



**TOBACCO
TRANSFORMATION
INDEX**

Regional Company Performance

Europe

August 2022

Contents

- 1. **Introduction** 2
- 2. **Summary** 5
- 3. **Nicotine and Tobacco Regulatory Context** 7
- 4. **Company Performance at Country Level** 14
- 5. **Appendix** 33
 - Country Context Approach 33
 - Company Assessment Approach 34
 - Product Scope 36
 - Acronyms 39
 - Sources 40

1. Introduction

The Tobacco Transformation Index (“Index”), launched in September 2020, ranks the 15 largest tobacco companies across 36 countries, with company scoring calculated at the consolidated level.

Specifically, the Index assesses tobacco companies’ activities concerning:

1. Phasing out high-risk tobacco products¹;
2. Developing and responsibly offering reduced-risk² alternatives to support current users to move away from high-risk products;
3. Preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products, especially youth, and;
4. Ensuring consistency of tobacco harm-reduction activities across all markets of operation, within regulatory guidelines.

To accompany this consolidated perspective, **the need was identified during stakeholder engagement sessions to better assess company performance at the country level.**

Stakeholder engagement sessions were held before and [after the publication of the first Index in 2020](#), and again in the [summer of 2021](#). Stakeholders consulted were primarily from one of two groups: the investment community and researchers. Country-level regulation was a recurring theme. Stakeholders highlighted that local regulation, especially in terms of reduced-risk product (RRP - see Appendix for definitions) legality of sale 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 the actions and outcomes under their control, rather than the result of external factors, while taking the country-level nicotine and tobacco regulatory context into account.

Stakeholders also noted that companies should be evaluated in terms of their activity in low- and 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 to a greater degree. However, they appear hesitant toward 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 toward making RRP available at an affordable price point to consumers in LMICs and to economically disadvantaged consumers in HICs.

Therefore, it was determined that additional analysis at the country level could spotlight specific actions by individual companies in certain markets. This report series was designed to address this stakeholder feedback.

Companies should be assessed with the country-level context taken into consideration.

¹ See [Product Scope](#) section within the Appendix (Page 36) for definition of “high-risk” products for the purposes of this report.

² See [Product Scope](#) section within the Appendix (Page 36) for definition of “reduced-risk” products for the purposes of this report.

Scope

This report is the fourth in a series of four reports which assess the 15 tobacco companies in the Index at a country level. The analysis is published across a series of four reports for ease of reading. The 36 countries assessed as part of the Index account for approximately 85% of the current global population of adult smokers. The first report was focused on 13 countries in the Asia Pacific region, the second report focused on the Middle East and Africa region covering six countries, and the third report covered five countries in the Americas. This fourth report focuses on the Europe region and covers the 12 countries from the Tobacco Transformation Index in that region:

1. Bulgaria
2. France
3. Germany
4. Italy
5. Poland
6. Russia
7. Spain
8. Sweden
9. Switzerland
10. Turkey
11. Ukraine
12. United Kingdom

This report uses Euromonitor Passport data from 2020, in order to achieve a consistent data set across the four reports in the series.

Report structure and objectives

The first section of this report **describes the nicotine and tobacco regulatory context of each country**. The Index recognizes that the regulatory context varies significantly from country to country, and that this variation affects individual companies' strategies, performance, and ultimate pathways to industry transformation.

This report does not generally consider non-regulatory factors as part of the country context assessment (except for a country's disposable income per capita). The Index is evolving, and it is envisioned that non-regulatory factors will play a greater role in future analysis and reports. In terms of trade, this and all reports in the series address products legally marketed and sold, and officially offered by companies. Products in de-facto circulation, including illicit products, are not addressed in this report series.

The second section of this report **assesses company performance** through the lens of the country-level nicotine and tobacco regulatory context. In doing so, this report builds further on the consolidated or global Index by covering the nuances of company performance at a country level.

The purpose of this report is to provide observations of company activity at a country level, within that country's nicotine and tobacco regulatory context. The report does not provide recommendations to companies but focuses rather on observations. A separate report may be

developed after this series, offering recommendations as to how companies can go further in individual countries to advance the harm-reduction agenda.

2. Summary

High disposable income and product legality correlate with high RRP presence

Overall reduced-risk product value sales increased in all European markets under review between 2016 and 2020, although a minority of categories declined at the country level in 2020. For example, e-liquids declined in France, Germany, Russia, and Spain, in part because of the growth in heated tobacco. Swedish-style snus declined in Sweden reflecting the category's relative maturity in the country.³

Turkey represents an outlier in the region as only Nicotine Replacement Therapy (NRT) products were legal, but growth was evident in that category. Elsewhere, at least four categories were legal in each market, and no country was classified as having low levels of disposable income, while leading tobacco companies have used their extensive distribution networks to drive reduced-risk product category growth.

International companies pursue targeted reduced-risk portfolios

Although some of the leading companies have wide reduced-risk portfolios, they have tended to focus on selected categories. British American Tobacco (BAT), Imperial, and Japan Tobacco International (JTI) have historically had a greater focus on vaping products, while Philip Morris International (PMI) was focused on heated tobacco and Swedish-Match on Swedish-style snus. This situation has not, however, prevented the companies from expanding or reducing their category reach dependent on country dynamics. It is notable, for example, that BAT entered the heated tobacco market in a number of countries between 2018 and 2020, where previously PMI was the sole player. As categories have developed, some companies have re-evaluated their strategies, notably Imperial, which indicated in 2021 that it reappraised its previous reduced-risk products strategy, which was almost entirely focused on vaping products.

