As part of the process of continual improvement and evolution of the Tobacco Transformation Index, the Index team held an initial series of stakeholder dialogue sessions from May to July 2021. The aim of the sessions was to provide a status update on progress and developments related to the Index and, crucially, to gather comments, feedback, and questions from stakeholders with the goal of improving the Index for future releases, including the second iteration, due to be published in September 2022.

Participants were drawn from a range of backgrounds, including the investment community and researchers. Approximately 150 individuals were contacted, of which about 20 participated during three sessions. The sessions were conducted as Zoom video meetings.

The purpose of this document is to summarize the feedback and comments raised during the stakeholder engagement sessions. It is not intended to provide a response to the comments or feedback, or to announce changes to Index methodology and research design resulting from the comments. This will follow in a separate Methodology Review document, due to be published in early 2022. The Index team plans to conduct additional stakeholder dialogue sessions, via group and individual webinar settings, throughout the second Index development cycle, to be concluded September 2022.
The stakeholder dialogue sessions generated a wide range of comments and suggestions across a broad spectrum of topics, which are noted and summarized in this document. Certain topics were mentioned more frequently than others and constituted recurring themes across the dialogue sessions, including the following:

1. **Risk Spectrum:** The Relative Risk Hierarchy was a recurring theme during the dialogue sessions. Stakeholders offered views on ways to refine it, through additional research to substantiate the differentiation between high-risk products (HRPs) and reduced-risk products (RRPs), and through adjustments in the application of the risk spectrum through the Index methodology.

2. **Efficacy of conversion:** Stakeholders recommended that the Index assess the efficacy of tobacco companies in converting current smokers from HRPs, including cigarettes, to RRPs (see Appendix for definitions), in concert with supporting the ultimate goal of quitting smoking completely. It is important to identify where companies are selling RRPs to non-users, especially to young people and other vulnerable groups.

3. **Linking the Index to other platforms:** Driving use of the Index as a research and investment tool was a recurring topic. Many stakeholders highlighted the importance of aligning the Index with other research and Environmental, Social, and Governance (ESG) platforms to gain traction, especially in the investment community.
**STAKEHOLDER DIALOGUE SESSIONS**

**Feedback on Index Methodology**

**Design**

Some stakeholders noted that the Index methodology could be viewed as relatively complex, and they suggested that a focus on selected metrics related to RRP could simplify the tool and the presentation of its findings. In terms of weightings, some stakeholders expressed a desire to see a higher relative weighting attributed to marketing activity within the company scoring framework.

**Transparency**

Stakeholders stressed the importance of being completely transparent at all stages of Index development. Participants suggested that the underlying data behind the company scoring framework be made available by download through the Index website. Others recommended improved disclosure concerning the process of establishing the Index methodology. For example, the Index should be transparent about the design process, parties that were consulted, and identification of decision-makers.

**Country Context**

Country-level regulation was a recurring theme during the stakeholder engagement sessions. Stakeholders highlighted that local legislation, especially in terms of RRP legality and taxation, has a significant impact on tobacco company activity. A number of stakeholders noted that companies need to be assessed by the Index for their actions and outcomes under their control, rather than the result of external factors, while taking the country-level legislative context into account.

Participants also noted that companies should be evaluated in terms of their activity in low-middle income countries (LMICs) versus high-income countries (HICs). Some tobacco companies are making progress towards tobacco harm reduction in HICs, where they stand to profit. However, they are neglecting harm-reduction activities in LMICs, where the health urgency is often the greatest, but the potential financial gains are not. Others stressed that companies need to be assessed on their progress towards making RRP available at an affordable price point to consumers in LMICs and to economically disadvantaged consumers in HICs.

Therefore, it was felt that companies should be assessed not just on a global level but also at a country level, and that the Index should spotlight specific actions by individual companies in certain markets.
Measuring Intention versus Outcome

Stakeholders highlighted examples in which a tobacco company’s declining HRP sales performance was caused primarily by external influences, such as taxation increases or competitor behavior, rather than due to intentional measures or strategies by the company. It is important to ensure that the Index methodology is adapted to take into account intentional versus unintentional outcomes, so as not to unfairly “credit” a company.

Index Scope

Some stakeholders commented on the scope of the Index, both for the number of countries as well as the number of companies covered. For countries, it was suggested that the Index could eventually grow to cover approximately 50 countries, rather than the current 36. For companies, it was suggested that increasing the scope from 15 to 20 companies could increase the effectiveness of the Index. Regarding company scope, it was suggested that the Index scoring framework should not include companies that offer only RRP, such as the e-cigarette producers Smoore and RELX, because they don’t sell HRPs and therefore are not in the process of transformation. That said, e-cigarette players could be researched and reported upon within the wider Index platform.

Relative Risk Spectrum

Several stakeholders commented on the Relative Risk Spectrum included in the Index. Some noted that the differentiation between HRPs and RRPs appeared arbitrary. Others suggested a change of terminology, replacing “HRP” and “RRP” with “combustible” and “non-combustible.”

State-Owned Enterprises (SOEs)

There was some debate and varying viewpoints on the topic of state-owned enterprises (SOEs) and how to assess them within the Index. Some felt that, because they are funded by taxpayer money, SOEs can’t be expected to make the same level of R&D investments in developing RRPs. Others felt that SOEs should be assessed in the same manner as publicly traded companies. It was argued that governments that control SOEs could make investments to develop RRPs, and that they do not is a conscious choice. Stakeholders from the investment community noted that their clients are interested in being able to assess SOEs, even if they aren’t publicly traded.
**Corporate Social Responsibility**

Some stakeholders commented on tobacco companies that focus heavily on their corporate social responsibility performance, through reports and investor webinars, without making real, positive contributions to related areas. The Index should make sure that it monitors and accounts for company impact in the scoring.

