and disclosures of non-compliance with regulations or voluntary policies. In relation to this, GRI 419 also highlights the need to report non-compliance.<sup>18</sup>

## 5B Marketing Compliance

**Assesses company’s disclosure of violation cases of any applicable law for tobacco control associated with marketing, labeling, and advertising.**

5B.1	Disclosure of Violations
<b>Description</b>	Disclosure of cases of violation of any applicable law for tobacco control associated with marketing, labeling, and advertising
<b>Rationale</b>	Public disclosure of marketing regulatory violations demonstrates accountability and may help prevent future violations.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company discloses numbers <b>AND</b> details of reported breaches of marketing laws</li> <li>– Company discloses remediation of reported violation of marketing laws</li> </ul>
<b>Pillar</b>	Transparency
<b>Weight</b>	100%
<b>Addl. Scoring Elements</b>	None

<sup>17</sup> SASB. (2018). Tobacco Sustainability Accounting Standard.

<sup>18</sup> Global Sustainability Standards Board (GSSB). (n.d.). *GRI Standards*.

## Comparison to Other Reporting Frameworks

- **SASB Tobacco Standard** –Under Marketing Practices, indicator FB-TB-270a.1 requires disclosure of “total amount of monetary losses as a result of legal proceedings associated with marketing, labeling, and/or advertising practices.”<sup>19</sup>

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<sup>19</sup> SASB. (2018). Tobacco Sustainability Accounting Standard.

## 5C Marketing Expenditure

Assesses the marketing spend on high-risk products, both in absolute terms and in proportion to expenditures on marketing of reduced-risk products.

5C.1	Marketing Expenditure on High-Risk Products
<b>Description</b>	Marketing spend (including discounting) on high-risk products as a share of net sales (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher level of marketing expenditure related to high-risk products (compared to other companies) reflects greater focus on encouraging consumption of high-risk products, undermining harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	20%

5C.2	Ratio of Marketing Expenditure (Reduced-Risk vs High-Risk Products)
<b>Description</b>	Ratio of marketing spend (including discounting) on reduced-risk alternatives to high-risk tobacco products (last three financial years: 2017, 2018, 2019)
<b>Rationale</b>	A higher ratio of marketing spend related to reduced-risk products versus high-risk products (compared to other companies) reflects greater focus tobacco harm reduction.
<b>Pillar</b>	Performance
<b>Weight</b>	80%

## 6 Lobbying and Advocacy

Public policy engagement is important in shaping an environment that supports effective tobacco harm reduction. However, given the tobacco industry’s significant trust deficit, it is essential for companies to disclose their activities and resources used for lobbying and advocacy, and ensure transparency of all engagement with state actors.

### 6A Lobbying and Advocacy

Assesses a company’s disclosure of positions related to tobacco harm reduction, as well as lobbying and advocacy memberships, financial contributions, and related activities.

6A.1	Disclosure of Policy Positions
<b>Description</b>	Disclosure of policy positions related to tobacco harm reduction
<b>Rationale</b>	Disclosure of policy positions enhances accountability and increases stakeholders’ knowledge and insight about the company’s approach to tobacco harm reduction.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company has a policy on lobbying/engaging on public policy issues <b>AND</b> it applies to lobbyists and third parties paid by the company</li> <li>– Company commits to proactively engage with governments, political parties, policymakers, and policymaking bodies in support of harm reduction <b>AND</b> commits to not engage on policy that undermines harm reduction</li> <li>– Company discloses main policy positions related to tobacco harm reduction and any potential conflicts of interest</li> </ul>
<b>Pillar</b>	Performance
<b>Weight</b>	50%

6A.2	Disclosure of Lobbying and Advocacy Activities
<b>Description</b>	Disclosure of lobbying and advocacy memberships, financial contributions, and related activities
<b>Rationale</b>	Transparency in political engagement allows scrutiny of whether the company’s public stances and engagement activities align, and how the company seeks to influence policies related to tobacco harm reduction.
<b>Metrics</b>	<ul style="list-style-type: none"> <li>– Company discloses involvement with lobbyists (individuals or groups) and other organizations that lobby on behalf of company and does it in all jurisdictions</li> <li>– Company discloses subject matter of lobbying activities <b>AND</b> outcomes being sought</li> </ul>
<b>Pillar</b>	Transparency
<b>Weight</b>	50%

## Comparison to Other Reporting Frameworks

- **Global Reporting Initiative** – GRI 102-13 requires the provision of “a list of the main memberships of industry or other associations, and national or international advocacy organizations.”<sup>20</sup> GRI 415 requires the reporting of participation in public policy development and lobbying, and the associated stances taken.<sup>21</sup>
- **SAM Corporate Sustainability Assessment** – Analyzes Policy Influence in terms of how much a company does and how transparent it is in disclosing activities. It specifically evaluates the amount of money companies allocate to organizations whose primary role is to influence public policy.<sup>22</sup>
- **WHO Framework Convention on Tobacco Control** – Addresses topic from the viewpoint of regulators, stating in Article 5.3 that “Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law.”<sup>23</sup> “Parties” in this context refers to countries.

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<sup>20</sup> Sustainability Standards Board (GSSB). (n.d.). *GRI Standards*.

<sup>21</sup> Global Sustainability Standards Board (GSSB). (n.d.). *GRI Standards*.

<sup>22</sup> S&P Dow Jones. (2019). Dow Jones Sustainability Diversified Indices – Index Methodology. Retrieved August 10, 2020, from <https://www.spglobal.com/spdji/en/documents/methodologies/methodology-dj-sustainability-diversified-indices.pdf>

S&P Global. (2020). SAM Corporate Sustainability Assessment (CSA) Weights Overview 2020.

<sup>23</sup> FCTC. (2003). *WHO Framework Convention on Tobacco Control*. Switzerland: WHO Document Production Services.

## Approach to Scoring

This section describes the process in identifying the main elements of the scoring, weighting, and aggregation system, used in the calculation of each company's score.

### Weighting

The ambitious objective of the Tobacco Transformation Index requires evaluation of multiple, diverse aspects of companies' behavior and actions related to tobacco harm reduction. In light of this complexity, the Index team undertook a wide and comprehensive evaluation of different methodologies in order to identify the most appropriate approach. The conclusion of this investigation was that the index criteria should be formulated via a composite approach, with two methodologies working in tandem:

- Stakeholder Consultation
- Analytical Hierarchical Process (AHP)

### Stakeholder Consultation

The Index team has consulted a wide range of stakeholders through multilateral and bilateral engagements across the world. The approach provided a participative, transparent, and flexible method of identifying elements to include in the index to evaluate companies' actions and the relative significance of these elements to achieve tobacco harm reduction. Stakeholders attending engagements were encouraged not only to offer insight on categories of information considered relevant for the index but also to assign a relative weight to these categories. There was consensus in some areas, while in other cases this was more elusive. While stakeholder engagement offered a wealth of insight, contributions were always subjective in nature and could not be the only input into the weighting process. These subjective assertions could, however, be considered alongside a more objective framework, for which the Analytical Hierarchical Process was determined to be the best choice.

### Analytical Hierarchical Process (AHP)

AHP is a structured technique for multiple criteria decision making based on pairwise comparisons of alternative elements.<sup>24</sup> AHP allows for the evaluation of different company actions by pairing every individual company action against all other actions, which fall within the same hierarchy (category, sub-category, indicator), and assigning weights to reflect their relative importance. The level of importance is expressed on a scale of 1 to 9. This scale was chosen because comparisons are being made within a limited range where perception is sensitive enough to make a distinction.

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<sup>24</sup> Centre For Environmental Science & Engineering (CESE), Indian Institute of Technology. (2006). *Development of Composite Sustainability Performance Index for Steel Industry*.

