

SEPTEMBER 2020

Advisory Panel Statement on 2020 Index

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About the Index Advisory Panel

The Tobacco Transformation Index (“the Index”) is supported by an independent Advisory Panel (“the Panel”) composed of experts with knowledge of the health care industry, the tobacco industry, public policy, investment, sustainability standards, corporate responsibility, and business ethics, as well as corporate transparency and disclosure best practices. The Panel provides strategic advice on governance, design, and promulgation of the Index. In addition, it publishes a public statement on these matters alongside the release of the Index.

The Panel operates independently from the Foundation for a Smoke-Free World (“FSFW” or “the Foundation”) and without any industry involvement. It serves strictly in an advisory capacity. As such, the Panel does not have any formal decision-making authority, but is tasked with closely reviewing the governance and development of the Index and making recommendations on an ongoing basis to help ensure the Index aligns with international good practice and addresses the material concerns of interested and affected stakeholders. Authority on Index matters addressed by the Panel remains with the Foundation.

Members have been invited to sit on the Panel in their individual capacity, not as representatives of any organizations. Membership of the Panel changed during the course of 2020. Two Panel members left and one new Panel member joined. The Advisory Panel Charter is [here](#).

About This Statement

The following statement reflects the joint opinion of the Panel members as of September 2020 on the development and execution of the first edition of the Index, along with recommendations for the future. Reflections are based on extensive Index-related document review and regular in-depth engagements with the Index team from September 2019 to September 2020.

In fulfilling its role and responsibilities, the Panel referred to international good practices in index design as demonstrated by the Access to Medicine Index, Access to Nutrition Index, and other benchmarks under the World Benchmarking Alliance. It also referred to the [ISEAL Good Practices for Credible Benchmarking](#).

Disclaimer

This opinion does not constitute an assurance statement.

Panel Statement

Despite significant gains made over the past few decades to promote cessation of smoking, progress has not been fast enough, and tobacco use continues to have massive costs in terms of adverse health impacts and loss of life. More than any other industry, the tobacco industry also faces a monumental deficit in public trust worldwide. This is an industry with a history of lying to the public. It covered up years of evidence proving the health risks of cigarette use, targeted children to hook individuals for a lifetime of recurring revenue, and created patently fake institutes of research to "disprove" any allegations that the companies were actively and knowingly harming public health. While international policy initiatives and divestment campaigns are gaining momentum, more solutions are needed to achieve significant transformation in this industry.

In this context, the Panel welcomes the initiative taken by the FSFW to develop this Index to address head-on the urgent need for transparency and credibility to enable a viable transformation of the global tobacco industry. We sincerely hope that the Index can successfully establish proof of concept that a tool of this kind can be an effective means to inform and empower key stakeholders and inspire tobacco companies to accelerate their transformation efforts.

Critical criteria for success in this endeavor relate to earning stakeholder trust and ensuring integrity of the Index itself. The final stages of developing and launching the Index also took place in the midst of the COVID-19 pandemic, which added important nuances to the project. The Panel reflected on these challenges in developing its recommendations, including the following barriers:

- That this Index is designed to evaluate an industry fraught with controversy of its own creation. Tobacco companies simply cannot be trusted by most stakeholders due to historical practices and the fact that nearly all tobacco companies continue to earn the bulk of their revenues from cigarettes, which kill 50% of their users.
- That the Index is working under the banner of, and with funding from, FSFW.
- That FSFW has faced severe criticism since its inception in 2017 because of its funding from Philip Morris International. This criticism, understandably, is driven by the deep distrust of all tobacco companies articulated above and centered on the belief that everything the tobacco industry touches will ultimately subordinate health and mortality for the sake of profit.
- That FSFW established an ambitious timeline, during which the Index team was required to conduct a comprehensive stakeholder engagement program and develop a first iteration of the Index in 18 months.
- The shifting landscape of product variations and harm reduction in the tobacco industry. Potentially reduced-risk products are still harmful, which mean that scoring "good performance" remains a reflection of reduction in bad performance. Furthermore, the sincerity of different companies' commitments to harm reduction is still up for debate.

- The importance of complementing rather than competing with existing tobacco control measures. Governments remain the frontline of tobacco control through policy and regulations.
- Similarly, ensuring the Index complements rather than competes with other essential strategies in the arsenal of responsible investors, such as divestment. Those investors that can divest are redefining the moral landscape of shareholder behavior toward tobacco companies. These efforts, as well as other responsible investment strategies, should be supported and enhanced by the information provided by the Index.
- The need to adjust to a world affected by COVID-19, in which tobacco use is under scrutiny as a potential contributor to symptoms and mortality rates, and yet in which the significant health and economic impacts of the pandemic may affect the appetite of tobacco companies, governments, and investors to actively pursue transformation.