Legislative uncertainty, as shown in non-tobacco nicotine pouches, can curtail category development

While the majority of reduced-risk products were legal in European countries, with the exception of Turkey, legislative uncertainties prevail in certain markets. This condition was notable in non-tobacco nicotine pouches, where BAT had to withdraw its brands in Russia in 2020 and Germany in 2021, with the category's legality being challenged.⁴ This development is also likely to impact Imperial's new strategy, a core pillar of which is the development of "modern oral nicotine" products in specific markets, including Germany.⁵ In January 2022, non-tobacco nicotine pouches were regulated for the first time with an excise duty rate of EUR22 per kg to be introduced from January 2023.⁶

Leading companies maintain presence in high-risk products

Cigarettes sales have been in decline in most markets under review, except in Bulgaria, Poland, and Ukraine which saw volume growth between 2016 and 2020. Against this backdrop, leading international companies have seen volume sales decline. During the review period, some

³ This report uses Euromonitor Passport data from 2020, in order to achieve a consistent data set across the four reports in the series.

⁴ British American Tobacco Annual Report 2021.

⁵ Imperial Brands CAGNY. (2021). Our Transformation to Unlock Value.

⁶ Changes made to the Decree of 30th of December 2021, No.228. Italian Content. Accessed July 2022

<https://www.senato.it/service/PDF/PDFServer/BGT/01332658.pdf>

Nicotine pouches recognized by Italian law. Accessed July 2022

<https://www.svapomagazine.it/i-sacchetti-di-nicotina-riconosciuti-dalla-legge-italiana/#:~:text=Le%20bustine%2C%20%C3%A8%20esposto%20nell,prodotti%20provenienti%20da%20Paesi%20terzi.>

companies released lower-priced cigarette variants, while others updated product ingredients to comply with the European Union menthol ban or offered menthol cigarillos instead. Reflective of this, in a survey of smokers in 8 European countries following the EU menthol ban of May 2020, of those who said they had switched from menthol cigarettes to other mentholated products since the ban, the second-most chosen product by this group was cigarillos.⁷

⁷ Foundation for a Smoke Free World, EU Menthol Cigarette Ban Survey. Accessed July 2022
<https://www.smokefreeworld.org/eu-menthol-cigarette-ban-survey-2/>

3. Nicotine and Tobacco Regulatory Context

Purpose

When assessing a nicotine and/or tobacco company's contribution toward accelerated industry transformation, it is necessary to consider the regulatory country-level context in which that company is operating. Certain factors, as highlighted below, play a role in a company's ability to offer reduced-risk products to help transition smokers from combustible to non-combustible forms of nicotine consumption, as part of the long-term goal of ending smoking completely.

Criteria

The following set of metrics has been incorporated into the country context analysis:

1. Nicotine and Tobacco Regulatory Context

The Index recognizes that the context in which companies operate varies significantly from country to country, and that this affects individual companies' strategies, performance, and ultimate pathways to industry transformation. While this variation should not limit the industry in pursuing tobacco harm-reduction strategies, it should be considered when conducting a wider analysis of the context in which companies operate.

- a. **Reduced-Risk Product Legality of Commercialization:** The legal status of reduced-risk products is a crucial factor to consider. Ultimately, tobacco companies cannot offer reduced-risk products in countries where the sale of those products is banned or heavily restricted. This analysis therefore takes into account the legal status of reduced-risk products when assessing company performance at country and regional levels.
- b. **Reduced-Risk Product Taxation:** The overall tax burden applicable to reduced-risk products in a country is another key factor to consider. This analysis considers the overall tax burden of reduced-risk products in a country, and how this compares with the tax burden for high-risk products.
- c. **Ability to Market Reduced-Risk Products:** In certain instances, despite the legality of reduced-risk product commercialization, tobacco companies are unable to market, or are severely limited in the extent to which they can market, reduced-risk products, making it challenging to transition smokers to reduced-risk products as a means of harm reduction.

- 2. **Disposable Income per Capita:** Economics is another factor for consumers to consider in transitioning to reduced-risk alternatives if they are unable to quit consumption of high-risk products. Disposable income per capita impacts the ability of smokers in a country to be able to afford reduced-risk products. This analysis considers the average disposable income levels in a country as part of the overall country-level context.

Approach

Each of the 36 countries included in the global Tobacco Transformation Index was ranked based on each of the below metrics.

1. Nicotine and Tobacco Regulatory Context

- a. **Reduced-Risk Product Legality of Commercialization:** The number of reduced-risk products which can be legally sold, out of the six categories defined as part of the Tobacco Transformation Index (cartridges, e-liquids, heated tobacco, non-tobacco nicotine pouches, NRT products, Swedish-style snus).
- b. **Reduced-Risk Product Taxation:** The highest-taxed reduced-risk product in the market (total tax burden, as a percentage of the average retail selling price).
- c. **Ability to Market Reduced-Risk Products:** The number of channels in which legal reduced-risk products are allowed to be marketed per country. (Advertising in press and other printed media, advertising on radio, audiovisual commercials, retail product display, advertising in stores).

2. Disposable Income per Capita: Average disposable income levels.

The ability to legally sell reduced-risk products influences companies' actions at the country level.

Country Context and Company Activity⁸ Summary

With the above analytical framework in mind, it is important to look closely at the specific nicotine and tobacco regulatory context of each of the 12 European countries⁹ in turn, and how tobacco and nicotine companies have responded to them.