Lui, K. (2007). Evaluating Environmental Sustainability: An Integration of Multiple-Criteria Decision-Making and Fuzzy Logic. *Environmental Management*. 2017 June. Volume 39 (5): 721-36. doi: 10.1007/s00267-005-0395-8

Ocampo, L., Clark, E. and Promentilla, M. (2016). Computing Sustainable Manufacturing Index with Fuzzy Analytic Hierarchy Process. *International Journal of Sustainable Engineering*. 2016 February. Volume 9: 305-314. doi: 10.1080/19397038.2016.114482

Saaty, T. (1980). *The Analytic Hierarchy Process*. USA: McGraw-Hill.

Scale	Relative Importance
1	Equally important
2	Equally to moderately important
3	Moderately important
4	Moderately to strongly important
5	Strongly important
6	Strongly to very strongly important
7	Very strongly preferred
8	Very to extremely strongly important
9	Extremely important

The comparisons are made by identifying which of the two indicators is more important in terms of contribution to tobacco harm reduction. The pair-wise comparisons result in a matrix which allows independent judgments to be made for each pair of indicators (**see Figure 1**). Each cell indicates how much more important the indicator in the row is compared to the indicator in the column. The final step is the synthesis of the pair-wise comparison matrix to obtain the relative weight through normalization.

The comprehensive pairing analysis ensures that no company action is assessed in isolation, but through its relationship with others, which reduces subjectivity. To this end, AHP further applies a consistency ratio (CR) to check the consistency of each judgment and capture outliers caused through exaggeration or error during the process of pair-wise comparison.<sup>25</sup>

The figure below illustrates how at category level all categories are scored against each other. In this example, Product Sales achieves a score of 3.00 against Product Offer, illustrating that the former is perceived as being moderately more important than the latter. It is the interrelationship of all the ratios in the table that creates the weighting for each category, which reflects the multiple criteria analysis of the method. This process is repeated at all levels – category, sub-category, and indicator.

<sup>25</sup> The pair-wise comparisons result in a (N x N) positive reciprocal matrix, where the diagonal  $a_{ii} = 1$  and reciprocal property  $a_{ji} = (1/a_{ij})$ ,  $i, j = 1, n$  assuming: if indicator  $i$  is “p-times” the importance of indicator  $j$ , then, necessarily, indicator  $j$  is “1/p-times” the importance of indicator  $i$ . The next step to find the normalized weight of each indicator is normalizing each column in the matrix (dividing an indicator relative weight by the sum of relative weights in column), and then averaging the values across the rows; this average column is the normalized weight vector  $W$  containing weights ( $W_{ji}$ ) of the total indicators in the matrix. In the matrix,  $a_{ij}$  indicates how much more important criteria  $i$  is in comparison to criteria  $j$ . Each column in the matrix is then normalized by dividing the sum of the elements in column  $j$ . Then, an average is taken for each row, yielding the weight of each criterion.

**Figure 1 – Application at Category Level**

	SM	PSa	CA	PO	M	LA
<b>Strategy and Management (SM)</b>	1.00	0.33	0.50	0.50	1.00	1.00
<b>Product Sales (PSa)</b>	3.00	1.00	3.00	3.00	3.00	5.00
<b>Capital Allocation (CA)</b>	2.00	0.33	1.00	2.00	2.00	4.00
<b>Product Offer (PO)</b>	1.00	0.33	0.50	1.00	0.5	2.00
<b>Marketing (M)</b>	0.50	0.33	0.50	2.00	1.00	2.00
<b>Lobbying and Advocacy (LA)</b>	0.33	0.20	0.25	0.50	0.50	1.00

The structured approach of the methodology establishes a robust base, but the key to the weighting framework of the AHP is the relative factor of importance scores attached to each technical category, subcategory or indicator (as illustrated in Figure 1). The factors of importance have been applied based on specific principles which were derived from the stakeholder consultation process, illustrating the symbiotic relationship between stakeholder consultation and AHP. The main principles leveraged to identify a relative factor of importance are outlined below.

- **Long-term perspective** – Sustained action is necessary to change deep-rooted corporate, societal and consumer behavior. The Capital Allocation category covers this directly in the index, with long-term investment in R&D, infrastructure, and M&A activity in reduced-risk product alternatives relative to high-risk products indicative of structural shifts. By comparison, the increase in marketing costs for reduced-risk products relative to high-risk products, as captured in the Product Offer category, could be a positive development, but it could be easily reversible or contribute to unintended consequences (e.g. youth uptake), so its weighting is lower.
- **Focus on Performance** – While transparency and commitment from companies are crucial for achieving tobacco harm reduction, it is recognized that the best intentions can only have an impact if backed up by measurable performance. Within the index, performance is most clearly demonstrated by sales and investments in high-risk versus reduced-risk tobacco products. Therefore, the related indicators are allocated higher weightings. This is captured mainly within the Product Sales and Capital Allocation categories, that are considered the two leading categories.
- **Volume sales relevance** – Volume sales of high-risk tobacco products and ratio of volume sales of reduced-risk alternatives to high-risk products are the unequivocal end result of a company's commitment and actions to tobacco harm reduction. Capital Allocation is considered another leading category as indicative of a company's structural shift, but outcomes and effectiveness of financial investments are uncertain. As such volume sales is given the highest weighting.

- **Commitment and Transparency parallelism** – A strategic commitment to transformation is the starting point for tobacco harm reduction, but it needs to be supported by transparent disclosure and measurement of activities and performance. Companies that welcome scrutiny and share best practices empower consumers and other stakeholders to make informed decisions. Moreover, without transparency, stakeholders cannot assess whether commitments have been met and whether they are effective.
- **Offer Alternatives** – The decrease and ultimate elimination of high-risk tobacco products is critical to harm reduction. Core to this index is making companies accountable for the harm caused by their products and also supporting consumers to transition from high-risk products to reduced-risk alternatives. Therefore, the Index considers the company’s activities and performance with reduced-risk alternatives in relation to high-risk products. The indicators focused on the relative sales and investments of reduced-risk and high-risk products are weighted higher than indicators solely focused on high-risk products.

## Scoring

The overall system for scoring, weighting, and aggregation, by which the final company score is calculated, is based on the hierarchy of different levels within the index as described in the Methodology Overview section. The levels are technical categories, sub-categories, indicators. Each company is scored at indicator, sub-category and technical category level adjusted by the relative weight assigned. The aggregation system leads to a total company score which is compared to other companies to determine their place on the benchmark.

Each indicator has a specific scoring framework which will change depending on the type of indicator:

- Commitment and Transparency Indicators
- Performance Indicators

### Commitment and Transparency Indicators

Commitment and Transparency indicators are qualitative indicators which are broken down into multiple metrics. The metrics follow a set structure, awarding either 0 or 2 points depending on whether the metrics requirements are assessed to have been met. A single point is available only in the case of multi-criteria metrics, where the company is asked to fulfill more than one requirement to get a full score of 2. Where this is the case, the metrics description will include an ‘AND’ in capital letters to separate those requirements. This must be distinguished from a lower case ‘and’ which merely introduces an additional idea within the same requirement.

A company score for each indicator is calculated by adding the number of points awarded and dividing this number by the maximum number of points available. This number is multiplied by 5 to reflect the rating scale chosen 0 to 5<sup>26</sup>.

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<sup>26</sup> The score for each indicator is calculated as follows = (sum of scores for each metric within each qualitative indicator / maximum score per indicator) \* 5.

Given the subjective nature of the qualitative indicators, a set of principles have applied in defining the metrics for each indicator and are outlined below.

- **Materiality** – Metrics chosen are the requirements considered to be relevant in contributing to tobacco harm reduction. Minor differences not considered relevant in supporting tobacco harm reduction have been excluded.
- **Ability to Implement** – Metrics describe actions and practices that are within the realm of possibility for company management to implement.
- **Subjectivity Reduction** – Metrics do not contain ambiguous language which might increase the subjectivity in the scoring.
- **Evidence** – Metrics are assessed using publicly available information from company websites including financial reports, corporate social responsibility and sustainability reports, and internal policy standards such as codes of conduct.