Despite the challenges listed above, the Panel is satisfied with the integrity of the Index in its first iteration. We are convinced of its value as a necessary tool in a larger arsenal that brings together new stakeholders to achieve a common goal: to reduce the harm to individuals and communities created by tobacco use.

The Panel notes that we were empowered to raise the above issues honestly and openly with the Index team throughout the Index development process. Several significant steps were taken to address the highlighted barriers, and we welcome the stated plans to continue addressing these issues going forward.

Overall, the Panel is satisfied that the Foundation and Index research partners have acted in good faith at all times and to the best of their ability to respond to our information requests as well as to constructively respond to and implement our recommendations. In several instances, this required substantial adjustment and effort. The following are some specific examples of Index actions taken that were influenced by Panel recommendations:

- Changing the name of the Index so that it is separated from messaging associated with FSFW and Philip Morris International.
- Scrutinizing Index communications to ensure that they do not favor terminology used by any single tobacco company in its harm-reduction marketing strategies.
- Committing to publish Spotlight Reports – research studies conducted in a sample of selected countries every two years – to analyze the actual behavior of tobacco companies in those countries.
- Commissioning a comprehensive, expert literature review to provide an up-to-date, science-based ranking of the relative risk of different tobacco products and links to disease, to better inform the classification of reduced-risk products within the Index.
- Bolstering the Index communications strategy and expert communications team to support the launch and ongoing engagement with institutional investors, tobacco companies, and other key stakeholder groups.
- Clarifying, as part of the future vision of the Index, the commitment to continuous improvement of the Index's ultimate objective, which is to measure the progress of tobacco companies in their efforts to reduce the harm of their products in line with science-based rankings of product risk on an evolving basis.

The Panel commends the Foundation and Index research partners for their commitment to transparency and good practice throughout the process of creating this Index. We welcome this Index as a valuable and timely contribution to push the global transformation of tobacco industry practices and investor engagement that is urgently required.

In light of recent business trends related to corporate responsibility, as well as investment trends that increasingly consider the environmental, social, and governance (ESG) performance of companies, we think the time is ripe for introducing a tool such as the Tobacco Transformation Index.

This Panel believes that companies can be forces for positive change, and that even tobacco companies can pivot to addressing, rather than further exacerbating, the destruction they have caused in the past. The Panel has seen these efforts work in other industries, and we think that Big Tobacco's nefarious history does not preclude such efforts from working here, too.

We believe the coronavirus pandemic reinforces the relevance and materiality of the Index to decision makers by highlighting the systemic vulnerabilities of our societies and economies to an acute health crisis. Investors in particular are now better informed of the widespread costs and risks associated by not taking a proactive stance on other health issues, such as tobacco. The pandemic also highlights the need to address the interdependencies between industry and government – such as through tax revenues – which may inhibit transformation, while preventing worst-case scenarios caused by extreme measures, such as the proliferation of the highly toxic, illegal cigarette trade, which occurred for example in South Africa as a result of the ban on cigarette sales during South Africa's lockdown.

Ultimately, we believe the Index should be judged entirely on its own merits, including the methodology and indicators that have been chosen, and the credibility of the information and analysis it provides to the public. The Index offers a tool and narrative that will be appropriate and valuable to different stakeholders in making certain types of decisions. For instance, not all investors will have the option or desire to choose divestment. For those investors, the Index provides an option and an ethical pressure to be responsible active owners. Similarly, not all tobacco control advocates will be against engaging with tobacco companies. For those interested in such engagement, this Index offers a basis for dialogue and sophisticated pressure. In addition, for tobacco companies that are already implementing change, this Index provides a nuanced scorecard and benchmark to guide and accelerate their efforts and to be rewarded for doing so. For the tobacco companies that are not implementing change, the Index is a tool that exposes their behavior, while allowing them the opportunity to learn from the practices of others. Success will be reflected in the actual transformation achieved in the tobacco industry and lives saved in the countries and contexts where the true costs of tobacco use are borne.

With that in mind, the following sets out our analysis and recommendations concerning the governance, stakeholder engagement, index design, process, and credibility of the Tobacco

Transformation Index according to the criteria put to us in our charter and through our application of the ISEAL Sustainability Benchmarking Good Practice Guide.

Governance & Funding

One of the main challenges the Panel identified early in the process of developing the Tobacco Transformation Index is the Index's ownership and funding by FSFW and its association with Philip Morris International. It is generally understood that for indexes of this nature to be credible, they need to be funded and governed independently of the institutions they are tasked with benchmarking. In an ideal world, this would be the case for the Tobacco Transformation Index, and we hope this will be possible in due course.

