

MARCH 2020

Stakeholder Consultation Report



**TOBACCO
TRANSFORMATION
INDEX**

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Foreword

The Tobacco Transformation Index is an initiative of the Foundation for a Smoke-Free World launched through a Request for Proposals in September 2018. The Index will provide quantifiable evidence over time of what steps the largest tobacco companies are taking to phase out high-risk tobacco products and reduce the harm caused by tobacco use, and any actions they take to impede that progress. By leveraging investor influence, stimulating corporate action, and providing objective, transparent information for all stakeholders, the Index over time aims to accelerate a reduction in the rates of disease and premature death caused by tobacco use.

Stakeholder engagement is a foundational principle of the Tobacco Transformation Index (originally referred to as the Smoke-Free Index). The Request for Proposals outlined engagement in a series of listening seminars in multiple countries with various stakeholder groups, to acquire input toward the development of the Index and its evaluation criteria. Think tank and advisory firm SustainAbility was appointed to facilitate the stakeholder consultation process. Euromonitor International, which is responsible for production of the Index, also played a crucial role in the consultations, including presenting preliminary draft versions of the Index and participating in discussions at each listening seminar.

This Stakeholder Consultation Report marks an important milestone, as it summarizes the results of the global Index consultation process undertaken from March to December 2019. It highlights the key takeaways and issues that have and will inform development of the Index, on the path toward publishing the first edition in September 2020.

The Tobacco Transformation Index's key premise is that by actively encouraging and monitoring the transition away from high-risk tobacco products, it will over time incentivize the tobacco companies to act more quickly and more responsibly than they otherwise would. Conversely, companies that are not making the necessary transition will be exposed. As a result, all stakeholders, such as investors and public health professionals, will be better informed and able to demand necessary action.

Differentiating companies, even within a sector like tobacco, can be an effective tool. If just one actor perceives an advantage in contributing to the public good, even in its self-interest, it could play a part in influencing behavior among competitors. The benefit of an industry-specific index is the ability to dive deeply into the measurable, material drivers of change. In effect, it is possible to create a de facto performance and disclosure standard, which has arguably been the effect of similar indices targeting other industries. By clearly articulating expectations and publicizing companies' activities, the Index can be a vehicle to stimulate competition among companies with the potential to finally and materially transform the tobacco industry.

We are deeply grateful to everyone who has taken the time to engage with this initiative, and for the thoughtful and critical feedback they have shared. We have learned a great deal from the discussions and the Index will be substantially stronger as a result. The Foundation remains committed to engaging with all stakeholders. In that spirit, we welcome continued dialogue and encourage all who feel they can contribute constructively to this cause to contact the Foundation for further discussion.



David Janazzo

CFO and VP Industry Transformation

Foundation for a Smoke-Free World

Executive Summary

This report details the results of a global stakeholder consultation process, undertaken between March and December 2019, to inform development of the Tobacco Transformation Index.

Project Overview

The Tobacco Transformation Index is a tool to accelerate the necessary transformation of the global tobacco industry and the reduction of harm caused by tobacco use. Specifically, the Index monitors tobacco companies' activities with respect to:

1. Phasing out high-risk tobacco products;
2. Developing and responsibly offering reduced-risk alternatives to support current users in moving 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 harm reduction activities across all markets.

To that end, the Index will biennially rank the world's 15 largest tobacco companies, accounting for approximately 85% of global cigarette volume, on their relative progress towards industry transformation. This ranking and supporting analyses will help stimulate innovation and competition among companies and equip all stakeholders with valuable information for understanding and engaging with them to drive change.

The Index will also be supplemented by country fact sheets profiling relevant policy and related conditions in 36 markets, accounting for approximately 85% of current global sales and consumption of high-risk tobacco products. The objective of the country fact sheets is to help contextualize and, in the future, more deeply analyze companies' relevant activities in these markets.

The Index is a project of the Foundation for a Smoke-Free World, an independent, nonprofit organization created in 2017 with the mission to end smoking in this generation. The Index is a key component of the Foundation's Industry Transformation strategy. Development of the Index is being supported and implemented by project consultants Euromonitor International (responsible for index process design, research and analysis, and reporting) and SustainAbility (responsible for stakeholder engagement, development and facilitation of an independent advisory panel, and post-publication project review).

Global Stakeholder Consultation

Stakeholder input is essential for establishing a robust, credible, and effective index. Therefore, at the outset of the project in early 2019, the Foundation for a Smoke-Free World undertook an RFP process and hired SustainAbility to design a global consultation process to gather feedback from a

wide range of experts and interested parties. These included representatives of academia, associations, business, international organizations, the investment community, media, NGOs, and think tanks and advocacy organizations. Although tobacco companies are also stakeholders of the Index, they were intentionally excluded from this phase of engagement.

Consultation was conducted primarily via a global series of multi-stakeholder dialogues, consisting of eight full- or half-day sessions held in seven countries: Brazil, India, Japan, Poland, South Africa, the United States, and the United Kingdom. The purpose of these meetings was to invite stakeholder reactions and inputs regarding the feasibility and application of the Index, the specific topics it should address, and the measures necessary to ensure its research process and outputs will be perceived as objective, credible, and effective. The sessions were moderated by SustainAbility under the Chatham House Rule, in which the identity and affiliation of participants are held in confidence in order to encourage open, candid discussion of differing points of view.

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Additional consultation was also conducted via bilateral meetings and correspondence with experts across multiple geographies throughout the engagement period. This report details results of both the formal dialogues and supplementary conversations.

Key Discussion Points and Recommendations

Stakeholder discussions addressed a wide range of issues and included multiple points of view which are covered in detail in the report. However, several key issues and recommendations arose repeatedly and/or resonated particularly strongly across the consultations. These included the following:

- **Use the Index to drive change.** Stakeholders strongly affirmed the value of non-financial benchmarks and indices as tools for engaging companies and influencing them toward a desired change. However, they stressed that an index is merely a means to that end, not an end in itself – in other words, that what truly matters is not what the Index measures or reports but what the included companies and other stakeholders do in response.
- **Focus.** While stakeholders acknowledged the potential for the Index to be useful to a variety of different audiences, they cautioned against trying to be all things to all people, both to avoid being at cross purposes and because of the danger of making the Index too complex. They encouraged narrowing the purpose of the Index

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and focusing on clear objectives to ensure its success. In this context, providing information to investors and influencing the decisions of company leaders were repeatedly recommended as key objectives.

- **Attend to both the promise and peril of reduced-risk products.** Stakeholders recognized that the proliferation of potentially reduced-risk nicotine products (such as e-cigarettes, heated tobacco, and snus) creates a potential pathway for transformation of the tobacco industry and a chance to meaningfully reduce the disease and premature death caused by tobacco use. However, they highlighted several associated issues – that reduced-risk does not equal zero-risk, differences in relative risk among product types, and concerns about non-user uptake, to name a few – that must be treated with care. In particular, stakeholders across all the dialogues were strongly aligned in the view that youth uptake must be prevented and that this should be explicitly addressed by the Index.
- **Emphasize performance.** Stakeholders highlighted the importance and interdependence of indicators focused on commitment (relevant goals, policies, or strategies to transition away from high-risk products), performance (tangible actions and their results), and transparency (demonstrating openness and accountability as it relates to the desired transition). In considering the relative weight that the Index should place on different types of indicators, stakeholders strongly favored a focus on performance.
- **Fine-tune the company indicators and weightings appropriately for industry and investment audiences.** Participants cautioned it is essential to build the Index with a strong understanding of what will motivate specific industry actors – from tobacco company management to investors and the investment community – to change, and to do so in a manner that will speak to their financial goals. In particular, stakeholders identified the ratios between revenues, sales volumes, and capital expenditures related to high-risk versus reduced-risk products as being of central importance in evaluating companies’ performance.
- **Challenge the worst performers.** Stakeholders were wary of the danger of the Index casting tobacco companies in a positive light, or being used by others to do so. For this reason, stakeholders strongly endorsed the idea to rank companies in reverse – i.e. from ‘bad’ to ‘less-bad’ – and of otherwise cautioned against communicating the results in a way that could be mischaracterized.
- **Manage the intricacies of the country context methodology** and create effective links between the company and country indicators. Participants highlighted both the importance and complexity of using the correct methodology, especially for understanding differences in tobacco company activities in low- and middle-income countries versus high-income countries, and how different cultural and policy environments affect the potential for the industry to change. In particular, several stakeholders insisted on the importance of factoring country context (as described by the supplemental country fact sheets) into the scoring of companies as a means of more fairly assessing their behavior across different markets.
- **Maintain independence.** Stakeholders recognized the likelihood of criticism due to the Index being linked to the Foundation for a Smoke-Free World, which is currently funded solely by Philip Morris International. Several highlighted how similar benchmarks have gone to great lengths to avoid undue

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influence by the companies being assessed, including prohibiting industry funding of any kind, and that the circumstances surrounding the Index are only made more challenging given low levels of trust in the tobacco industry. Consequently, stakeholders recommended that the Index develop more diverse funding and support over the long term, while in the meantime focusing on other means of demonstrating the independence and credibility of its work.

- **Ensure a solid and relevant governance structure.** Both as a matter of general best practice and in light of the unique challenges of engaging and influencing the tobacco industry, stakeholders emphasized the need to maintain a robust decision-making process and a governing body for the Index that makes clear who or what organization holds accountability for its operations.
- **Be transparent about process.** Participants stressed the importance of continuous dialogue with interested parties both throughout the development process and once the Index's results are published, including with the companies that will be assessed. Many recommended engaging with the companies early in the process, both as a means of encouraging participation and to gain additional insight into how the Index can successfully influence them to change.

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Incorporating Stakeholder Feedback

The insights and recommendations above, combined with others collected throughout the engagement process, have challenged and provided crucial guidance to the Foundation and Index development team. Much of this feedback has been absorbed in real time and has already had significant influence on the evolving design of the Index program, while other issues are still under consideration.

To date, stakeholder feedback has played a significant role in decisions related to the following:

- Determination of the overall focus and scope of the Index
- Communications and positioning of the Index program
- Change of name (from Smoke-Free Index to Tobacco Transformation Index)
- Identification of and outreach to priority stakeholder groups
- Evaluation and prioritization of potential audiences and use cases
- Design, selection, and prioritization of company indicators (especially related to sales and revenues from high-risk versus reduced-risk products, product portfolio, marketing, policy influence, and comparison of activities in high- vs. low- and middle-income countries)
- Collection and categorization of company data by product type

- Incorporation of additional countries to be profiled via country fact sheets
- Selection and categorization of country indicators
- Development and implementation of the Index's management and governance structure
- Approach and timing for engagement with tobacco companies

In addition to the issues above, the Stakeholder Consultation Report details several other points of feedback that we are still working to address. For example:

- Appropriately categorizing products according to relative risk
- Adequately accounting for structural differences, such as between publicly traded companies and state-owned monopolies, in scoring and comparing companies

Stakeholders also made recommendations that are likely out of scope for the first iteration but that will be taken into consideration as the Index program continues to evolve. For example:

- Studying analytical relationships between company performance and country environment
- Employing independent verification and/or auditing services as an additional means of demonstrating the credibility of Index outputs

Next Steps

Following this initial phase of engagement, the Foundation and Index development team are moving forward with other key workstreams on the path to publishing the first edition of the Index in September 2020. These include further building out and engaging with the independent Index Advisory Panel, initial engagement with the companies targeted by the Index, continuing to refine the Index indicators and methodology, beginning research to be incorporated into the country fact sheets, and continuing ongoing consultation with stakeholders and other interested parties.