### Performance Indicators

Performance indicators are quantitative indicators whose score is determined through a normalization process. Performance indicators focused only on high-risk products are calculated as negative indicators. For example, higher volume sales of high-risk products clearly have a negative impact on tobacco harm reduction; with indicators of this type, lower is better. Performance indicators focused on the ratio between reduced-risk and high-risk products are considered positive indicators; with indicators of this type, higher is better. For example, a higher ratio of volume sales of reduced-risk versus high-risk products is indicative of greater progress toward transformation and potentially helping consumers to transition away from high-risk products. For companies that do not have any reduced-risk product offer, the formula ratio is invalid as the numerator equals zero. In this case, the company's score equals zero.<sup>27</sup>

As performance indicators are expressed in different units, a normalization procedure is applied.<sup>28</sup> In this way, the possibility of incorporating different kinds of quantities, with different units of measurement (e.g. sticks, dollars, percentage), is offered. The result of the normalization is then multiplied by 5 to fit the rating scale 0 to 5.

The calculation of the final company score is a step-by-step procedure of grouping various indicators into subcategories and eventually categories, all adjusted by their respective weighting. The weighted category scores are then combined to arrive at the final company score. This step-by-step approach is defined as aggregation. The aggregation method chosen is the weighted arithmetic mean. This is by far the most widely used additive method in sustainability indices.<sup>29</sup>

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<sup>27</sup> Krajnc, D. & Glavic, P. (2005). How to Compare Companies on Relevant Dimensions of Sustainability. *Ecological Economics*. 2005 December. Volume 55 (4): 551-563. <https://doi.org/10.1016/j.ecolecon.2004.12.011>

<sup>28</sup> Normalization formula for positive indicators:  $x = ((x - x_{min}) / (x_{max} - x_{min}))$ ; Normalization formula for negative indicators:  $x = 1 - ((x - x_{min}) / (x_{max} - x_{min}))$

<sup>29</sup> Gan, X. et al. (2017). When to Use What: Methods for Weighting and Aggregating Sustainability Indicators. *Ecological Indicators*. 2017 October. Volume 81: 491-502. <https://doi.org/10.1016/j.ecolind.2017.05.068>

## Additional Scoring Elements

Core to the Index is the analysis of product offers and sales from the 15 tobacco companies assessed across different markets. Different products have different units of measure and risk levels associated with their consumption. Companies offer such products in high-medium and low-medium countries. The Index team applied three additional scoring elements in order to compare companies' activities and performance:

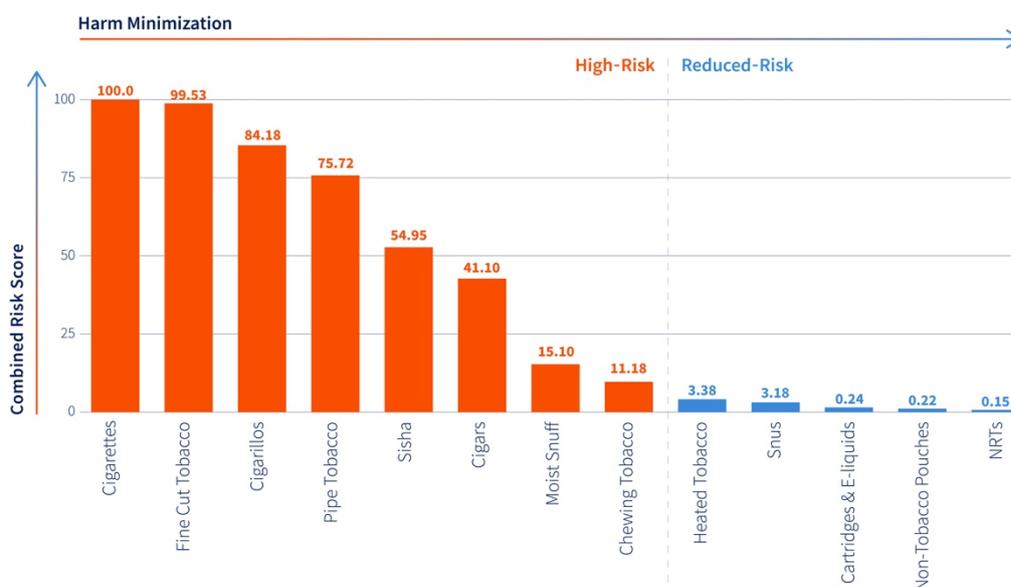
- Relative Risk Assessment
- Per Stick Equivalent Conversion
- LMIC vs HMIC Multiplier

These additional scoring elements were taken into account only for indicators within the Product Sales and Product Offer categories, as specified in the indicator details in the previous section.

### Relative Risk Assessment

In the absence of an established, internationally standardized spectrum of risk for tobacco products, the Foundation for a Smoke-Free World (FSFW) commissioned a scientific literature review to identify a relative risk assessment between products.

The relative risk hierarchy developed is based on a systematic review of previous scientific studies of the health risk associated with nicotine products. A total of 320 studies were reviewed in detail to extract data and assess the level of risk for each product type. The products were analyzed in terms of their toxin emissions and epidemiological data, which were combined on a scale from 0 to 100 (low to high risk) to derive a combined risk score for each product. Additional details on the relative risk assessment are available in the publication "Nicotine Products Relative Risk Assessment: A Systematic Review and Meta-analysis."<sup>30</sup>



<sup>30</sup> Murkett, R., Rugh, M. & Ding, B. (2020). Nicotine Products Relative Risk Assessment: A Systematic Review and Meta-Analysis.

The relative risk assessment, summarized in the adjoining figure, was leveraged to evaluate companies' offerings and sales of reduced-risk products, and to further compare these according to their relative risk. To do so, the relative risk by product was used as a multiplier for each company's sales and offer in the high-risk and reduced-risk categories.<sup>31</sup> For example, volume sale of cigarettes was multiplied by the relative risk of cigarettes (100), while volume sale of chewing tobacco was multiplied by its relative risk (11.18), to reflect the different level of risk associated with each type of product.<sup>32</sup>

### Per Stick Equivalent Conversion

The Tobacco Transformation Index aims to accelerate the end of combustible cigarettes and other high-risk tobacco products, while ensuring that reduced-risk products are developed and marketed as responsibly as possible. In order to effectively evaluate this transition through sales volume, it is necessary to develop a conversion methodology of the various tobacco product volumes into the cigarette stick equivalent format. The cigarette stick equivalent metric was selected as the default measure for comparison purposes, since cigarettes remain the dominant tobacco product in global tobacco sales.<sup>33</sup>

As a common source is not available, a volume-conversion methodology is defined in this report to demonstrate how products can be substituted for one another in terms of consumption. The conversion methodology does not demonstrate the relative addictive or toxic elements of specific products.

The research undertaken concluded the following principle metrics for volume conversion:

- **Tobacco Weight:** An average cigarette contains 0.74g of tobacco, according to a research program carried out by the National Institute on Drug Abuse, US.<sup>34</sup>
- **Unit:** Products such as NRT will be analyzed from a per unit perspective.
- **Puffs:** The average number of puffs on a typical cigarette is estimated to be between 8 and 16. For the basis of the index a rate of 11 is used, which reflects the medium figure from the Smoking and Cancer Control Monograph No.7 study.<sup>35</sup>
- **Nicotine:** Average nicotine per gram in a cigarette is set to 16.3mg, as per the National Institute on Drug Abuse research published in by Tobacco Control. However, it is acknowledged that levels vary widely between different products.

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<sup>31</sup> The relative risk assessment applied to the indicators in the following sub-categories: 2A Volume Sales of Tobacco Products; 2B Value Sales of Tobacco Products; 4A Product Portfolio (only for indicators 23 Ratio of Product Portfolio (RRPs vs HRPs) and 24 Ratio of Product Portfolio (RRPs vs HRPs) – Rate of Change).