Nevertheless, FSFW took the initiative to establish the Index and create a proof of concept. The benefits of this arrangement have included funding for the immense amount of work involved in establishing a first iteration of the Index, as well as the industry knowledge and additional research that the Foundation has been able to contribute to the process.

Importantly, the Panel has been satisfied that the Index development has not been influenced by Philip Morris International, which provides the ongoing funding for this work through its pledge to FSFW. Our recommendation for future governance and funding changes therefore is not driven by observed adulterations of the Index due to the current structure.

However, to ensure sustained positive impact and trust in the Index going forward, the Panel believes it is essential that the Index becomes independent of tobacco industry funding. Consequently, the Panel has encouraged the FSFW to seek other funding and future governance arrangements for the Index, and continues to emphasize the importance of dedicating capacity to pursue such options as soon as practically possible after the publication of the first iteration of the Index. Such independence will enhance the credibility of the Index over time.

Audiences and Stakeholders

Overall Approach to Communications

The Panel is sympathetic to the general public's deep distrust of the tobacco industry, as well as the views of those in public health who feel they cannot trust FSFW due to its funding relationship with Philip Morris International.

In this environment, the only imaginable way the Tobacco Transformation Index can eventually become a mainstream usable tool is to build trust for the Index itself. The Panel feels that one important element of this endeavor is having a thoughtful communications strategy in place to reach intended audiences with clear and accurate information.

The Panel also emphasized the importance of ensuring that any communications adhere to high standards of integrity and focus on building trust with the intended users of the Index. The Index

team has established a communications strategy that the Panel considers to be appropriate, and which positions the Index for success. However, due to the lateness of the communications initiative within the Index-making process, we did not have the opportunity to assess these plans in great depth.

Stakeholder Engagement

Stakeholder engagement is a critical factor for the development and successful implementation of an index of this kind, and particularly so in this case, considering the mistrust of the tobacco industry. With the ultimate goal of changing industry behavior, a fine balance was needed in consulting with interested and affected stakeholders as well as with the companies that would be ranked in the Index. Continuous ongoing stakeholder engagement will be required to ensure that the Index achieves its future goals.

The Panel was satisfied that a robust stakeholder engagement process was carried out appropriate to the requirements and sensitivities of developing a first iteration of the Index, and that tobacco companies were consulted to the degree sufficient to provide practical feedback on the Index while not influencing its design in a material way. As it is a stated principle of the Index to continuously improve, the Panel looks forward to learning about the intended mechanisms to collect feedback and engage with stakeholders on an ongoing basis once the Index is launched.

A great deal of expert feedback was received during the engagement process. As expected, some of the feedback was contradictory. The Panel was satisfied that the Index team considered and incorporated feedback where appropriate. One example in which the feedback was inconsistent related to the number of indicators within the Index. One view was that there were too many indicators; another was that there were too few. Sound arguments were made for inclusion of the current indicators in the Index to address the salient issues at stake. The Panel agrees with the Index plan to continuously seek feedback and review the number of indicators to ensure accessibility and usability of the Index.

Clarity of Audience

The primary audiences of the Index have been identified as both companies and institutional investors. The former being influenced through competition, and the latter holding sway through corporate ownership and activism to accelerate and empower corporate transformation. The stated secondary audiences are any stakeholders who have an interest in and/or ability to influence companies to change, such as policymakers and regulators, health care and tobacco control advocates, academics, and nongovernment organizations.

The Panel has noted that the Index aims to meet a wide variety of user and stakeholder needs, and therefore may fail to meet all stakeholder needs equally. We encourage additional focus on the key objectives of the Index and therefore the main audiences and their needs and behavior in future.

Engagement of Tobacco Companies

While tobacco companies are a primary audience, the Panel notes that care was taken not to involve them early in the stakeholder engagement process to ensure there was no undue influence by industry during stakeholder consultations. The companies themselves are indeed best served by an index that is credible and reflects stakeholder priorities.

Structured outreach to tobacco companies commenced in late 2019 after other stakeholder engagement was completed and after an initial design of the index was developed without industry input. Efforts were made to allow all companies that would be ranked by the Index an opportunity to engage with the Index team and give feedback on the design of the Index as well as the practicalities of the data collection process. While the companies had an opportunity to provide their feedback, the Panel is satisfied with the measures taken to ensure that industry did not have influence over the ultimate Index design.

Tobacco companies varied significantly in their willingness to participate in the Index, or even to acknowledge its development. The responses of some companies became more positive as they became familiar with the Index methodology and the credibility of the process. However, others, particularly state-owned tobacco companies, remain silent. The Panel has therefore emphasized the importance of continuous and active engagement with all companies in the Index before, during, and after the launch of the Index, and recommends adjusting outreach strategies for different cultural and sociopolitical contexts.