To share your views, please contact us via tobacco-transformation-index.org.

1 Introduction

This report details the results of a global stakeholder consultation process undertaken to inform development of the Tobacco Transformation Index. While engagement and consultation remain ongoing, this report summarizes the initial consultation period that ran from March to December of 2019.

This introductory chapter provides general background on the Index initiative and a summary of the overall consultation process. **Chapters 2-5** explore key discussion points and outcomes from the consultations, organized into three overarching topics:

- 1. Strategy & Approach**, including feedback on the overall design and potential impact of the Index program;
- 2. Content** of the Index itself, including feedback on what is necessary and feasible to measure, covering both the core company ranking and proposed supplemental country fact sheets; and,
- 3. Organization & Process**, including feedback related to funding, governance, and operations, in order to ensure the Index is robust, credible, and effective.

Finally, **Chapter 6** outlines next steps in development of the Index and plans to elicit additional feedback.

Index Overview

The Tobacco Transformation Index is a tool to accelerate the necessary transformation of the global tobacco industry and the reduction of harm caused by tobacco use. Specifically, the Index monitors tobacco companies' activities with respect to:

1. Phasing out high-risk tobacco products;
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competition among companies and equip all stakeholders with valuable information for understanding and engaging with them to drive change.

Acknowledging the influence of policy frameworks and other market conditions on companies' actions, the Index will also be supplemented by country fact sheets profiling relevant policy and related conditions in 36 markets, accounting for approximately 85% of current global sales and consumption of tobacco products. The objective of the country fact sheets is to help contextualize and, in the future, more deeply analyze companies' relevant activities in these markets.

Index Use Cases

The Tobacco Transformation Index is envisioned as a tool to serve several key stakeholder groups.



Investors

Asset owners and managers, industry analysts, data providers, and others may use the Index to understand key transformation trends and company fundamentals, and to inform investment and/or engagement strategies.



Tobacco Companies

Company leaders can better understand best practices and trends in the sector, in order to mobilize and compare their own transition efforts.



Governments

Policymakers and regulators will have additional tools/information hold companies accountable, and to shape policies and programs to help ensure accelerated transformation.



Academics & Researchers

Academics will have an additional, evidence-based tool to monitor company behavior and evolution of the sector as a whole.



Activists

Advocates for public health and/or corporate responsibility will be able to monitor and hold companies accountable, and to engage companies and other stakeholders in an effective 'transition dialogue'.



Tobacco Users

Existing users will benefit from increased awareness of industry behavior and the phasing out of the worst forms of tobacco and nicotine products.

Project Background

Development of the Index was initiated by the Foundation for a Smoke-Free World (the “Foundation”), an independent, nonprofit organization created in 2017 with the mission to end smoking within this generation. The Tobacco Transformation Index (previously referred to as the Smoke-Free Index) is a key component of the Foundation’s Industry Transformation strategy, which aims to accelerate the transition away from combustible cigarettes and other high-risk tobacco products.

About the Foundation for a Smoke-Free World

The Foundation is an independent, nonprofit organization committed to reducing deaths and diseases caused by smoking. Its programs focus on smoking cessation and harm reduction, as supported by new technologies, therapies, alternative products, behavioral science, and other approaches.

The Foundation was established in 2017 and is led by Dr. Derek Yach, a global health expert and anti-smoking advocate for more than 30 years. The organization was founded on the belief that we need to explore, test, and embrace new ideas and approaches to accelerate progress toward an end to smoking.

The Foundation collaborates with other non-profit, advocacy, and government organizations to advance smoking cessation and harm-reduction science and technology. It also serves as a convener of research, dialogue, and ideas to reduce smoking globally, while monitoring, evaluating and helping to address the impact of reduced smoking rates on agriculture and economics.

Initial funding for the Foundation was provided by Phillip Morris International (PMI). The Foundation is a nonprofit US 501c3 organization, and by law and policy must operate completely independently from PMI and cannot engage in activities designed to support PMI’s interests. Further, PMI can have no involvement or say in the Foundation’s work.

The issue of the Foundation’s funding in relation to the Index is discussed in more detail in **Chapter 5**. Additional details are also available via the Foundation’s website, smokefreeworld.org.

Benchmarks & Indices

The Tobacco Transformation Index is inspired by the example set by similar tools focused on key issues within and across other industries. The Access to Medicine Index has been instrumental in encouraging the pharmaceutical industry to do more to address the health of underserved populations. The Access to Nutrition Index has helped push food and beverage companies to improve their product portfolios and market more responsibly. And many others – from CDP to the Dow Jones Sustainability Index, from the Corporate Human Rights Benchmark to the Responsible Mining Index – have achieved similar impacts in other contexts.

By encouraging greater transparency and measuring companies' performance, a benchmark or index can bring added attention and focus to a critical issue or challenge.

As these examples have shown, by encouraging greater transparency and measuring companies' performance, a benchmark or index can bring added attention and focus to a critical issue or challenge. As a result, investors are armed with additional information for making investment decisions and/or engaging with companies. Other stakeholders – e.g. academics, NGOs, policy makers, regulators, customers – are provided with additional information to inform their own work and hold companies accountable. And companies themselves are stimulated – whether by pressure from stakeholders, competition with their peers, or both – to take further action on the issue being assessed.

Over time, an index can also provide a platform for these parties to influence and debate with one another about what path the target industry should take in response to the issue, including via stakeholder dialogues, public commentary in response to the index's findings, and other means that inform the evolution of the methodology with each iteration of the index.

Accelerating Progress Against Smoking

In the last two decades we have witnessed meaningful progress in reducing smoking worldwide. Between 2015 and 2018, global retail cigarette unit volumes decreased at a compound annual rate of 2.1%.¹ By 2020, the World Health Organization (WHO) estimates that smoking prevalence, or the percentage of the population using cigarettes, will have declined by 28% globally since 2000, and it finds that some 60% of countries have been experiencing a decline in tobacco use since 2010.²

These gains are due partly to ongoing implementation of the WHO Framework Convention on Tobacco Control (FCTC), which guides member states in setting rules governing the production, sale, distribution, advertising, and taxation of tobacco. As these policies continue to be deployed and evolve, it is hoped that these trends will continue and similar gains will be realized across all markets, including in developing countries, where the number of smokers remains high.

However, from another perspective, progress remains frustratingly slow. While smoking prevalence has decreased, global population continues to grow. When taking both factors into account, the total number of smokers – estimated at 1.1 billion – is virtually the same as it was 15 years ago and is expected to remain there until at least 2025. Latest estimates are that up to eight million people per year die from smoking-related illness, making it the leading cause of

¹ Foundation for a Smoke-Free World. "Global Trends in Nicotine: 2019 Update." New York, 2019.

² World Health Organization. "WHO global report on trends in prevalence of tobacco use 2000-2025, third edition." Geneva, 2019.

preventable deaths worldwide.³ Meanwhile, millions more suffer from preventable illness that severely diminishes productivity and quality of life.

Put another way, even if recent gradual declines in smoking rates can be maintained, it will be many more decades before smoking is effectively eliminated. As a result, hundreds of millions more smokers will die.

In both practical and moral terms, this is unacceptable. Furthermore, it is at odds with the 2030 agenda currently set forth and agreed to under the United Nations Sustainable Development Goals (SDGs) – in particular, *Goal 3: Ensure healthy lives and promote well-being for all at all ages*.

Accelerating progress requires deploying every available tool. This means not only continuing to strengthen existing tobacco control efforts but also embracing other promising means to reduce the disease and premature death stemming from smoking.

Tobacco Harm Reduction

Harm reduction broadly refers to strategies aimed at decreasing the negative effects of certain behaviors, often as an alternative or complement to trying to prevent the behavior itself. It has been successfully applied in contexts including drug policy (needle-exchange programs, supervised injection sites, etc.) and control of sexually transmitted diseases (condom distribution), in pursuit of both individual and societal benefits such as improved health and reduced burden on health care and/or law enforcement resources.

In the same vein, tobacco harm reduction involves efforts to minimize the consequences – especially to human health – of nicotine consumption. The concept is thought to have originated in 1976, when the tobacco researcher Michael Russell famously said, “People smoke for the nicotine but they die from the tar,” and proposed that low-tar cigarettes may thus be a pathway to allow for safer smoking.⁴

Since then, as understanding of tobacco-related harm has increased and smoking rates have remained stubbornly high, some researchers and advocates have embraced harm reduction as a means of accelerating progress and saving lives. In particular, many have sought to decouple nicotine delivery from the combustion of tobacco, which is the source of the vast majority of the toxins that cause smoking-related illness.

From this perspective, the advent and increasing proliferation of reduced-risk nicotine products (such as e-cigarettes, heated tobacco, and snus) may contribute to altering the trajectory of the health epidemic caused by smoking.

³ Ibid.

⁴ Russell M. “Low-tar medium-nicotine cigarettes: a new approach to safer smoking.” *BMJ*, 1976.

Industry Transformation

Transformation of the tobacco industry can provide an enormous and crucial acceleration to the process of reducing harm associated with tobacco use, particularly smoking. Conversely, if tobacco companies choose to delay or fight this transformation, progress could be slowed.

Transformation of the tobacco industry can provide an enormous and crucial acceleration to the process of eliminating combustible tobacco. Conversely, if tobacco companies choose to delay or fight this transformation, progress could be slowed.

Tobacco companies are encouraged to phase out, as rapidly as possible, the production and sale of high-risk tobacco products (including cigarettes, cigars, cigarillos, gutka, and certain kinds of chewing tobacco). They may further contribute by innovating and transitioning their product lines toward lower-risk alternatives, which may help existing smokers to improve their health outcomes and ultimately quit altogether. The companies should also take measures to prevent unintended consequences of this approach, including new uptake, while also ensuring consistency of related goals and activities across all markets.

Many will doubt the likelihood of such a transformation ever taking place. However, there are several factors that convince us it is possible.

Disruption is already under way. New technologies are reducing the health risks associated with nicotine delivery compared with traditional products, especially combustible tobacco. Many smokers have adopted these reduced-risk alternatives, which are contributing to unprecedented decreases in smoking rates in certain countries.

Competition can accelerate transformation. Differentiating companies, even within a sector like tobacco, can be an effective tool for changing behavior. If just one actor perceives an advantage in contributing to the public good, even in its self-interest, it could play a part in influencing further change among competitors.

Other industries are changing, too. Even harmful industries can change, and many are changing, by undergoing a transformation toward cleaner activities and products. Given its devastating health impact and lack of trust, the tobacco industry presents an even greater challenge than most if not all other sectors. However, it now faces many of the same things that have provoked change in other sectors: disruptive innovation, changing consumer preferences, societal pressure, and growing regulatory risk. With the right leverage points, a similar process could be triggered here.

Investors are interested and can bring their influence to bear. While some investors have chosen to divest from tobacco, others opt for ownership and engagement with regard to companies' plans to transform for the future. By making their interests clear, and by engaging with companies, investors can wield enormous influence over management decision-making.