<sup>32</sup> Please note that in the calculation of the ratio RRPs vs HRPs, while the denominator (HRPs) represents the aggregation of values for each HRP multiplied by its relative risk, the numerator (RRPs) represents the aggregation of values for each RRP multiplied by "risk spectrum operator" (100/ relative risk) to reflect the risk proportion between the different products classified as HRP and RRP.

<sup>33</sup> The Per Stick Equivalent Conversion is applied to the indicators in the sub-category: 2A Volume Sales of Tobacco Products.

<sup>34</sup> Malson, J., Sims, K., Murty, R. & Pickworth, W. (2001). Comparison of the nicotine content of tobacco used in bidis and conventional cigarettes. *Tobacco Control*. 2001 June. Volume 10 (2): 181-183. doi: 10.1136/tc.10.2.181

<sup>35</sup> Zacny, J. & Stitzer, M. (1996). Human Smoking Patterns. *Smoking and Tobacco Control Monograph 7*. US Department of Health and Human Services, National Institutes of Health, National Cancer Institute. 151-160.

While certain categories can be converted using a single metric, others may need to consider more than one given the diversity of product formats. For this reason, where appropriate, results from Euromonitor International’s Nicotine Survey have also been considered.<sup>36</sup>

The nature of tobacco means that exact consumption patterns will vary by individual consumer. In performing volume conversions, it is necessary to use a series of estimates and assumptions, as outlined in this document. Several studies support the methodology, but it is worth noting there is no universally accepted conversion. Furthermore, the Index team is aware that some companies quote per stick equivalents in corporate literature, but methodologies for these conversions are generally not disclosed. All company data will be converted using the index methodology of “per stick equivalent” irrespective of individual company conversion rates for certain product categories.

### Per Stick Equivalent Conversion Table

Format	Conversion factor to cigarettes
Cartridges	1 ml = 13 cigarettes
Chewing Tobacco	1 gram = 0.7 cigarettes
Cigarillos	1 unit = 5.4 cigarettes
Cigars	1 unit = 8.1 cigarettes
E-Liquids	1 ml = 13 cigarettes
Fine Cut Tobacco	1 gram = 2.0 cigarettes
Heated Tobacco Sticks	1 unit = 1 cigarette
Moist Snuff	1 gram = 1.4 cigarettes
Non-Tobacco Nicotine Pouches	1 unit = 1 cigarette
Nicotine Replacement Therapy (NRT) Products	1 unit = 10 cigarettes (patches) 1 unit = 1 cigarette (non patches)
Pipe Tobacco	1 gram = 3.2 cigarettes
Shisha	1 gram = 0.3 cigarettes
Snus	1 gram = 1.4 cigarettes

The following outlines the key assumptions and sources used to derive a suitable conversion factor for each product type.

- Cartridges; E-liquids – 1 ml = 13 cigarettes** – For the purpose of these ratios, we have grouped these categories and will analyse on a puff per ml basis. As a starting point, the Index team has used information from leading global brands in the US (leading market for e-vapour products), as below:

Brand	Puffs per unit	Vol. ml	Puff per ml
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<sup>36</sup> Euromonitor International. (2019). Euromonitor International’s Nicotine Survey 2019. Surveyed 40,000 consumers across 20 markets on nicotine consumption habits and perceptions.

Juul	200	0.7	286
Blu	400	1.0	400
Logic	300	1.7	176
NJOY	325	1.9	171

**Source:** Company and brand websites

The median per puff rate of these products is 231 per ml, while the Dutch National Institute for Public Health and the Environment quotes a conversion factor of 60 puffs per ml for e-liquid.<sup>37</sup> The index therefore uses the median figure of 60 and 231 puffs, which equates to 145 puffs per ml. Given an average puff rate for cigarettes of 11, this makes a conversion rate per ml of 13 cigarettes.<sup>38</sup>

The range of puff rates published illustrates the difficulty in creating an average for the categories. The median rate was used to take into account the per puff performance of the largest brands in the market, but also account for the smaller brands likely to have lower per puff rates. It is also noted that brands use puff rates to promote the value of their products, and some review sites indicate the actual per puff rates per unit are often lower than those stated.<sup>39</sup>

- **Chewing tobacco – 1 gram = 0.7 cigarettes** – Research on moist snuff and chewing tobacco brands, indicates that chewing tobacco on average contains half the nicotine levels of moist snuff.<sup>40</sup> The cigarette conversion rate of 1.4 per gram used for moist snuff and snus is therefore halved to achieve the 0.7 conversion for chewing tobacco.
- **Cigarillo – 1 unit = 5.4 cigarettes** – In the US, which accounts for over a third of global volume sales of cigarillos, leading brands are commonly 4 grams, which is 5.4 times larger than the average weight of a cigarette which the index cites at 0.74g.<sup>41</sup> As such, the index uses a conversion rate of 5.4 cigarettes to 1 cigarillo.
- **Cigars – 1 unit = 8.1 cigarettes** – The Centre of Disease Control and Prevention equates larger cigars to being 14 grams.<sup>42</sup> As per Euromonitor International’s Passport Tobacco Database definitions, the index defines the minimum size of a cigar as 3 grams.<sup>43</sup> Assuming the average weight of a small cigar is 3 grams, a large cigar is 14g, and a standard cigar is the median point 8.5 g, we have applied these ratios to global volumes and calculated the weighted average of a cigar to be 6g. The conversion factor of 8.1 cigarettes to 1 cigar is therefore be applied, with 6g having been divided by 0.74g, the average weight of a cigarette.

<sup>37</sup> National Institute for Public Health and the Environment (RIVM). (2014). *E-sigaretten Factsheet*. Retrieved September 7, 2020, from <http://www.rivm.nl/dsresource?type=pdf&disposition=inline&objectid=rivm:242776&versionid=&subobjectname=>

<sup>38</sup> Zacny, J. & Stitzer, M. (1996). Human Smoking Patterns. *Smoking and Tobacco Control Monograph 7*. US Department of Health and Human Services, National Institutes of Health, National Cancer Institute. 151-160.

<sup>39</sup> E-cigarettes Reviewer.com. (n.d.). Blu Cigs Disposables. <https://electriccigaretterviewer.com/blu-cigs-disposables>

<sup>40</sup> Rodu, B. (2012). Nicotine levels in American smokeless tobacco products. Tobacco Trust, R Street. Retrieved June 29, 2020, from <https://www.rstreet.org/2012/11/07/nicotine-levels-in-american-smokeless-tobacco-products/>

<sup>41</sup> Malson, J., Sims, K., Murty R. & Pickworth, W. (2001). Comparison of the nicotine content of tobacco used in bidis and conventional cigarettes. *Tobacco Control*. 2001 June. Volume 10 (2): 181-183. doi: 10.1136/tc.10.2.18

<sup>42</sup> Centres For Disease Control and Prevention. (2020). Cigars. [https://www.cdc.gov/tobacco/data\\_statistics/fact\\_sheets/tobacco\\_industry/cigars/index.htm](https://www.cdc.gov/tobacco/data_statistics/fact_sheets/tobacco_industry/cigars/index.htm)

<sup>43</sup> Cigar size split estimated from Euromonitor International’s Passport Tobacco Database.