Inclusion of State-Owned and Privately Held Tobacco Companies

The Panel and the Index team recognize that the Index is unique from other successful indexes such as Access to Medicine and Access to Nutrition, etc., in that the companies being ranked are diverse in three distinct ways: (1) their sizes differ dramatically; (2) some are headquartered in developed countries while others are headquartered in the developing world; and (3) some are publicly owned while others are privately held or owned by governments.

The Panel notes that all of these, but particularly the inclusion of state-owned tobacco companies, pose unique challenges in relation to the Index's theory of change, which relies partly on the influence of institutional investors over listed tobacco companies. The Index has identified institutional investors as a primary user of the Index, with the potential to actively engage with tobacco companies to transform the industry. In the case of private and state-owned companies, this lever is held by shareholders and governments that may have the luxury to ignore market and stakeholder pressure to transform the tobacco industry. The Index team, the Panel, and FSFW all acknowledge this poses an outsized challenge relative to the creation of other indexes.

However, the Panel feels that by including private and state-owned tobacco companies in the Index – many of which operate in emerging markets – combined with in-depth country profiles, the Index will provide invaluable insights into the differing market dynamics that affect industry transformation around the world. These factors include enormous consolidation in the industry

over the last few decades, the highly addictive nature of nicotine, and the revenue ties that governments have to tobacco sales.

Nevertheless, the Panel also encourages FSFW to urgently develop a subsidiary theory of change for the Index relevant for the non-publicly quoted companies. The Index provides a positive basis for dialogue with all major tobacco companies. We look forward to future iterations of the Index advancing engagements across all the ranked companies and catering to differing regulatory and cultural contexts.

Index Methodology

Adopting a Science-Based Approach to Assessing Harm Reduction Efforts

The Panel is conscious of the rapidly evolving science related to reduced-risk tobacco products as well as the controversial nature of discussions about relative harm. One of the principles of the Index is the measurement of relative performance of companies in moving away from products that have a high level of risk and toward products that can be classified as “reduced risk.” For this type of assessment to be credible, it needs to be based on the best available science on the toxicity of different tobacco products and their harmful effects on people and society. As the industry continues to innovate, and as the scientific community produces more analysis on harmful effects, the scientific basis for comparing products will evolve. Consequently, the Panel welcomes the commitment by the Index team to conduct ongoing research on the evolving science behind relative harm. This will further enhance the Index and support the intended audiences as well.

Approach to Ranking Companies

The Panel and the Index team wrestled for some months with the question of how to present the results of the first Index. Preferred options included ranking the companies in a 1-15 list from “least” to “most” bad, or to present them in groups, such as quintiles, with each quintile listed in alphabetical order. In the end, Panel members were satisfied by the robustness of the methodology and that the 1-15 ranking ultimately selected is not sensitive to small changes in weightings. The Panel’s conclusion also recognized that the full methodology and rankings will be made public, thereby enabling any reader to calculate the ranking for themselves. We welcome the commitment to transparency and usability of the data, which we as a Panel view as highly valuable. We have also been satisfied with the commitment of FSFW throughout the process to ensure the findings are presented in such a way that the top companies are not communicated as being the “best,” but rather as the “least bad.”

Technical Committee

The Panel has been clear throughout its existence that its members do not have the industry-specific and technical expertise to advise on the detailed indicators for the Index or their weighting. We had hoped that a technical, expert review committee or other formal technical advisory group could have been established for the first iteration of the Index. In the absence of such a technical group, the Panel has appreciated the efforts of the Index team to engage with

qualified experts individually for formal feedback on the methodology. The Panel recommends that the creation of a formal technical committee be prioritized for the next iteration of the Index and is pleased that FSFW has committed to do so.

Additional Studies on Companies' Behavior in Different Geographies

One of the priorities highlighted by the Panel is that the Index should continuously improve its measurement of the actual behavior of ranked companies, including at the country level. For this reason, the Panel recommended additional efforts to assess companies' marketing practices in a sample set of countries as a starting point.

The Panel welcomes the Index team's plans to perform Spotlight Reports on company marketing practices in specific countries in the future to complement biennial issuances of the Index. These reports will help to show how different geographies, political contexts, social norms, and regulatory regimes contribute to dramatic variance in company behavior that are at times in alignment and at times in conflict with the goals of the Index. For example, one of the principles of the Index is to ensure companies are not marketing to non-smokers, children, or vulnerable adults. As a result, analyzing geography-centric marketing behavior through these Spotlight Reports will be valuable. We hope such reports will compel tobacco companies to hold their behavior to elevated standards in all jurisdictions, and to promote the health and well-being of all individuals, regardless of a nation's relative wealth, political structure, or social norms. The Panel encourages the Index team to provide further specificity about the plans to perform these reports, and to implement these plans in a timely fashion.

Conclusion

This statement is the unanimous view of the Panel.

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