Stakeholders will use this added information and insight to better understand the real and potential scope of transformation, to encourage positive steps by companies, and to hold poor performers accountable.

The Index aims to accelerate transformation by objectively measuring the nature of tobacco companies' allocation of capital, research and development, marketing, product sales, regional variations, production decisions, violations, and more. In turn, stakeholders will use this added information and insight to better understand the real and potential scope of transformation, to encourage positive steps by companies, and to hold poor performers accountable.

Project Consultants

In September 2018, the Foundation issued a Request for Proposals (RFP) to develop and implement the Tobacco Transformation Index (at that time, named the Smoke-Free Index). After careful consideration, two award selections were made in January 2019 and the program was initiated in February 2019. Euromonitor International was awarded lead responsibility for index process design, research and analysis, and reporting. SustainAbility was awarded lead responsibility for stakeholder engagement, development and facilitation of an independent advisory panel, and post-publication project review.

Global Stakeholder Consultation

Stakeholder input is essential for establishing a robust, credible, and effective index. Therefore, at the outset of the project in early 2019, the Foundation for a Smoke-Free World charged SustainAbility with designing a global consultation process to gather feedback from a wide range of experts and interested parties.

Stakeholder Selection

To inform development of the Index, we sought perspectives and opinions from stakeholders representing diverse disciplines, geographies, and backgrounds. In institutional terms, the universe of stakeholders targeted included the following:

- **Academics/Researchers** focused on public health, tobacco control, harm reduction, and economics

- **Associations** focusing on agriculture, consumers, alternative nicotine products, and corporate responsibility
- Business, including experienced leaders and subject matter experts from other sectors
- **International Organizations**, including multilateral health and labor organizations
- **Investment Community**, including financial analysts, asset owners/managers, data providers, and other experts
- **Media**, including general and specialist news outlets
- **NGOs/Philanthropy**, including health advocacy organizations, campaigning groups, and other index initiatives
- **Think Tanks/Policy Organizations** providing thought leadership, analysis, and advocacy on relevant issues

Although representatives of the tobacco industry are also recognized as stakeholders of the initiative, they were excluded from this phase of engagement. (For more information, see **Engagement with Tobacco Companies** below.)

Multi-Stakeholder Dialogues

Multi-stakeholder dialogues and small-group consultations were held in seven countries between May and October 2019. **Figure 1** summarizes the scope and timing of these sessions. The purpose of these meetings was to invite stakeholder reactions and inputs regarding the feasibility and application of the Index, the specific topics it should address, and the measures necessary to ensure its research process and outputs will be perceived as objective, credible, and effective.

Figure 1 Global Stakeholder Dialogues

Locations were chosen to represent diverse regions and with reference to smoking prevalence, population, and the presence of the tobacco industry and/or its investors.

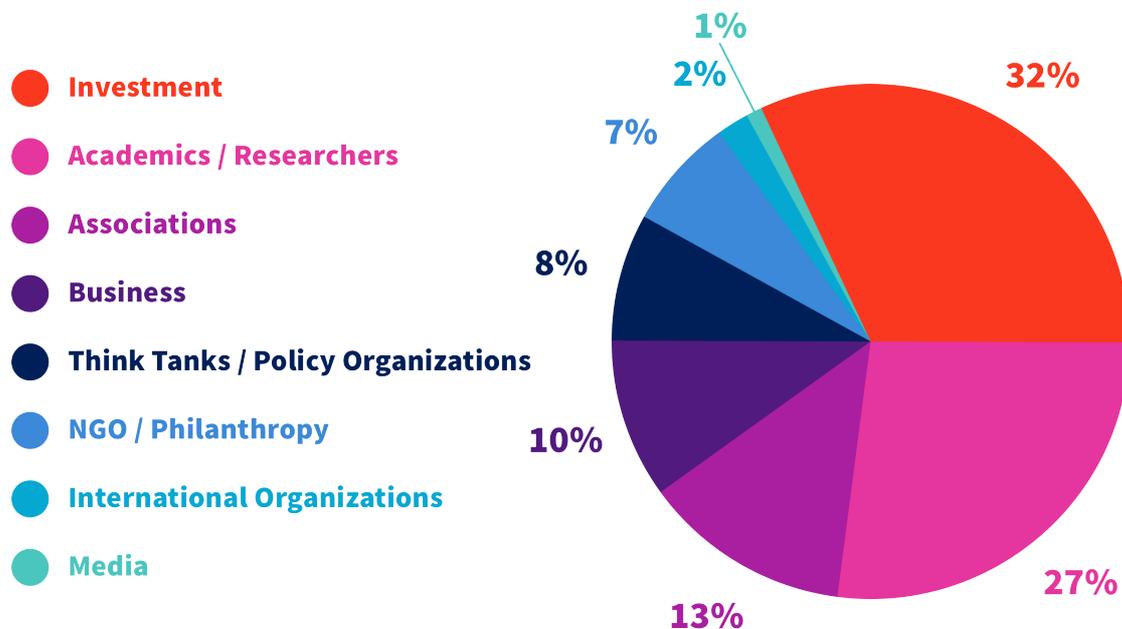


The sessions were moderated by SustainAbility under the Chatham House Rule, in which the identity and affiliation of participants are held in confidence in order to encourage open, candid discussion of differing points of view. Each session began with presentation of the concept of the Tobacco Transformation Index and its draft indicators. Stakeholders were then invited to react to both. Participants shared their views in a combination of plenary and breakout discussions focusing on the strategy, content, and process for the Index. Discussion questions included:

- Can a market-based approach be additive to other efforts to transform the tobacco industry?
- How might the Index be useful to key audiences including companies, investors, and civil society?
- Which topics are and indicators are most important?
- How does the country backdrop provide relevant context for gauging the behavior of companies?

Figure 2 Stakeholder Representation

Stakeholders consulted represented a range of relevant institutions and disciplines.



Supplemental Conversations

Beyond the formal dialogue events, the Foundation and the Index development team consulted with dozens of additional stakeholders via extended email exchanges, direct meetings, and phone conversations, in order to gather additional insights and perspectives.

Furthermore, as the initial consultation process was concluded and formal design of the Index began to take shape, we followed up with the parties we'd previously consulted to share progress of the initiative and invite feedback on the emerging design. This resulted in several additional points of feedback and follow-up discussions.

Stakeholder Opposition

Unfortunately, not all relevant stakeholders were willing to engage. Some had no desire to address the issue of tobacco at all. Others expressed appreciation for the goals of the initiative but did not support the concept of an index as a means to drive change. However, the majority who refused to engage did so based on their attitude toward the Foundation for a Smoke-Free World and its funding relationship with Philip Morris International.

In most cases, these stakeholders simply declined to participate in the dialogues and/or respectfully expressed their opposition. However, some chose to issue public criticism and discourage other stakeholders from participating. As a result, two of the planned dialogues – in Istanbul, Turkey and Bangkok, Thailand – were canceled.

Unfortunately, these efforts mischaracterized both the substance and motivations of the Index and the proposed dialogues. In fact, we specifically sought to engage with these stakeholders in order to ensure diverse and critical viewpoints were included, and we did so in good faith. In reaching out to them, we stressed that critical perspectives were welcome and that participation in the dialogues would not constitute endorsement of either the Index or the Foundation for a Smoke-Free World.

While we regret that we could not talk directly with these stakeholders in this instance, we remain committed to, and continue to welcome, engagement with experts in these regions and with critical views of the Index and the Foundation.

Engagement with Tobacco Companies

For the initial stages of consultation, including the stakeholder dialogues and supplemental bilateral conversations, direct employees or representatives of the tobacco industry were excluded. This was to ensure that other stakeholders could express their views openly and free from any concern about industry bias or influence. It also helped ensure the strategy and design of the Index would be firmly rooted in the public interest to improve health, rather than in any competing interest on the part of the industry.

However, engagement with the companies is necessary to inform and hear feedback from them, as well as to invite them to share data to be evaluated as part of the Index. Given tobacco companies' poor track record and lack of trust among other important stakeholders, such engagement must be approached with caution.

In light of this, a separate process for company engagement is being followed. In October 2019, after the conclusion of the dialogues, targeted companies received an initial letter from the Foundation introducing the concept of the Index. This was followed, in November, by a letter from Euromonitor detailing the process for consultation with companies and procedures for the collection of non-public company data. Included with the letter was a preliminary draft of company indicators and an invitation for feedback on their feasibility and materiality. Initial company feedback was received during December and January.

It is expected that engagement with the tobacco companies will also continue after publication of the Index, to assist them in understanding and applying its findings, learn more about their approaches to transformation, and ensure the Index program has the desired impact over time.

The Index is committed to transparency and accountability concerning all interactions with the tobacco industry. This includes, at a minimum, disclosure of the subject and timing of all such interactions.

For additional information and disclosure of industry interactions, see tobaccotransformationindex.org.

Ongoing Consultation

This report summarizes results of stakeholder engagement for the initial phase of development of the Tobacco Transformation Index. These consultations have enabled the Foundation and the Index development team to hear valuable feedback on the proposed strategy and development process, and to identify key considerations for the design of the indicators and evaluation criteria, which will be detailed in the Index methodological report.

However, even as we move to the next phase of development, we will continue to rely on the valuable knowledge and insight of diverse stakeholders. In that spirit, the Foundation and the development team are committed to open and ongoing dialogue with all interested parties.

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To share your views, please contact us via tobaccotransformationindex.org.

2 Feedback on Strategy & Approach

Stakeholders were invited to give feedback on the overall concept of the Index, including its feasibility and capacity to help drive change in the tobacco industry. Over the course of the dialogues, this led to discussion of several key issues and considerations that are helping to shape the Index program.

“The development of the Index is coming at the right time, as the industry is facing some significant challenges.”

“Don’t underestimate the competitive nature of companies. Everyone wants to be on a list if it’s a reputable list.”

“Publishing an index on its own doesn’t drive change; it’s the fact that you’re going to publish another index that drives change.”

The Role of an Index

The success of any index or benchmark is dependent on stakeholders’ ability to utilize it to effectively influence the decisions and activities of the target companies over time. With this in mind, stakeholders raised several points concerning the utility of the Index and how it could aggregate and disseminate information to the stakeholder groups capable of driving industry change.

Stakeholders broadly acknowledged that, if done right, the Index has the potential to foster a useful multi-stakeholder discussion and process that could meaningfully shift the trajectory of this harmful industry. In particular, the discussions affirmed the potential value of the Index to several key groups including investors, researchers, policymakers and regulators, public health and tobacco control advocates, and tobacco companies themselves.

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Value to Investors

While participants understood the general relevance of the Index to investment stakeholders, several called for clearer articulation of how specific subsets of the financial community might use it. For example, how might the value of the Index vary when applied to asset managers versus analysts, or active versus passive investors? Others dwelled on the role and impact of the divestment movement and how likely it is that investors who remain invested in tobacco will effectively engage around the issue of risk-reduction.

Other discussions centered on the ability of the Index to provide additional data and insight beyond what investors and analysts already know. In several cases, it was noted that while the analysis and scoring within the Index is useful for generating interest and advancing certain narratives of change, investors would likely see the greatest value in the potential availability of additional, disaggregated data, and/or unique new metrics that they could utilize in their own analyses of the industry. It was therefore recommended that, to the extent legally possible, data be made directly accessible for this purpose.