- Fine Cut Tobacco – 1 gram = 2.0 cigarettes** – Research funded by the United Kingdom Department of Health Smoking Policy Unit indicates that on a per gram basis nicotine yields from roll-your-own (RYO) cigarettes are higher than those for commercial cigarettes. It concludes that the average nicotine absorbed from a RYO is between 0.9mg and 1.8mg, the median point being 1.35mg.<sup>44</sup> Research indicated that on average the amount of tobacco used in a RYO is 0.5g, so on a per gram basis an average yield of 2.7mg/g is achieved. The US Food and Drug Administration (FDA) puts cigarette yields at between 1.1 and 1.7 mg, with 1.4mg being the median.<sup>45</sup> This equates to 1.9mg/g, 40% lower than the RYO yield. The index therefore applies the nicotine yield ratio between RYO and cigarettes to calculate RYO per stick equivalents. As the average tobacco weight of a cigarette is 0.74g, each gram of cigarette tobacco is equal to 1.4 cigarettes. Given the average nicotine yield of RYO tobacco is 40% higher than cigarette tobacco, applying the 40% increase to 1.4 cigarettes leads to 1g of RYO tobacco equating to 2 cigarettes.<sup>46</sup>
- Heated tobacco – 1 unit = 1 cigarette** – Heated tobacco sticks, are sold as direct cigarette replacements and as such a one-to-one ratio can be applied. Japan is the world’s largest heated tobacco market accounting for 65% of stick sales and Euromonitor International’s Nicotine Survey indicates that on average a cigarette smoker in Japan consumes 16 cigarettes per day compared to a heated tobacco user consuming 14 sticks.<sup>47</sup> This illustrates that consumption patterns are similar. This is supported by PMIs development of ‘Platform One’ where it described each unit generating 14 puffs, which is consistent with cigarette usage.<sup>48</sup> The index uses a different average for puffs per cigarette, which is 11, but it is within an acceptable range. In terms of nicotine per stick, research funded by Philip Morris International Inc (PMI), put nicotine yield levels of heated tobacco between 0.49mg and 2.19mg per stick, the index uses a 1.4mg per cigarette figure.<sup>49</sup> Given this falls within the ranged quoted by Philip Morris research it supports the one-to-one conversion rate.
- Moist snuff – 1 gram = 1.4 cigarettes** – The physical volume of moist snuff per use is assumed to be the same as snus, and a study by the University of Minnesota Cancer Center indicates the nicotine per gram rates between product types being similar.<sup>50</sup> The same conversion factor for moist snuff and snus has therefore been applied.
- Non-tobacco nicotine pouches – 1 unit = 1 cigarette** – It is assumed that consumption patterns of non-tobacco nicotine pouches to align to those of products such as snus. As such a one-to-one conversion rate with cigarettes has been applied. The snus conversion is

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<sup>44</sup> Malson, J., Sims, K., Murty R. & Pickworth, W. (2001). Comparison of the nicotine content of tobacco used in bidis and conventional cigarettes. *Tobacco Control*. 2001 June. Volume 10 (2): 181-183. doi: 10.1136/tc.10.2.181

<sup>45</sup> FDA. (2018). Tobacco Product Standard for Nicotine Level of Combusted Cigarettes.

<sup>46</sup> Ibid.

<sup>47</sup> Category size data sourced from Euromonitor International’s Passport Tobacco Database.

<sup>48</sup> Philip Morris International Inc. (n.d.). PMI Science. <https://www.pmisience.com>

<sup>49</sup> Schaller, J. et al. (2016). Evaluation of the Tobacco Heating System 2.2. Part 2: Chemical Composition, Genotoxicity, Cytotoxicity, and Physical Properties of the Aerosol. *Regulatory Toxicology and Pharmacology*. 2016 November 2016. Volume 81 (2): S27-S47. <https://doi.org/10.1016/j.yrtph.2016.10.001>

<sup>50</sup> Stepanov, I, Jensen, J., Hatsukami, D. & Hetch, S. (2008). New and Traditional Smokeless Tobacco: Comparison of Toxicant and Carcinogen Levels. *Nicotine Tob Res*. December 2008. Volume 10 (12):1773-1782. doi: 10.1080/14622200802443544

calculated to grams as it is consumed both loose and in pouches, there is no need to do this for non-tobacco nicotine pouches. It is noted non-tobacco nicotine pouches will represent a very small part if any of the sales for the companies under review and therefore having limited impact on company score related to share of sales generated from reduced-risk alternatives to high-risk products.

- **Non-patch NRT products – 1 unit = 1 cigarette** – NRT gum and lozenges are direct substitutes for cigarette use. For inhalers, it is observed that the Nicorette inhaler brand contains nicotine levels of 15mg per unit, close to the average used for a cigarette (16.3mg/g). Therefore a one-to-one ratio is applied to that category as well.<sup>51</sup> It is noted, though, that consumption patterns are different to those of cigarettes and only six inhalers are supposed to be used per day. Despite these differences, the one-to-one ratio on NRT products other than patches is an acceptable approximation.
- **NRT patches – 1 unit = 10 cigarettes** – Product variants are commonly marketed for consumers who would otherwise smoke different quantities of cigarettes each day (usually over or under 10 cigarettes), with one patch being used per day. It is therefore assumed that one patch is equivalent to 10 cigarettes.
- **Pipe tobacco – 1 gram = 3.2 cigarettes** – Research indicates the nicotine content of pipe tobacco is on average 38.17g per mg, which compares to 16.3mg/g for commercial cigarettes, creating a 2.3 ratio.<sup>52</sup> The index uses an average tobacco weight for cigarettes of 0.74g, therefore each gram of tobacco equals 1.4 cigarettes.<sup>53</sup> This multiplied by the 2.3 ratio creates the 3.2 cigarette per pipe equivalent.
- **Shisha – 1 gram = 0.3 cigarettes** – Research indicates shishas contain on average nicotine levels of 3.4 mg/g.<sup>54</sup> This is 4.8 times less than the index ratio for cigarettes of 16.3mg/g.<sup>55</sup> The index uses an average tobacco weight for cigarettes of 0.74g, therefore each gram of tobacco equals 1.4 cigarettes.<sup>56</sup> This divided by the 4.8 ratio creates the 0.3 cigarettes per shisha equivalent.
- **Snus – 1 gram = 1.4 cigarettes** – Snus is consumed both loose and in pouches. Portion sizes will vary but leading snus manufacturer Swedish Match offers ranges between 0.3g and 1.1g, which are in line with the average commercial cigarette size of 0.74g.<sup>57</sup> Swedish Match describes on its website that the average consumer in Sweden uses 3.8 cans a week.<sup>58</sup> The

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<sup>51</sup> Amazon.UK. (2020). Nicorette Inhalator Cartridges Stop Smoking. <https://www.amazon.co.uk/Nicorette-Inhalator-Cartridges-Stop-Smoking>.

<sup>52</sup> Malson, J., Sims, K., Murty R. & Pickworth, W. (2001). Comparison of the nicotine content of tobacco used in bidis and conventional cigarettes. *Tobacco Control*. 2001 June. Volume 10 (2): 181-183. doi: 10.1136/tc.10.2.181

Taghavi, S. et al. (2012). Nicotine Content of Domestic Cigarettes, Imported Cigarettes and Pipe Tobacco in Iran. *Addict Health*. Winter-Spring 2012. Volume 4 (1-2): 28-35.

<sup>53</sup> Ibid.

<sup>54</sup> Kassem, N. et al. (2018). Levels of Urine Cotinine from Hookah Smoking and Exposure to Hookah Tobacco Secondhand Smoke in Hookah Lounges and Homes. *Int J High Risk Behav Addict*. March 2018. Volume 7 (1): e67601. doi: 10.5812/ijhrba.67601

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Swedish Match AB. (n.d.). Swedish Match. <https://www.swedishmatch.com/>

<sup>58</sup> Ibid.

largest-selling brand in Sweden is General, according to Euromonitor International's Tobacco system, and a can of its General Classic Original variant contains 24 portions. Therefore, the usage rate implies that, on average, 13 portions are used per day. This usage rate is in line with average cigarette consumption rates as found by Euromonitor International's nicotine survey. It is therefore assumed that it is possible to use the cigarette to gram conversion rate, given portion weights for snus and cigarettes are comparable (one cigarette stick is considered to weight 0.74g).<sup>59</sup> It is noted that absorption patterns differ between inhalation and oral consumption, but in the case of snus, underlying nicotine intake is similar as outlined by the European Commission's paper 'Health Effects of Smokeless Tobacco Products Preliminary Report.'<sup>60</sup>

### **LMIC vs HMIC Multiplier**

An essential component of the Index is monitoring companies' activities and performance across different markets, in order to evaluate whether they are pursuing a consistent, global approach to harm reduction or only transitioning within selected markets. Therefore, some indicators are adjusted by a multiplier which focuses on the comparison of the company's performance across markets, particularly low-medium income countries versus high-medium income countries.