Figure 1: Country Context - Key Nicotine and Tobacco Regulation, and Disposable Income

Europe: Country Context (Key Nicotine and Tobacco Regulation)

		RRP Legality of Commercialization (out of 6)	RRP Taxation (average overall tax burden)	Ability to Market RRPs (out of 30)	Disposable Income Per Capita (USD, 2020)
Turkey		1	7%	1	5,610.6
Germany		4	18%	6	27,211.5
Italy		4	26%	5	19,605.5
Russia		4	44%	5	5,653.2
Spain		4	25%	2	15,929.7
Bulgaria		5	23%	15	5,832.6
France		5	28%	10	23,871.0
Poland		5	35%	10	8,791.6
United Kingdom		5	20%	14	24,698.8
Sweden		6	42%	11	24,991.6
Switzerland		6	10%	18	46,771.7
Ukraine		6	20%	26	2,839.2



Source: Tobacco Transformation Index 2021 Country Fact Sheet

Approach: See Appendix – Country Context Approach, for more details

Note: Countries are ordered by lowest to highest number of legal reduced-risk products

Bulgaria

Country Context

Of the six reduced-risk product categories, only Swedish-style snus was prohibited in 2020. In fact, Swedish-style snus is prohibited in all European Union (EU) countries except Sweden. In Bulgaria, there were restrictions on marketing activities in print media for all legal reduced-risk products, while radio and audiovisual advertising were banned for all apart from NRT products and non-tobacco nicotine pouches. However, in-store display and advertising were unrestricted for all legal reduced-risk products. Overall, Bulgaria is a receptive market for reduced-risk products, with the most significant barrier being relatively low disposable income levels in comparison to Western European countries. The average reduced-risk overall tax burden of 23.1% in Bulgaria in 2020 was considerably lower than the 82.8% for cigarettes.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in Bulgaria in 2020.

⁸ This analysis focuses on official company presence in each country at the time of writing. Brands in de facto, and/or illicit, circulation in a country are not included, as the analysis is focused on official company activity.

⁹ Countries are ordered alphabetically in this summary.

France

Country Context

Five of the six reduced-risk product categories were legal in France with the exception being Swedish-style snus. The marketing of non-tobacco nicotine pouches was unrestricted, while other legal product categories were subject to certain restrictions. The taxation rate on reduced-risk products was higher than the regional average, however at 27.5%, it was considerably lower than the 84.2% for cigarettes at the national level.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in France in 2020.

Germany

Country Context

Four of the six reduced-risk product categories were allowed in Germany. Swedish-style snus was prohibited, while the status of non-tobacco nicotine pouches was uncertain. Non-tobacco nicotine pouches have been banned in the federal state of Bavaria since November 2020, while Germany's Federal Office of Consumer Protection and Food Safety (BVL) recognized that the products are not regulated by tobacco law and should not be placed on the market.¹⁰ The BVL stated that non-tobacco nicotine pouches should be classified as a foodstuff containing an unauthorized novel ingredient (nicotine).

The average reduced-risk product overall tax burden of 18.4% in Germany is considerably lower than the 68.8% for cigarettes. All legal reduced-risk products are subject to certain marketing restrictions, such as restrictions on advertising in press and other printed media.

Company Activity

BAT, Imperial, JTI, PMI, and Swedish Match sold both reduced-risk and high-risk products in Germany in 2020.

Italy

Country Context

Swedish-style snus was prohibited in Italy and non-tobacco nicotine pouches were unregulated in 2020, while the other four reduced-risk categories were legal. Non-tobacco nicotine pouches were unregulated pending evaluation by the Ministry of Health and the Customs and Monopoly Agency (ADM). In January 2022, non-tobacco nicotine pouches were regulated for the first time with an excise duty rate of EUR22 per kg to be introduced from January 2023.¹¹ Except for NRT products, the ability to market reduced-risk products was relatively restricted. The average reduced-risk product overall tax burden of 26.0% in Italy was considerably lower than the 77.3% for cigarettes.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in Italy in 2020.

Poland

Country Context

Of the six reduced-risk product categories, only Swedish-style snus was prohibited. In terms of marketing, NRT products and non-tobacco nicotine pouches were unrestricted, however the environment for the other

¹⁰ Obelis Group. Nicotine Pouches are no longer considered to be a medicinal product. Accessed July 2022.

<https://www.obelis.net/nicotine-pouches-are-no-longer-considered-to-be-a-medicinal-product/>

¹¹ Changes made to the Decree of 30th of December 2021, No.228. Italian Content. Accessed July 2022

<https://www.senato.it/service/PDF/PDFServer/BGT/01332658.pdf>

Nicotine pouches recognized by Italian law. Accessed July 2022

<https://www.svapomagazine.it/i-sacchetti-di-nicotina-riconosciuti-dalla-legge-italiana/#:~:text=Le%20bustine%2C%20%C3%A8%20esposto%20nell,prodotti%20provenienti%20da%20Paesi%20terzi.>

legal categories was restrictive, with press and in-store advertising banned. Reduced-risk products in Poland had the third-highest overall tax burden in the region, while the country had the fifth-lowest level of disposable income of the European markets under review. Although Poland's reduced-risk overall tax burden of 34.9% was the third highest in the region, it was considerably lower than the 81.7% rate for cigarettes.

Company Activity

BAT and PMI sold both reduced-risk and high-risk products in Poland in 2020. Swedish Match was exclusively present in reduced-risk products in 2020, while China National Tobacco Corporation (CNTC), Djarum, Imperial, and JTI only sold high-risk products.

