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Response to Public Comments

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Introduction

Background

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.

Public Comment Period

The 2020 Tobacco Transformation Index was developed with input from an extensive global stakeholder engagement process conducted during 2019 and commitment to ongoing dialogue to enhance its outputs and ensure they are useful to all stakeholders. In that spirit, the Index team opened the preliminary methodology to public comment for a one-month period in May 2020.

Response to Public Comments

This document consolidates and responds to written questions and comments the Index team received during the public consultation period. Questions and comments are grouped by topic. The consolidated response covers several areas of interest, including product classification, index design, and methodology.

Questions and comments are not attributed to any single person and could represent combined commentary from potentially several parties.

Feedback on Preliminary Index Methodology

Public comment and corresponding responses from the Index team are organized by topic categories of measurement of the index.

Scope and Weighting

1. Public Comment/Question

Concern was raised about positioning chewing tobacco in the same category as cigarettes (ie high-risk products), as it was suggested chewing tobacco may be safer than vaping products.

Response. The Index initially referenced Abrams et al “Harm Minimization and Tobacco Control: Reframing Societal Views of Nicotine Use to Rapidly Save Lives” as an important source of scientific research used to identify a framework across the spectrum of high-risk and reduced-risk products.

During the consultation process, stakeholders accepted Abrams et al as a useful framework; however, many suggested that, while the framework is representative in principle, the availability of even newer products and information means this picture was likely to be incomplete, or that the order of some of the products on the continuum could evolve slightly over time.

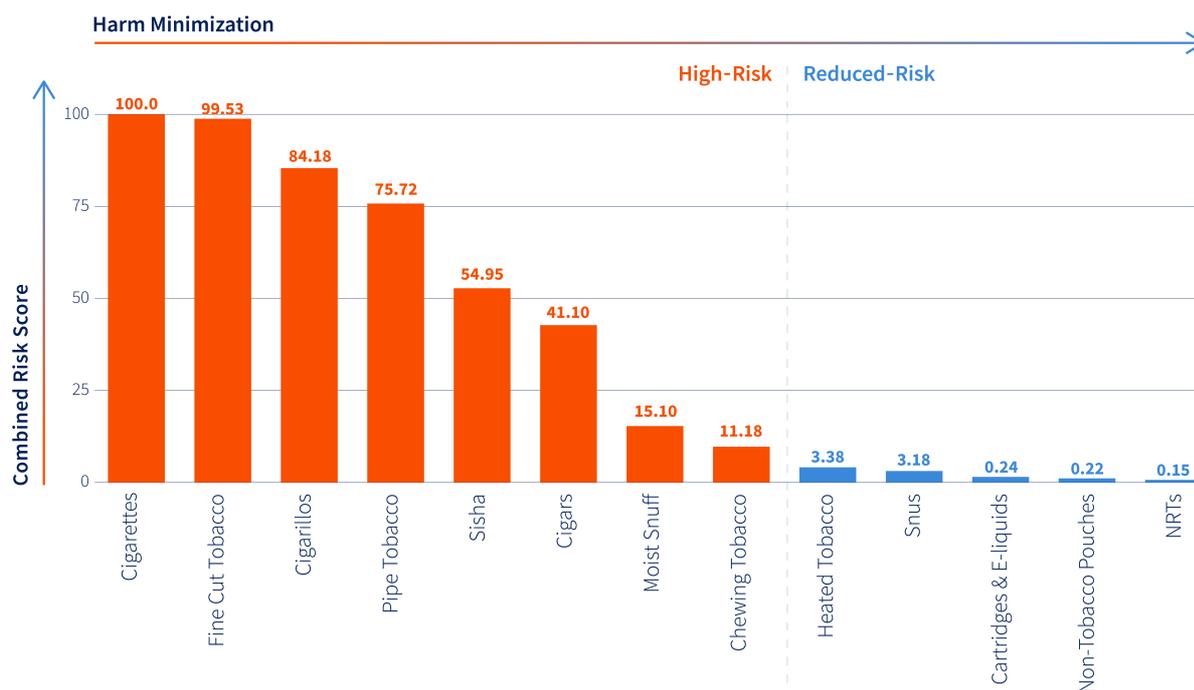
Given the feedback, the Foundation for a Smoke-Free World commissioned an independent literature review of the scientific research pertaining to the relative level of risk of tobacco product categories. The Index team acknowledged that a clearer reference to the underlying evidence related to reduced-risk products would enhance the Index’s value and justify the boundaries between different levels of product risk. The body of scientific research in this area will develop over time and can be expected to inform future iterations of the Index.

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 risk 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.”¹

The relative risk assessment, summarized in the adjoining figure, was leveraged to effectively evaluate was leveraged to evaluate companies’ offerings and sales of reduced-risk products, and to further

¹ Murkett, R., Rugh, M. & Ding, B. (2020). Nicotine Products Relative Risk Assessment: A Systematic Review and Meta-Analysis.