The LMIC vs HMIC multiplier applies only to companies that have a presence in both low-medium income and high-medium income countries. When a company has positive tobacco harm reduction performance only in high-medium income countries, a multiplier of 0.75 is applied to the indicator score to reflect the lack of consistency across different income markets. The multiplier is set at 0.75 as positive harm reduction performance at global level is considered to be three times more important than consistency of performance across different income markets, in line with feedback received from expert reviewers.

Multipliers are applied only to specific indicators within the Product Sales and Product Offer categories, as specified in the indicator details in the previous section.<sup>61</sup> For example, for the indicator Volume Sales of High-Risk Products – Rate of Change a multiplier of 0.75 is applied to the company score in cases where company's sales of high-risk products have been decreasing in HMICs but increasing in LMICs which reflects the lack of a global approach to tobacco harm reduction.

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<sup>59</sup> Malson, J., Sims, K., Murty R. & Pickworth, W. (2001). Comparison of the nicotine content of tobacco used in bidis and conventional cigarettes. *Tobacco Control*. 2001 June. Volume 10 (2): 181-183. doi: 10.1136/tc.10.2.181

<sup>60</sup> European Commission, Health & Consumer Protection Directorate-General. (2007). *Health Effects of Smokeless Tobacco Products Preliminary Report*.

<sup>61</sup> The LMIC vs HMIC multiplier is applied to the indicators in the following sub-categories: 2A Volume Sales of Tobacco Products; 2B Value Sales of Tobacco Products; 4A Product Portfolio.

## Data Collection and Analysis

The 2020 Tobacco Transformation Index research process was led by Euromonitor International. The data collection process relied on publicly available information from a wide range of sources, supplemented by any additional relevant information that the companies provided to the Index team. A robust quality assurance process was applied to ensure accurate data collection, interpretation, and estimations. The quality assurance process involved crosschecking of information by multiple analysts to ensure consistency of data and analysis, followed by a final crosscheck by research managers.

Data was triangulated from multiple sources, as summarized below, utilizing a robust data collection, verification, and finalization process to ensure accurate and reliable results.

- **Secondary Research:** Euromonitor International collected publicly available information from company websites, formal financial and non-financial reporting such as annual corporate social responsibility (CSR) or sustainability reports, as well as other documents such as investor briefings, press releases, codes of conduct, policies, values, guidelines, and frequently asked questions (FAQs). Furthermore, a range of non-company sources of information (e.g. industry and financial databases such as Euromonitor International's Passport database, Orbis, or Capital IQ) were consulted to access relevant company data and information.
- **Trade Interviews:** Trade interviews with industry experts were leveraged to validate data from secondary sources and address data gaps. Interviews were conducted with trade organizations, former company employees, and relevant stakeholders across the supply chain, however companies ranked in the index were not engaged as part of the trade interview process.
- **In-Country Research:** In-country researchers identified and targeted stores to visit across the 36 countries under scope to collect information available only at country level, such as product offer and pricing. In-country researchers also allowed the index to conduct public domain data searches in multiple languages.
- **Industry Consultation:** In order to ensure the most accurate and comprehensive picture of company activities and performance, each tobacco company was given the opportunity to share feedback on the data the Index team had collected from the public domain. This was also an opportunity for companies to understand and discuss any discrepancy in the analysis due to either a lack of, or misinterpretation of data. Euromonitor International reviewed the responses from companies and, where necessary, contacted companies directly for clarification or additional information. The public information or data shared by the companies was integrated in the scoring after additional verification to ensure the accuracy of the information provided.
- **Data Analysis:** Based on all data collected from company reporting and/or public domain research, scores were assigned for each metric according to the scoring framework, applying the weighting and aggregation algorithms to arrive at final scores for each company. For verification purposes, Euromonitor International conducted an extensive quantitative and qualitative check of each indicator for each company by leveraging the Euromonitor International Analytics team.

# Appendix

## Limitations

There are some aspects of the index methodology which were highlighted as potential limitations. The Index team has maintained awareness of these limitations throughout the index development process and intends to address these where possible in future iterations of the Index. After publication, the Index team will undertake a thorough review, and consult with stakeholders to understand opportunities for improvement in the overall index, scope, indicators and assessment methodology.

- **Relative Ranking:** The index is a relative ranking, meaning companies are compared to each other rather than against an ideal state. While an absolute ranking measuring progress as an ideal state might be more appropriate to reflect the progress of companies toward harm reduction, this approach would have been difficult to implement consistently across all indicators. For example, the Index team found it difficult to identify the ideal rate of decline in high-risk product sales, or growth in the ratio of reduced-risk versus high-risk products. The key point to note is that none of the companies has made significant progress in regard to harm reduction, and our focus is on differentiating between companies to increase competition and accelerate transformation, in the same way that other indexes have operated.
- **Data Availability:** The data collection process and analysis supporting the index ranking have been extensive and robust, leveraging a wide range of sources. However, as only a limited number of data points were accessible via the public domain, Euromonitor International built estimates for many data points using commercial databases and other sources. This was particularly the case within categories where companies do not publish specific data, such as marketing and capital investments. For the next iteration, the Index team encourages companies to make all relevant data publicly available to increase transparency and accountability, strengthen credibility, and deliver greater value to stakeholders.
- **Geographic Context:** The Index team recognizes that the operating environment for companies varies significantly from country to country, and that this has a significant impact on companies' strategies, performance, and available pathways to tobacco harm reduction. In order to support full cross-comparability between companies, the index will in the future evaluate the feasibility of a country-specific ranking and/or other means of accounting for geographic differences.
- **Country Scope:** While the 36 countries under scope cover the majority of the world's tobacco sales, the analysis of companies' activities across different income markets would be more comprehensive with a larger country scope. The index is committed to evaluating the expansion of the country scope, particularly among low-medium income countries, to more fully assess companies' activities and performance in these countries compared to high-medium income markets.
- **Assessment of qualitative indicators:** Making commitments to harm reduction and demonstrating transparency are themselves important actions assessed by the index. In the first edition, performance on these indicators has been assessed based only on information that has been disclosed by companies. While disclosure reflects a level of transparency, the index has not

independently verified claims or actions the companies report on. For example, the index has not audited the application of marketing policies or the numbers of marketing violations recorded. The Index team is working to develop a research methodology that could verify company disclosures with regards to strategy or marketing and will continue to consult with stakeholders and experts in order to support this process.

## Comparison to Preliminary Index Methodology

In May 2020, the Index team published a Preliminary Index Methodology on the Tobacco Transformation Index website. Feedback received during the public comment review period and additional expert review were considered in order to finalize the 2020 Tobacco Transformation Index Methodology. Below is the list of main changes applied:

- **Category Weighting:** Weightings for the measurement categories were updated given the feedback from experts on the relative importance of these categories to achieve tobacco harm reduction. Capital Allocation’s weighting decreased while weighting of Product Sales, Strategy and Management, and Marketing all increased. The weighting decrease for Capital Allocation was justified by the consideration that the direct size of a financial investment is not necessarily correlated to a positive harm reduction outcome. Conversely, a company’s sales directly contribute to tobacco harm reduction. As a result, the feedback received was that the Product Sales category should supersede all other aspects of a company’s activity. The categories of Strategy and Management and Marketing also had increased weightings, as strategic clarity and sound governance are considered particularly important for enabling tobacco harm reduction. The weighting of Marketing was increased given the relatively large financial investments tobacco companies make to support marketing activities. Lastly, weightings were made to be “round” percentages for clarity.
- **Supply Chain Transition:** The Supply Chain Transition category is excluded for the first edition of the Tobacco Transformation Index, due to there being inadequate stakeholder consensus concerning its relevance. In addition, the Index team believed that it needs to further build its knowledge on the topic to score companies fairly on their efforts to support tobacco farmers during a transition to reduced-risk products. However, the Index team considers the commitment to assessing the impact of the shift away from high-risk products on the entire supply chain, and creating programs to support farmers to transition, as best practices from companies that pursue tobacco harm reduction. The Index team is committed to further evaluate the topic for potential inclusion in future iterations of the index.
- **Indicators focused on LMICs vs HMICs:** Indicators on Product Sales and Product Offer categories addressing the consistency of performance between low-medium and high-medium income countries were replaced by an LMIC vs HMIC multiplier. Companies who do not currently operate in low-medium income countries were previously penalized in these indicators, since their score was not applicable, and therefore equal to zero. To avoid this misvaluation, these indicators were replaced by the multiplier. Details on the LMIC vs HMIC multiplier are provided in the *Approach to Scoring* section.