Russia

Country Context

Four of the six reduced-risk product categories were allowed in 2020, with Swedish-style snus and non-tobacco nicotine pouches banned. Swedish-snus has been banned since 2015, while non-tobacco nicotine pouches were banned in July 2020.¹² The operating environment changed in 2021 when the majority of reduced-risk products became subject to the same regulations as other tobacco products, meaning most marketing activities were banned. The exception to this was for NRT products where marketing remains unrestricted. The average reduced-risk product overall tax burden of 43.5% in Russia was the highest in the region, while it had the lowest overall tax burden for cigarettes at 59.4%.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in Russia in 2020. Swisher only sold high-risk products in Russia. Korea Tobacco & Ginseng Corporation (KT&G) entered reduced-risk products in Russia in January 2020 through a distribution partnership with PMI.¹³

Spain

Country Context

As of 2020, Swedish-style snus and non-tobacco nicotine pouches were banned in Spain, while all other reduced-risk categories were legal. Spain was the second most restrictive country in the region in terms of marketing, with in-store advertising or display for NRT products the only area not subject to restrictions or bans. The average reduced-risk overall tax burden of 25.1% in Spain was considerably lower than the 79.1% for cigarettes.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in Spain in 2020. Swedish Match had a presence in reduced-risk products in Spain in 2021 and does not sell high-risk products.

Sweden

Country Context

All reduced-risk products were legal in Sweden, the only country in the European Union to be exempt from the bloc's ban on Swedish-style snus. In addition to product availability, it had fewer marketing restrictions than the majority of European countries under review. One barrier in the country was its high taxation rate, although to a degree this was offset by high disposable incomes. The average reduced-risk overall tax burden of 41.7% in Sweden, although one of the highest in the region, was lower than the 70.1% for cigarettes.

¹² World Health Organization Framework Convention on Tobacco Control. (2020). Russian Federation: New regulations on nicotine-containing products adopted. Accessed July 2022.

<https://untobaccocontrol.org/impldb/russian-federation-new-regulations-on-nicotine-containing-products-adopted/>

¹³ PMI Deal to Distribute KT&G Some Free Products Globally. Accessed July 2022.

<https://www.pmi.com/media-center/news/pmi-deal-to-distribute-kt-and-g-smoke-free-products-globally>

Company Activity

BAT, Imperial, JTI, PMI, and Swedish Match sold both reduced-risk and high-risk products in Sweden in 2020.

Switzerland

Country Context

All reduced-risk products were legal in Switzerland in 2020. In terms of marketing, it was one of the least restrictive markets in the region. NRT products and non-tobacco nicotine pouches were unrestricted, and while there were limitations for the other categories in certain areas, in-store advertising and display were unrestricted. Switzerland has the highest disposable income level regionally, while reduced-risk products were, relatively speaking, subject to low taxation rates. The average reduced-risk overall tax burden of 10.4% in Switzerland was considerably lower than the 60.3% for cigarettes.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in Switzerland in 2020. Swedish Match sold only reduced-risk products.

Turkey

Country Context

All reduced-risk products were banned in Turkey, with the exception of NRT products. Retail product display was the only type of legal marketing activity for NRT products in the country. Average disposable income levels were among the lowest compared to the other European markets under review. The overall tax burden of 7.4% in Turkey for NRT products was considerably lower than the 85.3% for cigarettes.

Company Activity

BAT, Djarum, JTI, PMI, and Swedish Match all sold high-risk products in Turkey in 2020. BAT is the only company that has NRT products as part of its portfolio, however BAT did not offer NRT products in Turkey in 2020.

Ukraine

Country Context

All reduced-risk products were legal in Ukraine in 2020. Reduced-risk products could be freely marketed, except for Swedish-style snus for which most marketing activities were banned. Ukraine had one of the lowest reduced-risk product taxation rates in the region. The average reduced-risk overall tax burden of 20.1% in Ukraine was considerably lower than the 64.1% for cigarettes. Of the European countries under review, disposable income levels in Ukraine were the lowest in the region.

Company Activity

BAT, JTI, and PMI sold both reduced-risk and high-risk products in Ukraine in 2020. Imperial only sold high-risk products. KT&G entered reduced-risk products in Ukraine in 2020 through a distribution partnership with PMI.

United Kingdom

Country Context

Five of the six reduced-risk product categories were legal in the UK, except for Swedish-style snus. NRT products and non-tobacco nicotine pouches were not subject to any marketing restrictions. Although heated tobacco is regulated under the Tobacco and Related Products Regulations, these do not contain specific restrictions on the advertising of heated tobacco products. Cartridges and e-liquids face some marketing restrictions and bans but were unrestricted regarding in-store displays and advertising. Overall, from a regulatory perspective, the market was receptive to reduced-risk products and this is supported by high disposable income levels and relatively low taxation. The average reduced-risk overall tax burden of 20.4% in the UK was considerably lower than the 79.8% for cigarettes.

Company Activity

BAT, Imperial, JTI, and PMI sold both reduced-risk and high-risk products in the UK in 2020. Swedish Match only sold reduced-risk products, while Swisher exclusively sold high-risk products.