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.² 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), in order to reflect the different level of risk associated to each company’s product sales and offer.³ Additional details are available in 2020 Index Methodology.



Cigarettes overwhelmingly constitute the largest category within high-risk products, accounting for approximately 95% of volume sales globally.⁴ The categorization of high-risk and reduced-risk products used by the index is informed by the harm minimization continuum and can be found in the 2020 Index Methodology. Moist snuff and chewing tobacco are categorized as a high-risk product, although they reside at the lower end of the high-risk classification, while vaping (cartridges and e-liquids) is categorized as reduced-risk. As such, the high-risk classification of the products is moderated in part by the relatively low risk score. The Index team will continue to revisit this categorization as more research becomes available. Support for the reduced-risk classification for the snus category is bolstered by the U.S. Food and Drug Administration (FDA) authorization of the marketing of products through the modified risk tobacco product (MRTTP) pathway for eight snus smokeless tobacco products.

² 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 (Reduced vs High-Risk Products) and 24 Ratio of Product Portfolio (Reduced vs High-Risk Products – Rate of Change).

³ Please note that in the calculation of the ratio Reduced vs High-Risk Products, while the denominator (High-Risk Products) represents the aggregation of values for each High-Risk Product multiplied by its relative risk, the numerator (Reduced-Risk Products) represents the aggregation of values for each Reduced-Risk Product multiplied by “risk spectrum operator” (100/ relative risk) to reflect the risk proportion between the different products classified as High and Reduced-Risk Product.

⁴ Estimate from Tobacco Transformation Index research.

2. Public Comment/Question

It was suggested to simplify the index by removing some of the indicators.

Response. The indicators selected support the analysis of varied facets of company behavior and are thus considered necessary to monitor the relative progress of tobacco companies toward tobacco harm reduction. However, as the index methodology was refined and finalized in mid-2020, several indicators were eliminated or restructured.

The Supply Chain Transition category was excluded from the first edition of the Tobacco Transformation Index. The number of companies with public commitments to supply chain transition was extremely limited. As a result, the Index team judged that scoring the 15 companies in the category provided little value in establishing an effective relative ranking. The Index team considers the commitment to assessing the impact of the shift away from high-risk products on the entire supply chain, and programs to support farmers to transition, as a best practice 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.

3. Public Comment/Question

Feedback stated an Index purely focusing on illustrating that tobacco companies are “bad” will add no value, and a focus on harm reduction is necessary. It was argued the Index is irrelevant for investors who will not hold stock in “bad” tobacco companies, but instead needs to be focused on investors who want help determining which companies are trying to change. In this regard, a reverse ranking system was challenged as not making sense. If the Index does not illustrate companies becoming less “bad” there is no incentive to engage for investors. Furthermore, from a company perspective, it was suggested they will become competitive amongst each other to improve their harm reduction performance, and a reverse ranking may remove this motivation.

Response. The Index aims to equip all stakeholders with valuable information about tobacco company behavior as it relates to harm reduction. During the global consultation process, stakeholders, like those submitting public comments, emphasized the importance of considering how index information and rankings would be relayed. The final index is ranked 1 to 15, with the first company contributing the most to harm reduction on a relative basis. This ranking system was chosen to incentivize investors and companies.

4. Public Comment/Question

It was suggested the index should use rounded percentages (5%, 10%, 30%, etc.) to ensure the weighting process is as straightforward as possible.

Response. The Index team agrees that the weighting system should be as straightforward as possible, and it made efforts to simplify the aggregate weights of some categories while remaining consistent with Index objectives. This type of simplification is possible at a top level to emphasize different relationships across categories, and more granular weight allocations are required at the indicator level.

5. Public Comment/Question

It was argued that the initial weighting values for the index appeared subjective, seeming just to represent the best guesses of the individuals around the table. A suggestion would be for the Index team to get someone with machine learning experience involved to try equal weighting of each component and randomly alter the weights obtained. With such an exercise, the Index team could potentially answer a criticism at the very least, by stating that it checked altering a given weight and it really did not change the outcomes.

Response. The Index team used two methodologies in the identification of the weightings: Stakeholder Consultation and Analytical Hierarchical Process (AHP). The Index team consulted a wide range of stakeholders through multilateral and bilateral engagements across the world during 2019. 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. AHP is a structured technique for multiple criteria decision making based on pairwise comparisons of alternative elements. AHP allows for the evaluation of different company actions by pairing each 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. The Index team did not leverage the machine learning technique in the identification of the weighting but will consider applying this methodology in the future.

6. Public Comment/Question

It was pointed out that the reported number of smokers in the table ‘Countries Under Review’ (p. 12) of the Preliminary Index Methodology uses a different format for numbers than that used in other columns. A suggestion would be to convert this to ‘million’.

Response. Formatting was updated and ‘million’ applied.