- **Product Scope:** Product types listed in the scope of the index cover the majority of the tobacco products available in the global market. Bidis and Gutkha were ultimately excluded, as none of the companies in the index scope currently has offerings in these categories. Single-Use Cig-a-Like products represent a niche for companies under scope. Their sales and offer have been considered within the Cartridges product category. Snus and Moist Snuff are classified as two different products, rather than one, given the different relative risk associated with the consumption of these products. The Index team will reassess the product portfolio of companies under review in the next iterations of the index.

## Comparison with Other Indexes and Frameworks

The Tobacco Transformation Index is inspired by the example set by other issue-specific indexes, commitments and sustainability transparency tools. In an effort to ensure alignment and to demonstrate areas of difference, the index indicators were compared to some of the following indexes and tools listed below.

The following table provides a mapping from the index subcategories to the reference framework indicators, where applicable.

Subcategory		Reference Framework
1A	Vision and Management Systems	SASB: FB-TB-260a.2 GRI 102: General Disclosures GRI Disclosures 102-15, 102-16, 102-20, 102-26, 102-32, 102-35, 416-1 Sustainable Development Goal n. 3 DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
1B	Stakeholder Engagement	GRI 102: General Disclosures GRI Disclosures 102-40, 102-42, 102-43, and 102-44
2A	Volume Sales of Tobacco Products	SASB: FB-TB-000.A, FB-TB-000.B DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
2B	Value Sales of Tobacco Products	SASB: FB-TB-260a.1 GRI Disclosure 201-1 DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
3A	Capital Allocation	DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
4A	Product Portfolio	SASB FB-TB-260a.2 DJSI Innovation Management – Tobacco Alternatives & Reduced Risk Products
4B	Pricing	WHO FCTC Article 6

<b>5A</b>	Marketing Policy	SASB: FB-TB-270a.2 GRI 417 Management Approach GRI Disclosure 417-1 WHO FCTC Article 11, 13 DJSI Marketing Practices
<b>5B</b>	Marketing Compliance	SASB: FB-TB-270a.1 GRI 417 Management Approach GRI Disclosures 417-2, and 417-3 GRI 419 Management Approach GRI Disclosure 419-1
<b>5C</b>	Marketing Expenditure	WHO FCTC Article 6
<b>6A</b>	Lobbying and Advocacy	GRI 102: General Disclosures GRI Disclosure 102-13 GRI 415 Management Approach GRI Disclosure 415-1 WHO FCTC Article 5.3 DJSI 3.5.1, 3.5.2

### Sustainability Accounting Standards Board (SASB)

In its Sustainability Accounting Standards for the tobacco industry, SASB sets out metrics and disclosures on the material topic areas of Public Health and Marketing Practices in their financial reporting. The Tobacco Transformation Index shares SASB’s goal of increasing transparency and accountability, and has some similar metrics and principles for certain categories.

- Under Activity Metrics, the SASB Tobacco Standard requires disclosure of volume sales of combustible tobacco products: (1) cigarettes, (2) cigars, and (3) other smoked tobacco products (FB-TB-000.A). This also applies to non-combustible product sales volume: (1) traditional smokeless tobacco, (2) non-tobacco nicotine products, (3) heated tobacco products, and (4) nicotine replacement therapy products (FB-TB-000.B). Volume reporting also forms a core indicator of the Tobacco Transformation Index. The index covers volume sales through indicators analyzing total sales of high-risk products and their evolution over the last three years, but also the ratio of reduced-risk products to high-risk, and its evolution. In addition, the index extends the analysis of these factors to indicators covering the ratio of volume sales in LMICs versus HMICs (see 2. *Product Sales*).
- Within its Public Health topic area, the SASB Tobacco Standard requires the separate reporting of: (1) gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products (FB-TB-260a.1.). The index also evaluates revenue from reduced-risk and high-risk product categories separately and as compared to each other globally and in LMICs versus HMICs (see 2. *Product Sales*).
- As part of its Public Health topic area, the SASB Tobacco Standard stipulates that companies’ disclosures should include “discussion of the process to assess the risk and opportunities associated with tobacco harm reduction products” (FB-TB-260a.2.). The index reflects this by

assessing how the company has made a specific commitment to reducing the harm associated with tobacco use, and how its approach is embedded within its business strategy and management systems (see 1 Strategy and Management). This is also related to a company's current portfolio and development (see 4A. *Product Portfolio*).

- As part of its Marketing Practices topic, under codes FB-TB-270a.1 and FB-TB-270a.2, the SASB Tobacco Standard requires analysis of advertising, promotion, and packaging against international standards, principally the World Health Organization Framework Convention on Tobacco Control (Articles 11 and 13). The index applies the same principle by incorporating indicators which analyze whether companies have a robust marketing policy in place, and if they report violations of their own marketing policy. It also assesses the existence and content of a youth access prevention policy and any violations (see 5. *Marketing*).

### **The WHO Framework Convention on Tobacco Control (WHO FCTC)**

The WHO FCTC is a treaty for national governments under which signatories are recommended to act and legislate in accordance with the conventions of the treaty for tobacco control. Its focus is on improving public health and defining how regulatory frameworks facilitate this. Its activities impact tobacco companies indirectly through government policies in each country, and as a result some articles of the FCTC are used as a reference for stakeholders within the text rather than as indicators a company would report to, in order to show the complementary nature of the index indicators.

For example, Article 11 restricts packaging and labeling, while Article 13 stipulates bans on advertising, promotion and sponsorship to which tobacco companies must adhere, as implemented by national governments. The complement within the index would be all those related to Marketing and Youth Access prevention (see 5. *Marketing*).

The WHO FCTC uses a list of indicators to assess the current status of implementation by signatory countries, which are focused on societal factors and health conditions of the country rather than any company actions. However, the WHO FCTC's Indicator Compendium tracks the "Retail price of a pack of the most widely sold brand of tobacco product." The FCTC does this to assess the affordability of products and the impact of taxes on reducing consumption. This is related to Article 6, which covers price and tax measures to reduce demand for tobacco. In order to analyze affordability as a complement, the index compares the average price of reduced-risk products to that of high-risk products for each company, and how this is evolving, as well as how this relationship differs between LMICs and HMICs (see 4B. *Pricing*).

The WHO FCTC also covers the topic of lobbying and advocacy (see 6A. *Lobbying and Advocacy*) from the viewpoint of regulators, stating in Article 5.3 stating that "Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law."

## **SAM Corporate Sustainability Assessment (CSA) as used by the Dow Jones Sustainability Indices (DJSI)**

The CSA assesses a company's sustainability credentials through economic, environmental, and social dimensions. In its coverage of the tobacco industry, it is not focused on consumption reduction, but rather a company's impact on environment and society. This limits the crossover with the Tobacco Transformation Index, which is focused solely on industry transformation rather than broader environmental, social, and governance (ESG) topics (see Methodology Overview section).

Within its tobacco assessment, the CSA analyzes Policy Influence in terms of how much a company does and how transparent it is in disclosing its activities. The Tobacco Transformation Index has two indicators which are related to this area within the Lobbying and Advocacy section, including "Disclosure of policy positions related to industry transformation" and "Disclosure of lobbying and advocacy memberships, financial contributions and activities."