4. Company Performance at Country Level

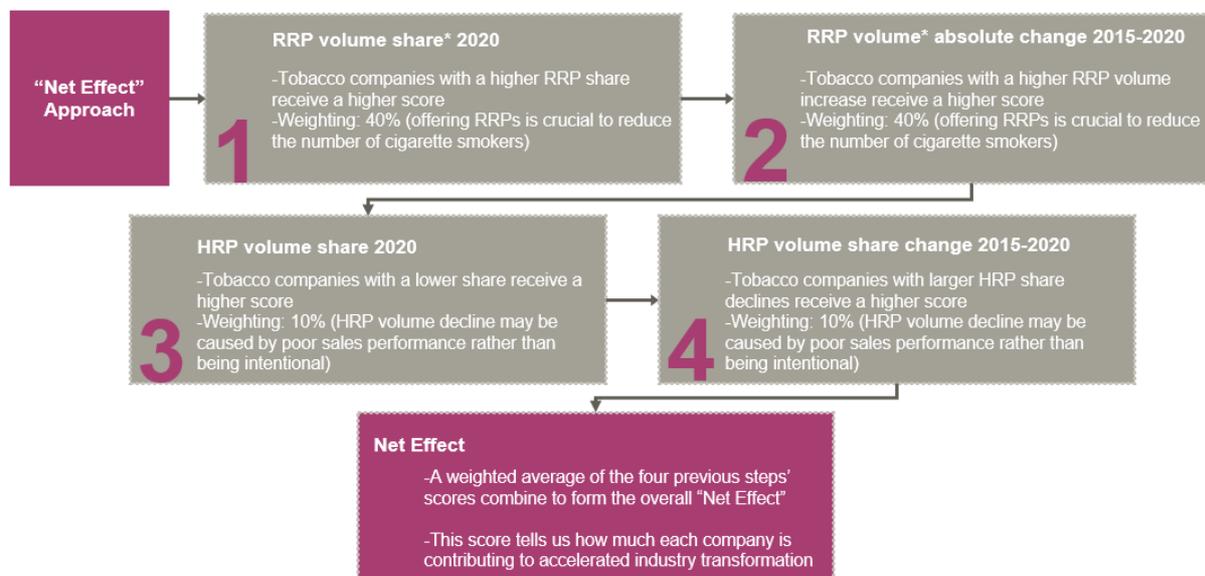
Purpose

An analysis of company performance at the country level relative to peers gives an indication of a company’s proactive harm-reduction strategies, as it enables a comparison within the same operating environment. This analysis strategy mitigates to a certain degree (although does not fully eliminate) the impact of circumstance and historic geographic footprints, compared to analysis aggregated at a global level. The analysis allows us to understand what types of RRP (if any) companies are offering, in markets where those products can be sold legally.

Note that this report does not generally consider non-regulatory factors as part of the country context assessment (except for a country’s disposable income per capita).

To achieve a direct comparison across companies, a “Net Effect” score is calculated from a set of criteria (see below), which measure a company’s impact on harm reduction.

Criteria and Scoring Approach - Net Effect



RRP = Reduced-risk product / HRP = High-risk product. See appendix for category definitions.

Source of data used: Tobacco Transformation Index / Euromonitor Passport May 2021, data to end 2020

*RRP/HRP Volume: Per Stick Equivalent conversion and Risk Spectrum weighting applied to sales figures taken from Euromonitor Passport. See appendix for further details.

See Appendix for further detail on approach to scoring

Company Performance Summary

British American Tobacco Plc (BAT)¹⁴ had a reduced-risk presence in all the countries under review, with the exception of Turkey. BAT's most significant reduced-risk category in terms of sales was cartridges. BAT has been expanding its presence in other categories, with a number of launches in heated tobacco and non-tobacco nicotine pouches. In 2020, BAT maintained a high-risk product presence in all countries under review, although its volume share in cigarettes fell in nine of them.

China National Tobacco Corp (CNTC) sells high-risk products only in Poland and is not present in reduced-risk products. CNTC's sales were limited to fine cut tobacco through the RGD brand. CNTC's volume share of the category fell from 3.2% in 2016 to 1.5% in 2020.

Djarum PT (Djarum) sells high-risk products only in Poland and Turkey, and it is not present in reduced-risk products. Djarum's presence was limited to cigars in Poland and cigars and cigarillos in Turkey.

Imperial Brands Plc (Imperial) had a reduced-risk presence in nine of the markets under review, although in 2020 it announced plans to exit the vapor market in Russia. Imperial did not sell reduced-risk products in Poland, Ukraine, or Turkey. Cartridges and e-liquids were Imperial's primary reduced-risk categories. Imperial also had some presence in non-tobacco nicotine pouches and Swedish-style snus. In high-risk products, Imperial had a presence in all the countries under review and gained volume share in cigarettes in seven of those countries in 2020.

Japan Tobacco Inc (JTI) had a reduced-risk presence in ten of the European countries under review, with the exceptions being Poland and Turkey. JTI announced plans to exit cartridges in Spain.¹⁵ JTI was present in five reduced-risk categories (all except NRT products), and its key reduced-risk category was cartridges. JTI sold high-risk products in all the countries under review in 2020 and increased its share of cigarettes in nine of them.

KT&G Corp (KT&G) sold high-risk products in one country under review, Russia, where KT&G sells cigarettes. KT&G's volume share of the cigarette category has more than doubled from 0.7% in 2016 to 1.5% in 2020. However, in 2020, KT&G launched its heated tobacco brand, Lil, in Russia and Ukraine through a distribution partnership with PMI.

Philip Morris International (PMI) had reduced-risk presence in all the European countries under review except Turkey, in which only NRT products are legal. PMI's reduced-risk product sales were overwhelmingly through heated tobacco, where PMI was market leader in all 11 countries in which it is legal. PMI also had some presence in cartridges and e-liquids. PMI sold cigarettes in all 12 of the markets under review. PMI saw cigarette volume share declines in nine countries but remains the market leader in seven countries.

Swedish Match AB (Swedish Match) sold reduced-risk products in Poland, Germany, Spain, Sweden, Switzerland, and the UK. In Germany, Poland, Spain, and the UK, Swedish Match was present in non-tobacco nicotine pouches, while in the other two markets it was also present in Swedish-style snus. Swedish Match's only sales of high-risk products in the region were through chewing tobacco in Germany and Sweden.

¹⁴ Companies are ordered alphabetically in this summary.

¹⁵ Euromonitor Passport Tobacco in Spain Country Report (2020).