“It’s important to give some thought as to how you engage with institutional investors; there is some real maturing that is happening among investors, where the discussions on trade-offs are becoming more sophisticated.”

“As investors we are very skeptical that companies on their own will transition to new ways of doing things... With my experience on climate change, for instance, driving transparency and the adoption of science-based targets is very much more effective than leaving it to industry to self-regulate.”

“In asset management, if you want to do something different, you need to use tools and an index is a good idea to spur change.”

“Getting the feedback from the investor community is probably worthwhile. If people are not going to choose divestment tomorrow and want to have a best in class approach, then the Index is useful.”

“The biggest value of the Index is that it will take buried information into the public domain. It may influence investors, it may not. It may not be a silver bullet, and it may not change anything for 20 years, but it can only have a positive impact.”

“You need to think about how to disaggregate the data so that investors might do their own assessment. So you might want to give more data and come up with innovative ratios.”

Another point of discussion was the degree to which the Index might encompass broader ESG (environmental, social, and governance) topics relevant to the industry and its investors, such as human rights or climate change. Some suggested that, given the importance of these themes to existing investors and industry observers, including them could make the Index more robust and valuable – i.e., more of a one-stop-shop for understanding ESG performance for the industry. Conversely, a strong majority worried that doing so could dilute the central focus on public health and the highest-risk tobacco products. It was also noted that such issues may already be effectively addressed by other tools and/or company disclosure requirements. (See also **Other ESG Factors** in **Chapter 3**.)

Value to Companies

Stakeholders strongly affirmed the value of benchmarks and indices as tools for engaging companies and influencing them toward a desired change. They noted that key uses for companies include better understanding societal expectations in relation to the target issue(s), understanding and disseminating best practices, benchmarking actions against those of competitors, and helping to gain buy-in and mobilize resources internally.

However, some stakeholders wondered if tobacco companies could ever be motivated by such an index, and whether they would find it in their interest to engage with and provide data for the initiative.

Other stakeholders, particularly those who were very familiar with indices, confirmed that other such tools were initially met with the same skepticism but eventually became essential platforms for change within their target industries. They stressed that corporate competition is not to be underestimated and the potential opportunity to call out and pressure the worst offenders is significant in this context. It was noted at multiple dialogues that the true value of an index lies not in its first publication but rather in the knowledge that it will be published again in the future.



Value to Other Stakeholders

There was general agreement that the Index – consisting of both the core company ranking and supplementary country fact sheets – could provide valuable data and insight to other stakeholder groups beyond investors. As it relates to tobacco, civil society organizations and regulators aim to improve public health using various means available to them. To use their resources efficiently, they want to ensure their energy is focused on high visibility/high impact issues. Therefore, these

stakeholders might use the Index to monitor and influence industry change, and to challenge poor performers.

Stakeholders also noted that academic researchers, journalists, and others are engaged in examining and influencing the activities of the tobacco industry, and could therefore find value from the data and insight provided by the Index, provided they judge it to be objective and credible.

Smokers were also recognized as an important constituency. While it was accepted by virtually all participants that they were not likely to engage directly with the Index, several people emphasized that smokers' health and lives are very much at stake in the potential transformation of the industry, and therefore that they should be carefully accounted for as the initiative evolves. Similarly, the impact of industry transformation on tobacco farmers and others working in the industry's global value chain was noted and discussed. (See also **Value-Chain Transition** later in this chapter.)

“The Index should have a focus. If you add too many indicators it just becomes confusing. You should also keep it usable for people you want to collect data from.”

Balancing Stakeholder Perspectives

It was frequently noted that the interests of each stakeholder group are widely divergent. Companies and their investors are focused on commercial success and investment returns, and are therefore likely to see the value of transformation only through this lens. In contrast, public health authorities and advocates are focused on protecting and improving health, and consider industry or investor motives entirely at odds with those goals.

In light of this, several participants cautioned against trying to be all things to all people, both to avoid being at cross purposes and because of the danger of making the Index too complex. Several urged prioritization of one, or at most two to three, key audience(s), and to think clearly about what specific factors will motivate them to engage or participate in the transformation sought by the Index. In this context, the importance of influencing investors and company managers was repeatedly highlighted.

However, others took the view that, because the process of industry transformation will involve many diverse influences, actions, and potential impacts, the Index should aim to inform a broad range of stakeholders, and to focus on aligning their interests to the extent needed to catalyze change.

Harm Reduction as a Lever of Change

As highlighted in **Chapter 1**, the Index is being built upon the principle of harm reduction as a potential lever for transformation of the tobacco industry and a means to reduce the death and disease caused by its products. In discussions with stakeholders, both the promise and potential perils of this approach were a frequent and prominent theme.

Overall Ambition

In several dialogues, there were extended discussions of whether harm reduction generally, and the elimination of combustibles specifically, were ambitious enough. Some stakeholders advocated that the end goal should ideally be not just ‘smoke-free’, but eventually also ‘tobacco-free’ or ‘nicotine-free’. In one instance, it was suggested to consider anchoring on the goal of zero harm or zero fatalities, in order to emphasize the core focus on improving health. However, others disagreed, noting that the essence of the harm reduction approach is to not let the perfect be the enemy of the good.

Often, this discussion was concluded with the recognition that harm reduction is a significant enough goal for the near term, but that it is conceivable that the Index could evolve to embrace other goals in the future.

“In the long term, we would like to foster a shared vision of tobacco companies ultimately withdrawing from a business model that makes money out of selling products that harm people’s health. The world is currently working towards zero carbon by 2050; perhaps a goal of zero tobacco by 2050 could be set so that companies can be assessed for their progress in business transition against that goal.”

“I can’t help thinking why ‘smoke-free’ and not ‘addict-free’; this seems to be letting the industry off the hook a little bit. Focusing on addict-free is a little bit harder, but this is what we should be aiming for.”

“The purpose of the Index doesn’t need to be too ambitious. We won’t achieve anything. Best if it is narrowed to combustibles as the major purpose and then it can be expanded later on.”

Nicotine

Regardless how the overall ambition is framed, a number of stakeholders still sought clarity about the Foundation’s and/or the Index’s long-term position on nicotine. Some expressed the view that, even though combustion accounts for the majority of harm, nicotine itself is still problematic, either because of potential direct harm or purely because of its addictiveness. But a number of other participants saw things differently, arguing that moderate nicotine use is not proven to cause direct harm (and is perhaps even beneficial to some users), and thus, in the absence of the serious risks associated with combustion, does not pose such a big problem in its own right.

Understandably, this debate was closely tied to discussions concerning youth and non-smoker uptake, industry motives, and the ultimate scope of transformation sought by the Index, each of which are further discussed below.

The issue was not fully resolved but in each case participants made a genuine effort to grapple with both points of view, acknowledging that there will be ongoing sensitivity and therefore that the Index must treat it with care.

“It cannot simply be about creating a smoke-free world; it needs to be about creating a ‘responsible’ smoke-free world. We don’t want to replicate the same behaviors around reduced-risk products. This responsibility of the Index should be made explicit.”

“When I look to this kind of consumer products that are problematic, like snacks, [sugary] beverages, and cigarettes, my main concern is if the companies are making a sincere effort to change things, or if they are smartly going around and actually doing the same thing but in a different way.”

“Why not start with a simpler and more streamlined product, and improve it continually, with stakeholder engagement and industry buy-in along the way?”

Industry Appropriation

Another concern posed by participants was around the possibility that harm reduction is being exploited by tobacco companies as a ploy to escape the industry decline already being brought on by tobacco control efforts – in other words, that this would boil down to transformation only on the industry’s, rather than on society’s, terms.

For some, this led to concern that the potential benefits of reduced-risk products might be overstated, and/or that whatever marginal benefits do exist, they might be undermined by the industry continuing to be allowed to pursue a business model based on addiction to nicotine. This linked to the worry that alternative nicotine products might attract new users of nicotine (often referred to as ‘never-smokers’), particularly young people, and/or that the availability of reduced-risk products might lead some smokers to continue using nicotine when they otherwise might have quit – both assumed to be welcome co-benefits from the point of view of tobacco companies.

But participants in some of these discussions stressed their view that whether or not companies try to exploit it for their own benefit, harm reduction is still a worthwhile response to the issue of smoking and should be pursued regardless. It was also noted that the large tobacco companies did not originate the concept of harm reduction, nor have they been responsible for the initial innovation and growth of alternative nicotine products. Rather, these should be understood as disruptive trends that create the opportunity, but not the guarantee, of transformation.

In many cases, ensuring the industry pursues harm reduction opportunities as responsibly as possible was recognized as one of the critical functions that could be served by the Index, and it was recommended that it be developed with this in mind.

“I wonder about the ethics... How much should companies force their consumers versus how much should they allow choices by [putting] alternatives out there.”

“With the absence of scientific validation or consensus, it is not clear if the claims of risk reduction are warranted.”

“I think a focus on preventing youth consumption is completely right. But I think there are nuances when it comes to adult non-smokers.”

Appropriately Positioning Reduced-risk Products

In a similar vein, stakeholders at several dialogues noted that the Index’s credibility will depend heavily upon whether it is perceived to be actively *promoting* the use of alternative nicotine products – which is seen as a goal of the tobacco industry – versus recognizing them as one potential pathway for phasing out high-risk products. While some expected that criticism along these lines will occur no matter how the issue is handled, stakeholders nevertheless urged a careful approach with clear emphasis on the fact that reduced-risk does not equal zero-risk, and that cessation remains the best overall path for improving the health of smokers.

Understanding Relative Risk

In discussing the potential role of alternative nicotine products in industry transformation, stakeholders urged particular caution in understanding the relative risks of different product types, and in applying that understanding to the evaluation of companies’ transition progress.

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While it was agreed that cigarettes and other traditional products pose the highest level of risk, several stakeholders stressed that there are meaningful variations in risk associated with different alternative nicotine products and that these should be better understood and taken into account. In light of this, some recommended that the Index avoid the use of the potentially over-simplified binary of ‘high-risk’ versus ‘reduced-risk’. Others emphasized that, due to the continuing

emergence of new products and additional information becoming available over time, the overall picture will continue to evolve, and the Index should therefore remain adaptive.

Some stakeholders encouraged the Index to go as far as scoring companies differently on the basis of the relative risk of products in their portfolio or, at the very least, to work toward this for future editions. Whether or not this step is taken, attendees encouraged the Index to more clearly reference the underlying evidence related to reduced-risk products, both to enhance its own credibility and to justify wherever the boundaries between different levels of risk are ultimately drawn.

Non-Smoker Uptake

Stakeholders discussed that an important and persistent worry with tobacco harm reduction is that, as alternative nicotine products are made available and attractive to existing smokers, they may also be adopted by people who did not previously smoke or use nicotine at all. To the extent this isn't prevented, then the reduction in risk to existing high-risk product users may be offset by potential harm to new users of alternative products.

Stakeholders across all the dialogues were strongly aligned in the view that youth uptake particularly must be prevented and that this should be addressed by the Index. For many, there was a simple presumption that companies would seek to attract as many new users as possible and that their activities should therefore be aggressively monitored. Others were open to the possibility that companies could limit their focus to adult users, but there was still a general impulse to be cautious.