**RRP Efficacy**

Stakeholders raised the topic of RRP efficacy with regard to quitting smoking completely and questioned whether it might be worthwhile to incorporate a metric that assesses different RRP efficacy rates. Similarly, other stakeholders suggested that companies should be assessed on whether they provide a holistic cessation support service, rather than just offering alternative products. A number of stakeholders noted the importance of reflecting consumer needs, such as support and strategies to quit, and proposed that the Index include tobacco company services (for example, holistic cessation services) that support consumers on their journey. This would differentiate companies by the quality of their commitment to harm reduction: those that simply make products available and leave consumers to figure out their quitting strategy on their own, and those that work with consumers on their journey to cessation.

**Vulnerable Groups**

Several stakeholders noted the importance of company accountability for the specific risks to vulnerable and disadvantaged groups. Some focused on LMICs and on Indigenous peoples; others noted the importance of covering all vulnerable and disadvantaged people, including within HICs, where the smoking epidemic is highest among disadvantaged, underprivileged, vulnerable, and marginalized groups.

**Lobbying**

Some stakeholders noted the relevance of lobbying activity by tobacco companies. It was argued that the Index should try to assess companies on their lobbying behavior, and that a checklist of lobbying reforms and best practice standards should be developed, which tobacco companies could then be scored against.

**End-User Outcomes**

It was suggested that end-user outcomes should be integrated as part of the Index methodology, such as measuring the number of users of HRP's and RRP's by company, rather than the number of products sold.

**Non-Tobacco Business Lines**

The topic of whether to consider tobacco companies’ non-tobacco business lines as part of the scoring framework was discussed. Most stakeholders felt that it was important to consider tobacco company activity only as it pertains to tobacco products, especially RRP's, and that other, non-tobacco business lines should not be considered as part of the analysis. Other stakeholders felt that it was important to capture non-tobacco business lines, as they represent companies' efforts to diversify away from tobacco products towards other means of generating revenue.
Mergers and Acquisitions Activity

Some stakeholders expressed a desire to see mergers and acquisitions activity tracked as part of the Index. Linked to the previous point, some felt that capturing investments/acquisitions by tobacco companies in non-tobacco business lines could be beneficial.

Conversely, concerning disposals, some stakeholders felt that the Index should not “reward” tobacco companies for divesting tobacco brands/assets. When a tobacco company sells a brand, it is still available on the market to consumers (albeit through another company), and the net effect in terms of reducing tobacco consumption remains unchanged.
Research Community

Noting the value of the Index’s evolutionary nature and thus learning for other Index initiatives addressing public risk (social and environmental), some stakeholders encouraged the Index to share its approach. Suggestions for sharing included preparation of articles for publication in peer-reviewed journals and presentations at conferences.

Investor Community

Stakeholders highlighted the value of the Index work on methodology, both in supporting investor focus on tobacco company behavior relating to the global smoking epidemic, and in identifying commonalities between tobacco and other industrial sectors associated with core social and/or environmental risk. On this basis, some suggested that the Index should consider engaging with ESG index and rating platforms and service providers, such as MSCI and Sustainalytics. In this respect, stakeholders commented positively on Index attention to context, and highlighted the value of addressing this, given rising concerns about the ESG rating industry’s traditional formulaic approach.

Stakeholders noted that, in this context, investors can be mapped on a spectrum, with two clear groups at either end: those focused primarily on financial performance, and those focused on ESG performance. Each has different investment styles and priorities. Stakeholders also noted a rising focus on the social component of ESG in general, and an increasing correlation of RRPs and stock price in the tobacco sector in particular.

In this latter respect, stakeholders highlighted the fact that tobacco companies are key stakeholders in dealing with the smoking epidemic, and suggested the Index consider the ESG scoring trend of awarding “points” to investors who constructively engage with companies in challenging sectors (e.g., oil and gas).
**Ranking States**

One stakeholder suggested that it might be beneficial to conduct further research on States with a view to ranking them. The ranking could include initial coverage of progress in adapting legislation to create conducive environments for tobacco harm reduction, and it could go on to look at more contextual matters over time.

**Marketing**

Several stakeholders noted the importance of conducting additional research to assess companies for their marketing practices. Particular reference was made to the value of identifying and highlighting unethical/illegal marketing practices, such as marketing RRPst to non-smokers, youth, women, and minority ethnic groups.

**Consumer Perspective**

Some stakeholders highlighted the importance of incorporating consumer stakeholder perspectives into Index evolution (for example, consumer views on the implications of tobacco companies ceasing to manufacture HRPs without pathways of change for smokers; consumer perspectives on the efficacy of corporate responses to harm reduction).
Definitions

**Environmental, Social, and Governance (ESG)** – A set of factors that measure the sustainability and/or societal impact of an investment in a company.

**High-Income Country (HIC)** – As defined by the World Bank, a country with a national income per person (GNI per capita) of USD12,696 or more in 2020.

**High-Risk Products (HRPs)** – Combustible or other high-risk nicotine products, which includes cigarettes, cigars, cigarillos, smoking tobacco, moist snuff, and bidis, as well as traditional smokeless tobacco, such as gutkha.

**Low-Middle Income Country (LMIC)** – As defined by the World Bank, a country with a national income per person (GNI per capita) of up to USD12,696 in 2020.

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

**Reduced-Risk Products (RRPs)** – Nicotine products that are considered less harmful than combustible cigarettes and/or other traditional products. Products that are reduced-risk include vapor products (including open and closed vaping systems and their consumables, and heated tobacco), snus, NRT products, and non-tobacco nicotine pouches.