Swisher International Group Inc (Swisher) had no reduced-risk sales in the region, while its high-risk sales were limited to cigarillos in Ukraine and cigars in the UK. In the UK, Swisher recorded a slight volume share gain in cigars increasing from 2.0% in 2016 to 2.1% in 2020. However, actual volume sales declined along with the overall category. In Ukraine, Swisher's cigarillo volume share declined from 2.6% in 2016 to 0.9% in 2020.

A full assessment of each company's activities in the region can be found on the following pages.

Company Assessment: British American Tobacco Plc (BAT)¹⁶

Europe Harm Reduction Summary: British American Tobacco (BAT)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 France	Yes	Yes	#1 (of 4)	5
 Sweden	Yes	Yes	#1 (of 5)	6
 Germany	Yes	Yes	#2 (of 4)	4
 Italy	Yes	Yes	#2 (of 4)	4
 Poland	Yes	Yes	#2 (of 7)	5
 Russia	Yes	Yes	#2 (of 5)	4
 Spain	Yes	Yes	#2 (of 4)	4
 Switzerland	Yes	Yes	#2 (of 4)	6
 Ukraine	Yes	Yes	#2 (of 5)	6
 United Kingdom	Yes	Yes	#2 (of 5)	5
 Bulgaria	Yes	Yes	#4 (of 4)	5
 Turkey	Yes	No	-	1

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

BAT had an extensive country reach in reduced-risk products

BAT had a presence in reduced-risk products in each European country under review except for Turkey.

In France, BAT's key reduced-risk offering was cartridges through Vype. BAT recorded 33.9% value share in closed vaping systems in France in 2020. Vype was also available as an e-liquid in France.

In Sweden, BAT operated in three reduced-risk categories in 2020 - non-tobacco nicotine pouches, Swedish-style snus, and NRT products. In each of the categories, BAT increased its share in 2020.

In Germany, BAT had presence in three categories, with the launch of its Glo heated tobacco brand in the summer of 2020. BAT withdrew its non-tobacco nicotine pouches product from the market in July 2021, citing uncertain government policy.¹⁷ In 2020, BAT's largest reduced-risk category in value sales in Germany was cartridges.

¹⁶ Companies assessed in alphabetical order.

¹⁷ British American Tobacco Annual Report 2021.

In Italy, BAT was the market leader in cartridges and increased its share in 2020. BAT entered heated tobacco in 2018, however its volume share of 1.8% in 2020 remained marginal.

In Poland, BAT offered a wide range of reduced-risk products. BAT was the market leader in cartridges and e-liquids. In heated tobacco, BAT was second to PMI with a 2.9% volume share. In 2020, BAT launched the Glo Hyper+ device range, available in five colors. A key selling point for the new device range was its retail price of PLN59 (USD15.3),¹⁸ relatively low compared to other heated tobacco offers in Poland at the time. In 2020, BAT introduced the Lyft non-tobacco nicotine pouches category in Poland.

In Russia during 2020, BAT was present in heated tobacco, where it was the second largest player. BAT's volume share jumped significantly to 18.3% in 2020, following the introduction of Glo Hyper and Glo Hyper+. The company was previously present in non-tobacco nicotine pouches in Russia but withdrew as the category became illegal in 2020. Following the invasion of Ukraine, BAT announced it had initiated the process of transferring ownership of its Russian business. Upon completion of this process BAT will no longer have a presence in Russia.¹⁹

BAT was a relatively new player in reduced-risk products in Spain, although BAT gained share. BAT first registered a share measure in 2019 for cartridges. In 2020, BAT launched its Glo heated tobacco device and associated Neo sticks.

In Switzerland, BAT was present in three reduced-risk categories, and it was the market leader in cartridges and non-tobacco nicotine pouches. In heated tobacco, having entered the category in 2017, BAT achieved an 11.7% volume share in 2020 through its Kent Neo brand.

In Ukraine, BAT was the first mover in non-tobacco nicotine pouches, establishing a position in 2020 through its Velo brand, with sales reaching 22 million units. In heated tobacco, BAT reduced the price of Glo to a more competitive level compared with market leader IQOS, which helped BAT double its volume share in 2020 to 10.8%.

In the UK, BAT offered three reduced-risk categories - cartridges, e-liquids, and non-tobacco nicotine pouches - with cartridges representing its lead offering. BAT's retail presence in non-tobacco nicotine pouches was limited,²⁰ and it did not record a market share in 2020.

In Bulgaria, BAT was present in heated tobacco, where its sales have grown since 2018. However, it has continued to lose share to market leader PMI.

BAT remained a significant cigarette player, although its overall share declined

As of 2020, BAT was present in high-risk products in all the twelve European markets under review. In the key high-risk category of cigarettes, BAT's volume sales fell in 2020 in nine of the countries under review but increased in three - Sweden, Switzerland, and Turkey. In Sweden and Switzerland, the movement contrasted with the underlying trend, with sales increasing because of the impact of COVID-19 and subsequent reduction in illicit trade.²¹ By contrast, in Turkey, BAT has consistently grown its cigarettes volume sales since 2017, and its share increased from 21.9% in 2017 to 26.6% in 2020.

¹⁸ Passport, 2021 Exchange Rate: PLN3.86 = USD1.

¹⁹ BAT News Release. (March 2022). Russia business update and revised guidance. Accessed July 2022. https://www.bat.com/group/sites/UK__9D9KCY.nsf/vwPagesWebLive/DOCCEKV9

²⁰ Euromonitor Store Audit UK July 2021.

²¹ Euromonitor Passport Country Reports (2020).

Company Assessment: China National Tobacco Corp (CNTC)

Europe Harm Reduction Summary: China National Tobacco Corp (CNTC)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
Poland	Yes	No	-	5

*Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).
Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. See Appendix – Company Assessment for more details on Net Effect scoring.
Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).*

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company’s actions in a market. Some, but not all, of these factors are assessed in the analysis below.