The issue of adult (above legal age) non-smokers provoked a wider range of views. Some said it should be expected that tobacco companies will continue to seek new customers. It was also noted that, in most jurisdictions, adults have the legal right to choose whether or not to use nicotine products, and thus, beyond operating within the law, companies can't really be expected to try to stop them.

But other stakeholders cautioned against ignoring or discounting the issue. They acknowledged that, to the extent any new adult users are likely to have adopted traditional, high-risk products instead, then adoption of reduced-risk products likely still reduces harm. However, if reduced-risk products attract users who were *not* likely to use traditional products, it will result in potential harm that otherwise wouldn't have occurred, and the impact of industry transformation will be diminished.

Prolonging Risk for Smokers Who Would Otherwise Quit

Similar concerns arose about the possibility that existing smokers might come to see reduced-risk products as an alternative to quitting altogether, and that they would therefore increase risk by maintaining their habit longer than they otherwise would have.

Again, for some stakeholders, there was concern that tobacco companies, fearful of the gradual decline in smoking rates already under way, might be specifically seeking this outcome. Generally speaking, stakeholders remained hopeful about the potential of harm reduction as a public health goal, but some urged attention to companies' product development and/or marketing practices that could make these products too appealing as an indefinite habit versus a cessation tool.

However, an alternative view was that, given how low traditional quit rates are, this should not be a significant concern, and that efforts to make the new products appealing are among the key reasons why they hold potential to reduce risk in the first place.

Other Determinants of Change

Throughout the consultations, stakeholders recognized and discussed that industry transformation will not happen in a vacuum; in other words, that a range of other factors – such as academic research, public policy, activism, and consumer awareness and attitudes – will help shape the pace and scope of potential change within the industry, and should therefore be taken into account in design of the Index.

General Market Context

Stakeholders repeatedly noted that the context in which companies operate varies widely from country to country and is therefore crucial to understanding their overall performance. For this reason, they expressed strong support for the intention to create supplemental fact sheets providing added context – particularly concerning applicable regulations, the shape and influence of the tobacco industry, and the state of tobacco use and public health – in key countries.

Stakeholders repeatedly noted that the context in which companies operate varies widely from country to country and is therefore crucial to understanding their overall performance.

In discussing the potential application of the country fact sheets, it was acknowledged that they might replicate some data points that are already available via other sources. But several stakeholders highlighted the value that would come from effectively consolidating and combining these with other, potentially novel data points and integrating all of this with the company index, as a means to put companies' activities in context. (See **Chapter 4** for more detailed discussion of the country fact sheets.)

Tobacco Control Policy

Tobacco control policies have helped deliver important progress in reducing cigarette consumption in a number of countries. These efforts have been propelled in part by implementation of the World Health Organization (WHO) Framework Convention on Tobacco

Control (FCTC), which guides member states in setting rules governing the production, sale, distribution, advertising, and taxation of tobacco. Although the Index takes a market-based approach, the underlying goal of both initiatives – reducing the preventable disease and premature death associated with tobacco use – is the same. Therefore, the Index seeks to be complementary to ongoing tobacco control efforts.

However, in the dialogues, stakeholders frequently highlighted that the global tobacco control community, led by the WHO, remains largely skeptical of harm reduction and sharply critical of those calling for engagement with the tobacco industry. In a growing number of countries, tobacco control advocates are seeking to block potential reduced-risk products from entering the market at all, on the premise that they will renormalize nicotine use and create a new generation of addicts, even while cigarettes and other legacy products remain widely available.

A number of stakeholders worried about the possibility of these efforts constraining the ability of tobacco companies to do anything *other* than maximize their return from existing high-risk products. At the very least, this underscored again stakeholders' advice to take country context into account when evaluating company performance in the Index. (See also **Influence of Country Context on Company Scoring/Ranking** in **Chapter 3**.)

But beyond the impact of any such policy measures, stakeholders were also concerned more generally with ongoing hostility from the tobacco control community. At several points, they wrestled with the question of how to address and defuse this opposition or, at the very least, to enable more constructive engagement between the parties.

Yet, in spite of these worries, stakeholders generally agreed that these challenges are likely to persist and several suggested that the Index could do little besides moving forward and continuing to seek improved engagement over time.

3 Feedback on Company Index

The purpose of the Tobacco Transformation Index is to highlight corporate actions that either support or impede progress toward industry transformation. To do this effectively, it must capture and evaluate the indicators most material to the desired change. The Foundation and the Index development team began with a point of view on what these would be, but stakeholder consultation was essential to inform and deepen this perspective. This chapter summarizes key themes and points of feedback that arose from these discussions.

Strategic Focus

Beneath overall purpose, but still above the level of individual indicators, stakeholders sought clarity on exactly what, in strategic terms, the Index will encourage tobacco companies to do, and in turn, what kind of transformation it might bring about. This led to several fruitful discussions regarding framing and strategic focus, and how they can help ensure a solid basis for the overall design.

Commitment, Performance, Transparency

As discussed in **Chapter 2**, the Index seeks to encourage tobacco companies' to phase out high-risk products and to develop and responsibly offer reduced-risk alternatives. To evaluate this, the Index must look at both what the companies are *saying* and what they are *doing*. This is reflected in the adoption of a simple set of pillars, drawn from the examples of other indices, of *commitment*, *performance*, and *transparency*. In basic terms:

- **Commitment** includes the presence and/or character of relevant goals, policies, and strategies;
- **Performance** highlights tangible actions and their results; and,
- **Transparency** underscores the importance of open, honest disclosure to enable all stakeholders to be aware of and make their own assessment of a company's ambitions and actions.

In discussions, stakeholders considered the nature and value of each pillar, their relative importance, and their interdependence. Most stressed that, for the purposes of the Index, and given skepticism of tobacco companies' motives and trustworthiness, performance must trump all else. However, nearly all agreed that the other two pillars were essential.

Regarding commitment, it was acknowledged that companies might exhibit a certain degree of change by accident or as a matter of course – due to general trends in the industry, maybe, or a desire to blunt criticism – but that, given the serious nature of the issues at hand, intention matters. Furthermore, some argued that a far-reaching transformation like this can only happen with the active commitment of high-level leaders and through the adoption of effective strategies and plans across the organization. Finally, it was noted that transformation will take time to manifest, and so commitment is that much more important in the near term.

Transparency is seen as particularly important in the near term also. Stakeholders emphasized this pillar because of the industry’s generally poor track record in the past and the sense that merely getting companies to disclose relevant information will be a significant challenge. Some even argued for transparency to become the central focus of the Index, or perhaps the basis of a minimum standard for including companies in the first place.

From the outset, the objective of the Tobacco Transformation Index is to be primarily performance-weighted, but to also consider commitment and transparency as further contributors to, and possible leading indicators of performance.

“Revenue generation outside of tobacco would be a metric disaster because if a company does good on that metric but it doesn’t do anything good for society that’s not useful, right?”

“There is a very big risk in encouraging new people taking up smoking, so weighting high for that category might be useful. There is also merit to having revenues from other sources – because they need to figure out how to replace their revenues outside of combustibles and it means they will want to change their business models.”

“The current indicators reflect where the industry is already going. I think that this index should focus on where a healthier society needs to go, to serve as a pull that repositions the business. Therefore, the indicators need to look at moving beyond addiction.”

“The stated aim of this initiative is to deliver a smoke-free world within a generation. If we’re serious about this, then the companies will need to transform their business models over a reasonably short timeframe. It’s important that the Index authentically captures this target.”

Less Combustibles vs. More Alternatives

When discussing how to evaluate relative performance of companies, many stakeholders saw the ratio between a company’s sales of combustible and reduced-risk products as a key indicator. However, conscious that reduced-risk still entails risk, some cautioned against conveying an overall message of *high-risk products: bad, reduced-risk alternatives: good*. Not all were sure this could be avoided, but some recommended ranking companies with greater emphasis on reduction in sales of high-risk products by any means, rather than on specifically increasing sales of reduced-risk products.

Conversely, several investors and business-minded participants argued that shifting sales to reduced-risk products was an important value-driver for companies and would thus be of keen interest to many stakeholders. Their perspective was that, even if companies pursue this course

purely for commercial reasons – including to maintain profits as traditional smoking declines – it can still lead to the desired outcomes in public health. Further, they argued, it is precisely by harnessing the market in this way that transformation can be brought about.

The same perspectives extended to how to evaluate companies' investments in research and development, future production, etc., which can serve as leading indicators for where a given company is headed. As with sales, the ratio between investments related to high-risk versus reduced-risk products was seen as a crucial measure. But again, some stakeholders warned against overweighting investments in reduced-risk products versus simply ensuring that investments in high-risk products are declining, whereas others expected investors to exhibit keen interest in reduced-risk products as an indication of companies' future competitiveness.

Transformation Beyond Tobacco/Nicotine

Again, while most participants endorsed focusing on tobacco harm reduction in the near term, a number were interested in what transformation might look like over the longer term. A few pushed for setting a higher ambition around eliminating addiction and/or the use of nicotine. Others noted that, whether or not this was the stated ambition, it was potentially already implied – because, if the aim is within a generation to encourage existing high-risk product users to switch to reduced-risk alternatives and ultimately quit altogether, while also not attracting new users, this suggests a relatively tight timeframe for fundamental business model transformation.

On this front, it was suggested that the Index at least partly focus on assessing how companies are 'future-proofing' their business beyond nicotine sales. However, some stakeholders advised against this, noting that some companies' past attempts to diversify – for example, into alcohol or food and beverages – had been neither successful nor particularly desired by investors. One participant summarized this view: if investors want to put their money in other businesses, they're free to do so, and they're likely to earn far better returns from established players rather than newcomers in those sectors.

Still, some stakeholders said that, over time, particularly if transformation is framed in broad terms, companies may find novel ways to evolve, whether by applying their existing knowledge and patents in new ways, or perhaps by leveraging their relationships with customers to provide fundamentally different forms of value. Others urged attention to different corporate cultures around the world – in particular, the American/European idea of companies being more narrowly defined and built around the notion of core competencies, versus some countries' idea of companies as social institutions that are expected to be active in many different sectors of the economy.

Core Indicators

Participants recognized that the final Index will address multiple issues and thus entail many different indicators. However, many discussions regarding design focused on what would be at its core – i.e., the one or two key numbers or ratios that would best encapsulate companies' relative

progress toward transformation. Again, performance (in the form of tangible actions and their results) was nearly always seen as the most important issue, so there was broad agreement that measuring the rate and magnitude of reductions in high-risk product sales, and the transition to reduced-risk alternatives, should be at the core.

Stakeholders considered a range of ideas for what would best indicate a company's overall trajectory. The following ideas were among those proposed as key indicators of transformation.