7. Public Comment/Question

It was commented that given the disparity of operating environments across geographies; different weightings could be applied to different countries, while it would also be interesting to see how this was applied on a country-by-country basis. It was commented that given the disparity of operating environments across geographies, different weightings could be applied to different countries, while it would also be interesting to see how this was applied on a country-by-country basis.

Response. The Index team recognizes that the context in which companies operate varies significantly from country to country. This affects individual companies’ strategies, performance, and ultimate pathways to tobacco harm reduction. For this reason, the complementary country fact sheets provide information on the local context in which the companies operate. This includes relevant regulation, the prevalence and influence of the tobacco industry, and the state of smoking and public health in 36 countries as a mechanism to contextualize each company’s score.

It is also envisioned that, in future iterations, the Index will provide a ranking of the companies at the country level, in order to support full cross-comparability in terms of regulations, the state of smoking, and public health.

Strategy and Management

8. Public Comment/Question

It was highlighted that employee awareness of a company’s commitment to reduced-risk products could be considered. In the JUUL legal controversy, the alleged “corporate deviance or evil” of the company’s culture and higher executives was highlighted as significant. In this regard, the Index could potentially cover corporate or executive culture through employee surveys or executive displays of commitment to safer products.

Response. The Index includes two indicators within the ‘Vision and Management Systems’ subcategory that aim to capture the extent to which tobacco harm reduction is integrated into a company’s management systems. The ‘Governance and Management’ indicator evaluates the accountability structure and governance mechanism within the company that correspond to achieving tobacco harm reduction objectives. Metrics within this indicator take into account where within the company (i.e., board level/senior leaders) tobacco harm reduction policy and strategy are prioritized. Another indicator, ‘Performance Management and Incentives,’ looks more closely at the incentive structures put in place to achieve tobacco harm reduction among senior leaders and/or board members.

Capital Allocation

9. Public Comment/Question

It was suggested the inclusion of cigarette production as well as capital expenditure by company could be helpful in better understanding if they are investing more in cigarette manufacturing.

Response. The Index includes an indicator, ‘Capital Expenditure on High-Risk Products,’ which assesses capital expenditure of high-risk products (including cigarettes) as a share of net sales.

10. Public Comment/Question

It was highlighted that although item 3A is Capital Allocation, there is not an explicit statement on how the index is going to quantify research and development (R&D) funds. R&D is hard to differentiate from quality control spend, yet it is important to understand details of R&D and how relevant it is because that really informs about where a company is heading in the long term.

Response. The Index team agrees that R&D expenditure is an important leading indicator to assess the degree to which companies are shifting resources away from high-risk products. The indicator captures only the financial resources invested in research and development, while relevance and effectiveness of these investments is not feasibly measured.

11. Public Comment/Question

It was suggested an additional indicator and/or metric could assess how much of R&D expenditure goes into research on health effects of reduced-risk products.

Response. The Index team agrees this would be an interesting dimension to consider. Currently there is not enough public information to reliably inform this degree of granularity, but the Index team will consider this aspect for future editions.

Product Offer

12. Public Comment/Question

It was highlighted that analysis of the rate of innovation of high-risk products versus reduced-risk products could be a useful indicator. High rates of innovation and new product releases of reduced-risk products, in comparison to high-risk products could encourage smokers to switch categories. Part of this process is captured by the indicator on R&D expenditure, however, not all R&D activities are realized in consumer products, so there might be value in breaking it down.

Response. The Index team agrees that to accelerate harm reduction, continuous innovation and the release of new and scientifically improved reduced-risk products from companies will increase the

pace at which existing high-risk product users switch to reduced-risk alternatives. In addition to R&D expenditure on reduced-risk alternatives, the Index also includes indicators under the ‘Product Offer’ category that capture company product portfolios. Companies that do expand their product portfolio of reduced-risk alternatives will see these activities captured through indicators such as the ‘Ratio of Product Portfolio (Reduced vs High-Risk Products)’ that assesses the number of reduced-risk product categories compared to high-risk product categories each company offers.

Others

13. Public Comment/Question

Further feedback was provided on the countries smoking situation:

- **It was argued that the percentage of people smoking in each country should be included to evaluate whether the index and other actions are actually resulting in fewer people smoking.**
- **It was suggested the index could highlight how many countries have laws prohibiting sales of cigarettes to people under 21 (as approved recently by the US House and Senate) to reflect the trends in smoking, and whether or not a transformation is actually occurring**
- **It was suggested that the index could include lung cancer rates by country.**

Response. The inputs referenced above are included in the Country Fact Sheets which aim to describe the "state of smoking" across 36 countries by identifying their policies and actions related to the reduction of harm caused by tobacco use. The Country Fact Sheets provide detailed insight on regulations, industry prevalence and structure, and impacts on society across all nicotine product types available in the market. The Country Fact Sheets provide context for the Index Ranking by highlighting the regulatory, socioeconomic, and competitive frameworks within which the companies operate across the world.

Appendix

Definitions

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 (HRPs) - 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.

Reduced-risk products (RRPs) - 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.