CNTC had a small presence in high-risk products and no sales in reduced-risk products

CNTC’s sales in the European markets under review were limited to fine cut tobacco in Poland. CNTC’s sales and share increased marginally in 2020 to reach 1.5%, compared to 3.2% in 2016, when it first recorded a market share presence.

Company Assessment: Djarum PT (Djarum)

Europe Harm Reduction Summary: Djarum PT (Djarum)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 Poland	Yes	No	-	5
 Turkey	Yes	No	-	1

*Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).
Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. See Appendix – Company Assessment for more details on Net Effect scoring.
Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).*

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company’s actions in a market. Some, but not all, of these factors are assessed in the analysis below.

Djarum lacks a reduced-risk presence

Djarum did not sell any reduced-risk products. In the European markets under review, Djarum had a high-risk product presence in Poland and Turkey, where Djarum was a relatively minor player. In Poland, Djarum’s cigar sales remained stable in 2020 at a volume share of 1.3%. In Turkey, Djarum was present in cigars and cigarillos, with its volume shares being 1.1% and 2.2%, respectively. Djarum’s volume sales and shares declined in both categories in Turkey in 2020.

Company Assessment: Imperial Brands Plc (Imperial)

Europe Harm Reduction Summary: Imperial Brands Plc (Imperial)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 United Kingdom	Yes	Yes	#1 (of 5)	5
 Bulgaria	Yes	Yes	#2 (of 4)	5
 Sweden	Yes	Yes	#2 (of 5)	6
 Germany	Yes	Yes	#3 (of 4)	4
 France	Yes	Yes	#3 (of 4)	5
 Italy	Yes	Yes	#3 (of 4)	4
 Russia	Yes	Yes	#3 (of 5)	4
 Spain	Yes	Yes	#3 (of 4)	4
 Switzerland	Yes	Yes	-	6
 Poland	Yes	No	-	5
 Ukraine	Yes	No	-	6
 Turkey	Yes	No	-	1

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. No net effect score was recorded in Switzerland as RRP sales levels did not generate a market share. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

Imperial had a reduced-risk presence in nine of the countries under review

In the UK, Imperial was the leading player in e-liquids, although given the fragmented nature of the category, had just 3.8% value share, increasing from 3.5% in 2019. In cartridges, Imperial was the third player, recording a 5.7% value share of closed vaping systems. Imperial also had a minor presence in non-tobacco nicotine pouches through its Zone X brand.

In Bulgaria, Imperial increased its value share of closed vaping systems from 12.0% in 2019 to 12.5% in 2020. In Sweden, Imperial was the second-largest player in Swedish-style snus, increasing its volume share in 2020 to 18.7%. Imperial was also present in non-tobacco nicotine pouches in Sweden with its volume share declining to 6.0% in 2020.

In Germany, Imperial's strong reduced-risk product performance in Germany in 2020 was a result of its second-place position in cartridges in value sales terms. Imperial increased its closed vaping systems value share from 20.8% in 2019 to 27.6% in 2020. In early 2021, Imperial identified Germany as a focus market for its "modern oral nicotine" category. Given the uncertain legal status of non-tobacco nicotine pouches in Germany, following a ban in Bavaria in November 2020, Imperial's development in the category remains to be seen.²²

²² Imperial Brands CAGNY. (2021). Our Transformation to Unlock Value.

In Spain, Imperial's brand MyBlu has become the dominant brand in closed vaping systems, increasing its value share from 44.0% in 2019 to 57.0% in 2020. This result followed the extension of MyBlu's distribution into gas station retailers. Imperial maintained its category share in cartridges in Italy but saw a decline in France.

In Switzerland, Imperial's reduced-risk product sales were small, but Imperial established a presence in Swedish-style snus through its Skruf brand and non-tobacco nicotine pouches Zone X.²³

In Russia, the company made the strategic decision to exit the vapor market in 2021.²⁴ Following the invasion of Ukraine, Imperial announced that it was suspending all activities in Russia.²⁵

Imperial gained high-risk product share across multiple markets

Imperial did not have a reduced-risk product presence in Poland, Ukraine, or Turkey, but sold high-risk products. In Poland, Imperial was the fourth largest player in cigarettes, first in fine cut tobacco and third in cigars, gaining volume share in each of these categories in 2020. Imperial also gained volume share in cigarettes in Ukraine, where it was the fourth largest player. Imperial recorded a 2.9% volume share of cigarettes in Turkey in 2020.

Elsewhere, Imperial gained volume share in 2020 in the largest high-risk category (cigarettes) in Bulgaria where Imperial was the sixth player, Spain (second), and Italy and Russia (fourth in each).

In Bulgaria, Imperial's cigarettes share growth resulted from lower-priced product extensions, following the launch of Davidoff Reach and Davidoff Shape. In 2020, a pack of regular Davidoff was priced between BGN5.80 and BGN6.00 (USD3.5 and USD3.6), while the new brand extensions were set at BGN5.20 (USD3.1).²⁶ In Spain, Imperial gained share predominantly through its economy cigarettes brand, West. In Russia, Imperial increased its volume share of cigarettes to 8.3%. In Italy, its increase was marginal, and Imperial remains a relatively small player, accounting for 3.3% of cigarette volume sales.

The UK is Imperial's largest market for high-risk products where its volume share of cigarettes in 2020 was 43.3%, slightly declining from 43.8% in 2019. In Germany, Imperial was the second player in cigarettes and fine cut tobacco, losing volume share in both categories in 2020.