- Revenues/volumes by product type – This was most frequently cited, as many felt it would be the clearest and simplest indicator of transition, and that it would likely tell a unique story about each company's chosen approach and progress. It was emphasized that both revenues and volumes must be considered, since investors will appreciate the former while the latter will indicate the actual relative use of different products in the market.
- Amount or percentage of capital allocated – Capital allocation was seen as a potential leading indicator of transformation – e.g., if a company is investing heavily in development of reduced-risk alternatives, and simultaneously reducing investments in high-risk products, the implication is that they are pursuing transformation. However, some investors urged caution, noting that not all deployment of capital is as efficient or effective as it should be, or that differences in capital intensity might just be reflective of different strategies for transformation, so it could be difficult to discern exactly what the numbers mean. Additionally, some argued that investments in product development only truly matter if the resulting products are eventually commercialized, so this should be taken into account as well.
- Ratio of staff focused on traditional vs. reduced-risk products – In one instance, a group of stakeholders focused in on the role of the workforce, arguing that the pace at which a company shifts staff resources toward the development and/or commercialization of reduced-risk products would be a strong indication of what direction the company is moving in.
- Number and nature of new product offerings – Some suggested looking more closely at the products a company is bringing onto the market. Are they continuing to expand the reach and footprint of traditional, high-risk products, and/or are they focused on providing reduced-risk products that might entice different kinds of smokers to switch?

“You can spend a lot of capital for no good reason. And you can spend a little capital and have huge effect.”

“There are two categories that should have the highest weight because at the end of the day this is what matters the most: revenue by product and the capital allocation. From an investor perspective, that's the way we would mostly look at it.”

Other Key Issues

Beyond consideration of potential core metrics, stakeholders noted and debated a number of other issues to keep in mind during design, and/or to potentially to address through the selection of additional indicators.

Differentiating Product Risk

A few stakeholders honed in on the issue of relative risk of different products. In particular, they cautioned against making a simple binary distinction between high-risk and reduced-risk, for fear that as more data become available, there will be clearer and clearer distinctions between different types of reduced-risk technologies and products. Instead, they argued, the Index would ideally find a way to take relative risk into account in its scoring of companies, with the available technologies and their relative weightings being updated with each cycle, based on the best-available science at that time. (See also **Understanding Relative Risk** in **Chapter 2**.)

“Should the Index take into account the use in certain populations? Not just the harm of the product itself but also understanding the social harm done, beyond just volumes?”

Activities in High-Income vs. Low- and Middle-Income Countries

Participants strongly endorsed the Index’s intention to differentiate companies’ behavior in low- and middle-income versus high-income countries (LMICs and HICs, respectively). In particular, they noted companies’ longstanding efforts to exploit weak policy and enforcement to maximize growth in LMICs, especially as comparatively stronger policies have begun to really constrain the industry in HICs. This led to the worry that a similar dynamic could play out now – i.e., with the most serious efforts toward transformation occurring only in select developed markets, while developing countries remain status quo or move in the opposite direction.

However, it was also discussed whether or not these differences are entirely within the companies’ control, as the character and behavior of the industry are partly shaped by regulatory and policy circumstances in any given location. In particular, stakeholders drew attention to current debates in many countries about how to regulate e-cigarettes and other alternative nicotine products, with several stakeholders suggesting the more that such alternatives are restricted, the more likely the industry will maintain focus on existing high-risk products. On the other hand, it was argued that companies also clearly exert influence, and some may even have the wherewithal to exit certain markets, so shouldn’t be let off the hook.

The issues of appropriate product development and pricing were also mentioned. If reduced-risk products are not suited to a given market and/or are not priced competitively, then there can be little hope of a large number of high-risk product users making the switch. Again, it was suggested that this may not be entirely in companies’ control, especially if the right combination of policies, technology, and consumer preferences is not yet present. But once more, stakeholders said that companies have quite a bit of leeway to find the right approach, as long as they’re committed to it.

These issues underscored again the importance of the context to be provided by the supplemental country fact sheets, but also the need to carefully attend to both the push and pull between companies and their operating environment.

Policy Influence

Given the importance of policy in shaping industry activities, but also the recognition that the industry influences policy, stakeholders encouraged careful attention to companies' public affairs and lobbying activities.

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As a baseline, they felt it was essential to know simply what companies are doing – e.g., spending, affiliations, positions on key issues – in order to assess compatibility with efforts to reduce combustible and other high-risk product use, prevent youth uptake, etc. Conscious of the industry's past duplicity and the FCTC's provisions to limit industry influence, some dialogue participants suggested that the Index must track *any* involvement companies may have in the policy arena. A few stakeholders argued the Index might go even further and score companies for efforts to influence policy in the direction of industry transformation and harm reduction, as this may accelerate change at the system level.

In other discussions, stakeholders grappled with the practical challenges of assessing policy influence across different market contexts. For example, it was noted that, in some places, lobbying simply isn't permitted, and/or it takes enough of a different form that it will be difficult to develop indicators that effectively capture relevant activity across all markets. Others wrestled with the fact that a number of large tobacco companies are fully or partly state-owned, which raises challenging questions about how to distinguish their influence over government, or vice versa.

However, despite these challenges, stakeholders agreed that this should remain a critical focus of the Index and be refined over time.

“How does the company behave in the legal environment that is the loosest? For me it's the real measure of whether the corporate culture is aligned to values. If not constrained strictly, how does the firm behave? Second, what are the company's lobbying activities?”

“Companies are really pushing very different strategies in developed countries vs. developing countries. From a business perspective, it's easy for the 'moral case' to be made where there is a strong market for reduced-risk products; it's much more difficult in many developing-world markets where they're really pushing combustibles. I think some kind of metric that captures that differential could be a really good indicator.”

Voluntary Action vs. Compliance

In considering what topics to cover and where to place emphasis in scoring, stakeholders warned against the danger of “rewarding” companies for merely complying with the law – for example, if a company’s marketing code simply reflects the standards that are increasingly required as a result of FTC-inspired policies. Instead, they urged careful attention to companies’ overall position in relation to increasing regulation – i.e., whether they are undertaking voluntary action beyond compliance, and/or whether they are circumventing or fighting against policies that are essential to industry transformation.

Managing Externalities

While understanding the need for the Index to focus, index experts and investors suggested adopting a comprehensive view of what is being measured – for example, understanding how an activity in developed countries impacts the less-developed countries. They especially cautioned awareness of the context and broader implications the path the Index intends for companies to pursue. E-waste, social and gender equity, and potentially significant supply chain impacts were all mentioned as externalities to be considered in developing indicators for the Index.

Value-Chain Transition

Globally, the tobacco industry supports millions of tobacco leaf farmers that will be impacted by a transition away from traditional tobacco products. In a few of the dialogues, there were discussions about whether and how this issue should also be addressed by the Index. Some participants took the view that, since few of the major companies are vertically integrated, the issue is not directly related to their progress toward transformation.

Conversely, other participants – including several representing the interests of tobacco growers, particularly in low- and middle-income countries – argued growers are essential stakeholders to industry transformation and that companies (and indirectly, the Index) should take their interests into account. Participants also discussed whether this may go as far as measuring companies’ role in financing or otherwise supporting farmers as they transition away from tobacco growing, noting that the efficacy of any such investments would also need to be accounted for.

In acknowledgement of the significance of this challenge, the Foundation for a Smoke-Free World has established a separate program pillar and funding stream, known as the Agricultural Transformation Initiative, seeking to transition and improve the livelihoods of smallholder tobacco farmers, starting in Malawi. For more information, see smokefreeworld.org.

Other ESG Factors

Dialogue participants grappled with the question of whether the Index should track other important environmental, social, and governance (ESG) topics for the tobacco industry, such as climate change, agricultural impacts, fair trade, human rights, and child and forced labor. Proponents noted investors’ increasing interest in these topics, both generally and in the tobacco sector specifically. They also mentioned the lack of robust transparency and engagement tools for

the sector, and therefore the opportunity to attract even greater interest with a more comprehensive index.

A number of other stakeholders pushed back. Their view was that the Index's current focus on the public health impact of the industry's products was important and complex enough on its own, and that layering in additional issues, especially in the near term, would only distract from delivering on this core issue. Some also noted that, while a single, sector-focused tool would surely be appealing, some of the other key issues are effectively covered by other, issue-driven tools such as CDP's reports on climate change, water, and forests.

But there were also some who saw the opportunity for deeper integration between these two perspectives, arguing that the broader ESG lens was itself crucial to understanding companies' ability and progress toward transformation. In this vein, it was suggested to look closely at potential symbiotic relationships between product transformation and other issues, in order to put companies' strategies and performance in a wider systemic context.

"You could set the bar for a more ambitious index... to have the ambition of creating the next stage of the industry. In that sense, you might want to think about the systemic importance of ESG. Both WHAT and HOW are important."

"A massive number of employees are in middle management and the majority of them are in combustibles – the better they do, the worse company does in a smoke-free world. What could you do to address this with the index?"

"From an ESG investment perspective, the tobacco industry is ripe for change."

"The Index should take into account that companies want to redeem themselves. If we want investors to look at the index it will need to have a focus on broader issues such as human rights."

Employee/Management Incentives

Several stakeholders brought up employee incentives as an important indicator of companies' commitment to transformation. Most often, these suggestions focused at the executive level – if company leaders are evaluated and incentivized on efforts toward strategic transformation, then they are more likely to pursue them with creativity and vigor. But some participants were also interested in how these would cascade down to lower-level managers and account for geographic or other variations within such large organizations. They also questioned whether companies

would have difficulty in aligning incentives if they continued to have staff whose jobs were more closely tied to the legacy business – i.e., to high-risk products versus reduced-risk alternatives.

Methodology

Stakeholders also shared their perspectives on several issues related to how research and scoring of companies will be conducted.

Ranking ‘Less-Bad’

As previously mentioned, stakeholders were wary of the danger of the Index casting tobacco companies in too positive a light, or being used by others to do so. This was of particular concern when thinking about the core company ranking, where even modestly highlighting one company’s performance over another’s could be construed as celebrating or letting that company off the hook. For this reason, stakeholders aligned strongly with the idea of ranking companies in reverse – i.e. from ‘bad’ to ‘less-bad’.

In general, it was agreed that tobacco companies, by virtue of selling a harmful, addictive product, cannot truly demonstrate ‘good’ performance without a fundamental business model shift.

In general, it was agreed that tobacco companies, by virtue of selling a harmful, addictive product, cannot truly demonstrate ‘good’ performance without a fundamental business model shift. But striking the right balance between motivating them with the opportunity to demonstrate best practice without condoning their products will be difficult, and getting it wrong could be costly both to the reputation of the Index and to the overall cause of tobacco harm reduction. Consequently, stakeholders urged giving this extra emphasis in both the fundamental design of the Index and in how results are ultimately communicated.

“In a country that has growing demand for cigarettes and a ban on low-risk alternatives, I don’t see how a company can be reasonably required to reduce sale of combustibles.”

“There has to be some evaluation of the regulatory environment if you want to encourage action in the companies themselves. The market changes a lot. A lot of regulations, market and product changes. An annual index would be good.”

Influence of Country Context on Company Scoring/Ranking

As noted earlier, stakeholders agreed that companies’ behaviors can be either incentivized or constrained by economic, political, legal, and cultural factors in the countries where they operate.

They were therefore supportive of the proposed country fact sheets as a means to supplement and provide added context for the company index. However, a number also insisted that such context should be factored directly into scoring and ranking of companies, in order to ensure they are evaluated properly.

While it was recognized that doing so would pose many practical challenges – especially which factors to include and how to effectively relate them to company indicators – many stakeholders felt that company performance simply could not be understood without it. In particular, accounting for variations in countries’ regulation of reduced-risk products was seen as integral to the Index’s focus on tobacco harm reduction. As one participant put it, “How do you assess the quality of someone’s marathon training without considering they are under house arrest?”