The CSA also assesses Innovation Management, which relates to the index's analysis of R&D (see 3. Capital Allocation) and also requires companies to report revenues (see 2. Product Sales).

## **Global Reporting Initiative (GRI)**

The GRI Sustainability Reporting Standards set out how organizations should report their impacts on the economy, the environment and/or society. The disclosures apply broadly across many industries.

The GRI's General Disclosures (GRI 102) include a number of standards in relation to overall company management and reporting of the scope of operations, including whether executives' performance-related pay is linked to social issues, which is covered in the index's Strategy and Management Systems indicators (see 1. Strategy and Management). Among others, this includes an ethical evaluation, with GRI 102-16 requiring "a description of the organization's values, principles, standards, and norms of behavior." GRI 102-26 further specifies the role of the highest governance body in setting purpose, values and strategy, and GRI 102-35 extends this to remuneration, requiring reporting on "how performance criteria in the remuneration policies relate to the highest governance body's and senior executives' objectives for economic, environmental, and social topics." This directly correlates with the index's indicator on Performance Management and Incentives. GRI Disclosures 102-40, 102-42, 102-43 and 102-44 also highlight the importance of stakeholder engagement in a similar vein to the index's 1B. Stakeholder Engagement section. These include recording all engagements, how the participants were identified, how they were approached, and the topics discussed.

The standards from the GRI on Public Policy (GRI 415) and Marketing and Labelling (GRI 417) are reflected in the index's analysis of Marketing Compliance (see 5B. Marketing Compliance) and Marketing and Youth Policies (see 5A. Marketing Policy).

## **Non-Tobacco Sector-Focused Indexes**

There are also well-established indexes covering sectors unrelated to tobacco, which the Tobacco Transformation Index has leveraged in terms of research approach, methodology, and indicators. The most relevant include:

- Access to Medicines Index (ATMI)
- Access to Nutrition Index (ATNI)
- Corporate Human Rights Benchmark (CHRB)
- World Benchmarking Alliance (WBA) – Seafood Stewardship Index (SSI)
- Access to Seeds Index (ATSI)

While each has its own nuances, there were several underlying commonalities among them which the index was able to adopt. The underlying pillars of performance, commitment and transparency are utilized in the Tobacco Transformation Index. The structure of the index, composed of numeric scores generated from qualitative and quantitative metrics assigned to each indicator, has been developed based on principles leveraged from the aforementioned indexes.

Each of the Indexes endeavors to evaluate company behavior in an equitable, accessible, and robust manner that supports their specific aims. While each Index has tailored its indicators to meet the specific needs and nuances of the industry under consideration, there are common thematic areas in certain indexes that the Tobacco Transformation Index has leveraged; for example, sections on governance, stakeholder engagement, marketing practices, R&D and pricing.

## **Other Indexes and Standards**

There are other organizations which track, analyze, and set standards for sustainability related issues, which can be applied to a multitude of industries. The Tobacco Transformation Index has analyzed the FTSE Russell FTSE4Good Index, the UN Sustainable Development Goals and Global Compact, and the International Organization of Securities Commissions (IOSCO) – Financial Benchmarks Principles. These have broader areas of focus than the Tobacco Transformation Index, covering wider environmental, social and governance areas. For the most part, direct indicators were not mapped to the index indicators, but the approaches and principles used informed the methodologies adopted.

## Abbreviations

- AHP** – Analytical Hierarchical Process
- BAT** – British American Tobacco Plc
- CNTC** – China National Tobacco Corp
- CSA** – Corporate Sustainability Assessment
- DJSI** – Dow Jones Sustainability Indices
- ESG** – Environmental, Social and Governance
- FCTC** – Framework Convention on Tobacco Control
- FDA** – US Food and Drug Administration
- GNI** – Gross National Income
- GRI** – Global Reporting Initiative
- HMIC** – High-Medium Income Country
- HRP** – High-Risk Tobacco Product
- IOSCO** – International Organization of Securities Commissions
- JTI** – Japan Tobacco Inc
- LMIC** – Low-Medium Income Country
- M&A** – Mergers and Acquisitions
- NRT** – Nicotine Replacement Therapy
- PMI** – Philip Morris International Inc
- R&D** – Research and Development
- RRP** – Reduced-Risk Product
- SASB** – Sustainability Accounting Standards Board
- TOAT** – Tobacco Authority of Thailand
- US** – United States
- Vinataba** – Vietnam National Tobacco Corp
- WHO** – World Health Organization

## Definitions

**Capital Expenditure** – Includes but is not limited to funds used by a company to acquire, upgrade and maintain physical assets such as properties, buildings, plants, equipment, and intangible assets such as technology, software as well as developing networks including contract manufacturers.

**Company Index/Ranking** – The company index/ranking of the Tobacco Transformation Index aims to highlight corporate actions of the top 15 largest tobacco companies by cigarette stick equivalent, which either support or impede progress toward a world free of combustible cigarettes and other high-risk tobacco products.

**Country Fact Sheets** – The supplemental output of the Tobacco Transformation Index, which will profile “the state of nicotine” in 36 countries (accounting for around 85% of current global smoking sales and consumption), to contextualize the environment in which companies operate.

**Dow Jones Sustainability Index (DJSI)** – A family of benchmarks for investors who believe sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios.

**Environmental, Social, and Governance (ESG)** – A set of factors that measure the sustainability and/or societal impact of an investment in a company. ESG factors are typically tied with long-term performance.

**Foundation for a Smoke-Free World** – An independent, non-profit organization created in 2017 with the mission to end smoking within this generation.

**Framework Convention on Tobacco Control (FCTC)** – The first global treaty negotiated by the WHO focused on a regulatory strategy to address tobacco addiction through demand reduction and supply issues.

**High-Medium Income Country (HMIC)** – As defined by the World Bank (as of July 1, 2019), a country with a national income per person (GNI per capita) of USD12,376 or more in 2018.

**High-Risk Products** – Combustible or non-combustible nicotine products, which include chewing tobacco, cigarettes, cigarillos, cigars, fine cut tobacco, moist snuff, pipe tobacco, and shisha.

**Low-Medium Income Country (LMIC)** – As defined by the World Bank (as of July 1, 2019), a country with a national income per person (GNI per capita) of up to USD12,375 in 2018.

**Marketing Expenditure** – Includes but is not limited to funds invested in programs such as advertising, trade promotions, and consumer engagements.

**Mergers & Acquisitions (M&A) Investment** – Total value of deals closed in the acquisitions of manufacturing companies only (acquisitions of distributors or retailers are excluded).

**Net Value Sales** – Gross sales minus applicable sales returns, allowances, and discounts. Gross sales do not include cost of goods sold, operating expenses, excise tax expenses or other charges.

**Reduced-Risk Products** – Nicotine products that are considered to be less harmful than combustible cigarettes and/or other traditional products. Products that are potentially reduced-risk include vapor products (cartridges, e-liquids, and heated tobacco), non-tobacco nicotine pouches, NRT products, and snus.

**Smoking Prevalence** – Defined by the WHO as the percentage of persons aged 15 years and older who smoke tobacco currently.

**Sustainable Development Goals (SDGs)** – The 17 goals that make up the United Nations’ 2030 Agenda for Sustainable Development. The Tobacco Transformation Index aims to contribute to SDG 3 (Good Health and Well-Being) and SDG 9 (Industry, Innovation, and Infrastructure).

**Tobacco Transformation Index** – an index that will highlight and critically evaluate tobacco companies’ activities that either support or impede progress towards a world free of combustible cigarettes and other high-risk tobacco products.

**Sustainable Development Goals (SDGs)** – The 17 goals that make up the United Nations 2030 Agenda for Sustainable Development. The Tobacco Transformation Index aims to contribute to SDG 3 (Good Health and Well-Being) and SDG 9 (Industry, Innovation, and Infrastructure).

**World Health Organization (WHO)** – The agency of the UN that directs international health and leads partners in global health responses.

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