Ensuring Fair Comparison of Companies

How to interpret country context also tied into a wider concern about ensuring that companies would be fairly compared to one another. In particular, stakeholders wondered how fundamental structural differences – such as those between publicly-traded companies and state-owned monopolies, or between Eastern and Western corporate cultures – would be taken into account. For some, this just further underscored the need to keep the Index as straightforward and objective as possible, while others debated whether some indicators should only be applied to certain types of companies, or even if it might make sense to develop two separate rankings.

Public vs. Company-Provided Data

Nearly all stakeholders agreed that, for the sake of credibility, the Index should rely as much as possible on public data – i.e., what is already published by many tobacco companies (for example, in their audited financial statements) or otherwise publicly available (e.g., from government, academic, or other credible sources). Most stakeholders also agreed that, in order to gain the most complete picture of companies’ performance, there is value in collecting and utilizing data directly from companies as well. In particular, they noted that some companies (for example, state-owned tobacco monopolies) are not subject to public disclosure requirements and that companies rarely report consistently on all issues, so a hybrid approach is needed to make the Index as complete as possible.

However, stakeholders urged caution in interpreting information provided by companies, particularly if it is of a qualitative nature and/or not independently verified. (See also **Data Verification** in **Chapter 5**.)

Stakeholders also expressed concern about companies’ willingness to provide any data beyond what they are strictly required to disclose, whether out of resistance to transparency or a desire to keep potentially competitive information private. For some stakeholders, this further underscored the importance of relying mainly on public data. But for others, it spoke to the importance of the Index as a vehicle for encouraging greater engagement and transparency from the industry.

4 Feedback on Country Fact Sheets

As noted in **Chapter 1**, the company index will be supplemented by fact sheets profiling relevant policy and other conditions in 36 countries, accounting for approximately 85% of current global sales and consumption of tobacco products, to contextualize the environment where companies operate.

Throughout our discussions, participants were keenly aware of how companies' behavior is shaped and influenced by the markets in which they operate, so they were both strongly supportive of and interested to discuss how the proposed fact sheets could complement the company-focused index. This chapter explores several ideas and considerations that were highlighted and debated along the way.

Purpose and Function

Stakeholders affirmed the general approach and value of the country fact sheets – in particular, the way in which a more complete picture of key tobacco markets would help to better understand tobacco companies' actions and their impacts. They also advised on several key considerations for how they are positioned.

Contextualizing Corporate Actions

Stakeholders affirmed that understanding variations in the market environments where companies operate was essential to evaluating their transition progress. Differences in regulatory and policy frameworks were seen as most material, but the influence of other factors – economic, social, cultural, political, etc. – was also frequently highlighted. These dynamics were also at issue in the expectation that industry transformation will play out differently between low-, middle-, and high-income countries, between the East and West, etc.

Stakeholders affirmed that understanding variations in the market environments where companies operate was essential to evaluating their transition progress.

Participants were therefore strongly supportive of the country fact sheets as a means to contextualize company behavior. Furthermore, as discussed in **Chapter 3**, many urged that differences between markets be taken directly into account in the scoring and ranking of companies.

Information, Not Appraisal

In discussing the overall purpose and function of the fact sheets, several stakeholders noted the risk that they could be interpreted as an attempt to pass judgment on, and thereby influence, policy within countries, which would be poorly received. Some felt this could be managed through careful design and positioning, while others felt the exercise couldn't help but be political, and that

perhaps this simply ought just to be embraced. A small number of these even proposed that a ranking of countries, alongside that of companies, would be an effective way to spotlight progress. But the majority recommended to focus only on providing contextual data.

Wider Usefulness

While the country fact sheets are envisioned primarily as context for the company index, several participants noted that academics, policy makers, and other groups might find additional value in the information they will provide. For example, by combining detail on policy, prevalence of different forms of nicotine consumption, the organization of the tobacco industry, and other factors, and/or by covering a large number of important markets, they could become a valuable data source for those monitoring or studying the tobacco industry or approaches to achieving desired smoking outcomes.

“Make sure to frame the country fact sheet just to provide the context that does NOT let firms off the hook. We want to understand they are not doing this here because it’s not happening rather than saying they are not doing it because of the country.”

Included Topics

Stakeholders suggested numerous potential indicators through which the fact sheets could capture not only the regulatory picture of important markets but other factors that affect tobacco companies’ ability to pursue the desired transformation. The following highlights those seen as especially critical, as well as several others that were suggested and debated.

Core Focus

In the dialogues, the Index development team laid out an initial vision for the information that the fact sheets might capture for stakeholders to react to, including:

- **Policies and regulations** – Relevant rules and other government measures to address tobacco supply and demand, such as price and tax measures, public use restrictions, packaging and label requirements, controls on formats or nicotine content, public education, and advertising restrictions.
- **Consumer behavior and perception** – Status and trends over time of nicotine use by format, understanding and perception of safety of different formats, etc.
- **Industry prevalence and structure** – The importance of the tobacco industry to the country’s economy and tax revenues, and the presence and relative market share of major tobacco companies.

Stakeholders agreed that these categories were critical for inclusion and essential to understanding each market. Again, the policy category was seen by many as especially material to judging companies’ different approaches to and progress toward transformation, but it was felt that other categories were also needed to give context and insight into how transformation is playing out in each country.

It was also observed that some data points were likely already available from other sources. In these cases, stakeholders warned against any unnecessary duplication of effort, but also emphasized the value that would come from effectively consolidating all the necessary data to provide context for the Index, as well as a convenient repository and reference that might prove valuable for other uses.

Other Topics to Consider

While stakeholders affirmed the proposed shape and focus of the country fact sheets at a high level, many also made suggestions or requests for additional topics that could be addressed.

- **Major stakeholders and their involvement in policy and regulations** – It was noted that understanding the diversity of organizations and entities involved in tobacco control is as important as tracking the evolution of the policy itself, and also often varies considerably from country to country. To that end, the fact sheets could provide an ongoing picture of the major stakeholders in each country and their level of involvement in the policy process.
- **Tobacco taxation and subsidies** – Stakeholders highlighted that taxes on tobacco products are a significant source of government revenues and also a key factor shaping consumer behavior and the activities of tobacco companies, and are therefore central to understanding the context in any given country. Others suggested to be mindful of the role of direct or indirect subsidies or other policy supports provided to the tobacco industry in some countries – agricultural support programs, for instance – and to consider providing a comparative reference via the fact sheets.
- **Tobacco-related disease and/or healthcare costs** – Some participants sought insight into the impact and handling of industry externalities in different countries. In particular, it was recommended to consider including indicators on disease rates and tobacco-related healthcare costs, in order to account for the full impact of industry activities in each market. However, some noted that such matters will significantly lag relevant interventions in the market and therefore may struggle to integrate with other aspects of the Index.
- **Who is smoking** – To help understand and address increasingly uneven use rates and impacts of tobacco in many places, stakeholders asked for inclusion of data on smoking prevalence among key groups including women, youth, and other vulnerable populations (e.g., racial minorities and the poor).
- **Government stances and programs for cessation and harm reduction** – Stakeholders highlighted that, for the purposes of the Index, not just regulations but also the full picture of governments’ approaches to smoking cessation and harm reduction – e.g., long-term goals, stances on available cessation pathways, investment in public education, recovery, or other programs – is relevant to assessing the prospects for industry transformation across different markets.
- **Illicit trade** – Illegal production and sales of cigarettes and other high-risk products is a longstanding problem in the global tobacco industry, and one that is likely only to become more challenging as these products are being phased out. Stakeholders therefore urged inclusion of relevant data and its implications for progress toward transformation.

Other Considerations

Within and beyond discussion of topics that the fact sheets might cover, stakeholders also highlighted a number of additional design and management considerations to ensure their overall integrity and impact.

- **Data availability and reliability** – It was acknowledged that the more comprehensive and granular the country fact sheets become, the more likely it is that data will not be sufficiently available or reliable across all markets. In general, stakeholders recommended to strike a balance between coverage of critical issues and the need for all data to be comparable across all included countries.
- **Policy vs. enforcement vs. outcomes** – Some urged attention to the fact that there is often considerable variance in the strength of countries’ policies versus their implementation and enforcement, and in the outcomes they produce. Therefore, the fact sheets should try as much as possible to account, directly or indirectly, for all of the above.
- **Capturing the subtle specifics of each country** – Many noted the inherent complexity of smoking and related issues in each individual country – including crucial cultural or historical considerations, or the presence and role of a state-owned tobacco monopoly – and thus the risk of a one-size-fits all approach. Although the country fact sheets will be inherently limited in how much of the nuance of individual countries they can capture, stakeholders still advocated paying careful attention to this, as well as appropriate sensitivity when interpreting the data that is collected.
- **Appropriate and thorough coverage of HIC/LMIC differences** – Similarly, stakeholders suggested to be mindful of key differences between low- and middle-income countries (LMICs) and industrialized high-income countries (HICs). Some wondered whether different indicators and/or supplementary analytics could be used to provide a more accurate picture.
- **Country selection** – Stakeholders endorsed the proposed selection of countries in order to capture the majority of the global smoking population. However, many saw value in selectively including others, particularly those with especially unique relevance or circumstances related to the goal of industry transformation.
- **Accuracy of illicit trade data** – Just as strongly as they recommended to include it, stakeholders questioned whether data on the topic of illicit trade could ever be trusted. As such, they worried that the true size and scope of the industry and smoking population, particularly in some large developing markets, may never be fully known.

“What about cultural norms: how open are certain countries to different treatments or policies? You should try to include FCTC membership, signature and ratification.”

“You should differentiate between what is on the books and what is the policy outcome. There should be measurements of what is on the books as well as the actual results.”

“Reducing harm is accomplished by switching products but depending on local settings we need to define which type of switch can make the biggest difference.”

5 Feedback on Organization & Process

Another major topic discussed with stakeholders was around organization and process considerations, and their role in ensuring the Tobacco Transformation Index is perceived as robust, credible, and effective. This included deliberations about funding, governance, and operations, as well as the overall development process. While such considerations are essential to establishing any index, they were of particular interest here given the serious nature of the issues the Index is concerned with and potential perceptions about the Foundation for a Smoke-Free World and its funding.

Funding and Governance

Throughout the consultation process, experts offered feedback on the Tobacco Transformation Index's initial funding and governance model and their role in shaping its independence, credibility, and objectivity. In particular, those who have developed and used other indices offered insights about best practice and considered the way the Index is likely to be received by relevant stakeholder groups.

Foundation for a Smoke-Free World Initial Funding

As described in **Chapter 1**, the Tobacco Transformation Index initiative has been launched and initially funded by the Foundation for a Smoke-Free World. The Foundation was established with, and remains solely funded by, a pledge agreement of \$80 million per year for 12 years from Philip Morris International. Although the Foundation has been structured to ensure independence from PMI, many participants felt that such measures do not sufficiently mitigate the appearance of a dangerous conflict of interest.

This situation was of significant concern in dialogues about the Index. In particular, stakeholders familiar with similar initiatives noted that many of them have gone to great lengths to avoid undue influence by the companies being assessed, including prohibiting industry funding of any kind. Some, including a number who considered but ultimately declined to attend the dialogues, took the position that this would be an insurmountable barrier to the success of the Index.

However, nearly all dialogue participants agreed that while industry funding (even indirectly) was not ideal, the continued scale and urgency of the smoking problem make it still worthwhile to pursue the Index as a novel approach to accelerating progress. Furthermore, given the Index's aim to engage and transform – rather than boycott and ban – the tobacco industry, many felt it would be unlikely to get started any other way.

Still, some participants were concerned about the potential for this issue to lead to sustained criticism and distrust. For this reason, several stakeholders called for the Index to be spun out as an independent entity with more diverse funding not linked to the tobacco industry. Or, even if this is not immediately achievable, to at least declare a commitment to this outcome and to articulate a path to achieving it.

Index Name

A number of stakeholders urged reconsideration of the initial name of ‘Smoke-Free Index’. Some believed that the meaning of the term ‘smoke-free’ was not entirely clear. There was also concern that because Philip Morris International (PMI) has made use of the phrase ‘smoke-free future’ in its corporate communication, it could reinforce the perception that the company is exerting inappropriate control or influence over the Foundation and the Index, and/or that the Index is intended as a way to shape the industry for PMI’s benefit. It was suggested that adopting an alternative name could both allay these worries and potentially better highlight the Index’s true intent.

Management & Governance

In light of the issues above, stakeholders were especially interested to understand and discuss overall management and governance of the Index. In the dialogues, the project management structure (summarized in **Figure 3**) was presented and discussed.

Figure 3 Project Management Structure



The Index initiative is convened, funded, and overseen by the Foundation for a Smoke-Free World. The Foundation is therefore responsible for overall strategic direction and governance in line with its bylaws and strategic plan.

Euromonitor and SustainAbility are independent, third-party advisors assisting with development of the Index. SustainAbility is responsible for stakeholder engagement, development and facilitation of an independent advisory panel, and post-publication project review. Euromonitor International is responsible for index process design, research and analysis, and reporting.

Additionally, the Foundation and Index development team are supported by an independent advisory panel composed of experts with knowledge of business and investment, corporate behavior, and public health. The panel will provide strategic advice on governance, design,

development, and promulgation of the Index and will issue a public report on its assessment of and recommendations for the process following publication of the Index.

In considering this structure, many stakeholders acknowledged and appreciated efforts to ensure additional independence, including establishment of the advisory panel and involving third-party service providers in development of the Index. However, some suggested that the resulting structure lacks clarity about where ultimate accountability and decision-making reside. When it was clarified that it rests with the Foundation, this led some stakeholders to recommend putting the Index on a path to become an independent entity with a fiduciary board, which would have clearer oversight and authority to shape the Index program. If not possible in the short term, stakeholders again encouraged declaring this as a goal and laying out the anticipated steps to achieving it.

Development & Research Process

Stakeholders also provided input on several key components of the Index development and research process, including stakeholder engagement, technical review, and procedures for collecting and verifying data.

Stakeholder Engagement

Robust stakeholder engagement is a cornerstone of developing a credible and useful index. Stakeholders emphasized the need for ample engagement and input from key constituencies, including investors, academics, NGOs, government regulators, and tobacco control experts. Most of these groups were represented in the dialogues but, as discussed earlier, to varying degrees. At several dialogues, it was acknowledged that civil society stakeholders were comparatively under-represented, and that some outreach had been rebuffed. Stakeholders encouraged continuing to explore ways of gathering and incorporating these important perspectives, including those deeply critical of the initiative.

While stakeholders recognized and appreciated the reasons for excluding tobacco companies from the initial phase of engagement, a number still emphasized the importance of consulting with the companies, ideally as early as possible during development of the Index. This was seen as essential for increasing companies' awareness of and willingness to share data with the Index, sharing knowledge and perspectives on the many technical and other complex issues the Index is concerned with, and gaining deeper insight into what will truly motivate companies to change.

Stakeholders also encouraged greater sophistication in understanding the interests of investors, given their unique ability to engage and influence company decision-makers. Specifically, participants said that the Index needs to reflect an understanding of the incentives that inform investor decisions as well as the diversity of investor types and their respective agendas.

Additionally, academic participants in particular stressed the risk of possible future regulations requiring investors to publicly account for and justify their investments. They recommended to

engage with regulators to test these waters and ensure the Index can be an effective tool to inform the evolution of investor decision-making.

Some stakeholders also emphasized the importance of gathering input from governments and producers from tobacco growing countries, given the potential that they could be negatively impacted as a result of industry transformation. (See also **Value-Chain Transition**, in **Chapter 3**.)

Technical Review

Stakeholders familiar with similar benchmarks and indices stressed the importance of accessing sound technical expertise and review. This was seen as especially important for the Tobacco Transformation Index in light of the significant public health and scientific issues related to harm reduction and alternative nicotine products, as well as the complex economic and regulatory context of the global tobacco industry. With this in mind, several recommended to establish as soon as practicable a formal technical/scientific advisory body or a comparable mechanism for gathering independent and necessary technical input.

Data Verification

As noted in **Chapter 3**, stakeholders were supportive of the Index utilizing a combination of public and company-provided data, but they urged caution in interpreting the latter. In particular, several participants encouraged that the Index follow best available practices, as demonstrated by other indices, of requiring companies to provide supporting documentation or other means of verifying any data they provide to the Index and, where possible, checking public and company-provided data against one another.

Some stakeholders also highlighted a potential role for independent verification or assurance of the Index's own research and scoring. Although potentially an expensive and time-consuming undertaking, it was argued that this would likely mitigate some stakeholders' concerns about the independence and legitimacy of the Index in light of its funding.

“I believe that we should continue discussing this issue as a mid-to-long-term challenge, regardless of whether the Index is launched next year. I would like to see dialogues with the sort of stakeholders with whom there has been no engagement until now.”

6 Next Steps

This report summarizes the results of stakeholder engagement undertaken from March through December 2019, in order to inform the design and development of the Tobacco Transformation Index. Following this initial phase of engagement, the Foundation and the Index development team are moving forward with other key workstreams on the path to publishing the first edition of the Index in September 2020, including the following.

- **Index Advisory Panel** – As discussed in Chapter 5, the Index Advisory Panel will provide independent, strategic advice on governance, design, development, and promulgation of the Index. The first in-person meeting of the Panel took place in New York in Fall 2019 and members are now being kept updated and offering their input on a regular basis as the project continues.
- **Transparent Engagement with Industry** – As noted in the report, tobacco companies were excluded from the initial phase of stakeholder engagement. However, their feedback will also be useful as the Index is further developed. Furthermore, it is necessary to work with companies to encourage and enable them to submit data for consideration by the Index. We have begun this process by sending letters and other documentation to inform the companies of the Index program and invite their feedback on the proposed company indicators. We anticipate follow-up interactions with the companies will occur throughout Q1 2020, particularly to answer their questions and establish necessary procedures for receiving data in Q2. To ensure transparency, the nature and content of all interactions with the companies will be documented and disclosed.
- **Indicators/Methodology** – The selection and specification of company and country indicators continue to be refined, particularly in response to feedback from stakeholders, the Index Advisory Panel, and the companies. In addition, Euromonitor International has begun work to develop the detailed methodology that will guide the research process and final scoring of companies in the Index. A detailed methodology report will be published prior to release of the final Index.
- **Country Research** – Development of the country fact sheets will rely partly on in-country data compiled for this purpose by Euromonitor International. As the engagement process wound down in late 2019, Euromonitor began the process of deploying its researchers to collect initial data across the 36 markets that will be covered by the fact sheets.

“I see a lot of problems, but they can all be overcome. It is not impossible. If you don’t do this now, there won’t be another opportunity.”

“One thing that is important is to ensure transparency on the sources and the credibility of data used for the Index. I hope to see that integrity in the Index to provide confidence for stakeholders to dig deeper.”

“My fear is that it may be hijacked as a marketing tool. It’s important that we put this into a solid framework for disclosure and advocacy, then stakeholders will see the value in this. I hope this process takes off!”

- **Ongoing Consultation** – Although this report marks the end of the initial phase of stakeholder engagement, the Foundation and the Index development team will continue to consult with diverse experts and stakeholders throughout the development process. This includes continuing dialogue with all stakeholders who took part in this phase, as well as continuing to identify and consult with other parties who can inform and benefit from the Index program.

To share your views, please contact us via tobaccotransformationindex.org.

Figure 4 Index Development Process



Glossary

Access to Medicine Index (ATMI) – an index that ranks 20 of the world’s largest pharmaceutical companies based on their efforts to address access to medicine, including in strategy, governance, R&D, and pricing.

Access to Nutrition Index (ATNI) – an index that rates food and beverage manufacturers’ nutrition-related policies, practices, and disclosures worldwide on a recurring basis.

Agricultural transition – as global demand shifts away from tobacco, the actions undertaken by companies to transition tobacco growers to alternative livelihoods.

Alternative Nicotine Products – products other than cigarettes containing nicotine, including heated tobacco products, cigars and cigarillos, dissolvable tobacco, e-cigarettes, smokeless tobacco, and snus.

CDP – a global disclosure system for investors, companies, cities, states, and regions to measure and manage risks and opportunities on climate change, water security, and deforestation.

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, that either support or impede progress toward a world free of combustible cigarettes and other high-risk tobacco products.

Corporate Human Rights Benchmark (CHRB) – an index/benchmark that uses the competitive nature of the market to prevent adverse impacts on workers, communities, and consumers.

Country fact sheets – the supplemental output of the Tobacco Transformation Index, which will profile relevant policy and other conditions in 36 markets (accounting for approximately 85% of current global sales and consumption of high-risk tobacco products), to contextualize the environment where companies operate.

Foundation for a Smoke-Free World (FSFW) – an independent, nonprofit organization created in 2017 with the mission to end smoking within this generation.

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.

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

High-income countries (HICs) – as defined by the World Bank (as of 1 July 2019), a country with a national income per person (GNI per capita) of \$12,376 or more in 2018.

High-risk products – combustible or other high-risk nicotine products which include cigarettes, cigars, cigarillos, smoking tobacco, and bidis, as well as traditional smokeless tobacco such as gutkha.

Low- and middle-income countries (LMICs) – as defined by the World Bank (as of 1 July 2019), a country with a national income per person (GNI per capita) between \$0 and \$12,375 in 2018.

NGOs – Non-governmental organizations, in the case of this report, including health advocacy organizations, campaigning groups, and other index initiatives.

Reduced-risk nicotine products – nicotine products that are considered to be less harmful than combustible cigarettes and/or other traditional products. Potentially reduced-risk products include vapor products (including open and closed vaping systems and heated tobacco), snus, NRT products, and non-tobacco nicotine pouches.

Smoke-Free Index – the original name of the Tobacco Transformation Index.

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 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 toward a world free of combustible cigarettes and other high-risk tobacco products.

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



The Tobacco Transformation Index is a tool to accelerate the necessary transformation of the global tobacco industry and the reduction of harm caused by tobacco use. By monitoring and critically evaluating tobacco companies' behavior, including actions that either support or impede tobacco harm reduction, the Index provides objective, transparent information to all stakeholders and incentivizes companies to act more quickly and responsibly than they otherwise would. The Index seeks to complement other measures – including the World Health Organization Framework Convention on Tobacco Control, increased regulation, and public pressure – that seek to reduce the disease and premature death caused by tobacco use and hold the tobacco industry accountable for its actions.

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