In France, Imperial was fourth in cigarettes but saw its volume share decline from 16.8% in 2019 to 16.0% in 2020. However, Imperial gained share in fine cut tobacco, increasing from 19.5% in 2019 to 21.1% in 2020. Its actual volume sales increased as the overall category appealed to price-conscious consumers during COVID-19 restrictions.

²³ Euromonitor Store Audit July 2021.

²⁴ Imperial Brands. (2021). Annual Report and Accounts 2021.

²⁵ Imperial Brands Key announcements. (March 2022). Update on Russia & Ukraine. Accessed July 2022. <https://www.imperialbrandspc.com/media/key-announcements/2022/update-on-russia--ukraine>.

²⁶ Passport 2021 Exchange rate: BGN1.65 = USD1.

Company Assessment: Japan Tobacco Inc (JTI)

Europe Harm Reduction Summary: Japan Tobacco Inc (JTI)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 Bulgaria	Yes	Yes	#2 (of 4)	5
 France	Yes	Yes	#2 (of 4)	5
 Ukraine	Yes	Yes	#3 (of 5)	6
 United Kingdom	Yes	Yes	#3 (of 5)	5
 Germany	Yes	Yes	#4 (of 4)	4
 Italy	Yes	Yes	#4 (of 4)	4
 Russia	Yes	Yes	#4 (of 5)	5
 Spain	Yes	Yes	#4 (of 4)	4
 Switzerland	Yes	Yes	#3 (of 4)	6
 Sweden	Yes	Yes	#5 (of 5)	6
 Poland	Yes	No	-	5
 Turkey	Yes	No	-	1

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

JTI had a widespread reduced-risk presence in Europe

JTI had a reduced-risk presence in ten of the European countries under review, with the exceptions being Poland and Turkey (where it sells high-risk products).

In Bulgaria, JTI was the second player in cartridges with a 25.2% value share of closed vaping systems in 2020, behind Shenzhen Joye Technology Co Ltd. JTI's share of e-liquids in the country was much smaller at 2.5%.

In France, JTI's position was built on cartridges, where it posted a 28.4% value share of closed vaping systems. Its share in the category has been in decline since 2016, and JTI was overtaken by BAT as the market leader in 2017. In e-liquids, its value share in France in 2020 was marginal at 1.5%.

JTI was present in four reduced-risk categories in the UK, having entered heated tobacco through its Ploom brand in 2020.²⁷ This action built on JTI's 2019 launch of Nordic Spirit, the non-tobacco nicotine pouch, which established a 61.5% value share in 2020. JTI's most established

²⁷ The Grocer. (2021). JTI UK launches Ploom S heated tobacco system Accessed July 2022.

<https://www.thegrocer.co.uk/buying-and-supplying/jti-uk-launches-ploom-s-heated-tobacco-system/649916.article>.

category in the UK was cartridges, but it has seen its sales decline since 2018 in the closed vaping systems category. E-liquids was a smaller category for JTI in the UK.

In Switzerland, JTI was present in three reduced-risk categories - cartridges, heated tobacco, and non-tobacco nicotine pouches.²⁸ In cartridges, JTI posted a 2.3% value share in closed vaping systems. Its most dynamic category was heated tobacco, where JTI launched Ploom in 2017 and in 2020 posted a 6.0% volume share.

As of 2020, JTI ranked second in cartridge value sales in Ukraine recording a 28.4% value share of the category.

In Russia, JTI added to its cartridges range in 2019 with the launch of Logic Compact and followed this up by entering the heated tobacco category in 2020 with the launch of Ploom. In 2020, JTI was the market leader in cartridges, posting a 48.8% value share of closed vaping systems. Following the invasion of Ukraine, JTI announced it planned to suspend all investment and marketing activities in Russia including the launch of Ploom X heated tobacco.²⁹

JTI's reduced-risk presence in Germany was restricted to cartridges, where JTI posted a 3.8% value share of closed vaping systems in 2020. JTI was only present in cartridges in Spain. In 2020, however, JTI announced it planned to withdraw from the category in Spain citing underperformance.³⁰

In Sweden, JTI was present in Swedish-style snus and non-tobacco nicotine pouches in which it posted 6.4% and 6.0% volume shares, respectively. In Italy, JTI is a relative newcomer in reduced-risk products, recording shares in cartridges for the first time in 2019 and heated tobacco in 2020.

JTI gained share in cigarettes in the majority of European markets

Poland and Turkey were the two European markets where JTI did not have a reduced-risk presence in 2020. In Turkey, JTI was the second largest cigarette manufacturer with a volume share of 26.6% in 2020. In Poland, JTI was the third largest cigarette manufacturer and its share increased significantly from 15.8% in 2019 to 21.9% in 2020. JTI's menthol cigarette products only contained traces of menthol, therefore were exempt from the EU's May 2020 ban on cigarettes with a "characterizing" menthol flavor.

Within the ten markets in which JTI had a reduced-risk product presence, JTI gained volume share in cigarettes in 2020 in eight of them, the exceptions being Bulgaria and Russia. In Bulgaria, JTI was fourth in cigarettes and maintained its volume share at 9.9%. In Russia, JTI was the leader, but its share declined from 39.1% in 2019 to 38.3% in 2020. This was despite the launch of the lower-priced, economy cigarette product Camel Compact in Russia in 2020.

In Sweden, JTI was the leader in cigarettes with a 40.1% volume share which slightly increased from 39.6% in 2019. The increase in share was driven by JTI's Camel Activate brand, for which JTI adapted its flavor to conform to the EU's menthol ban.

²⁸ Euromonitor Store Audit July 2021.

²⁹ JTI.com. (March 2022). JTI suspends investments in Russia and continues to prioritize the safety of its employees and their families. Accessed July 2022.

<https://www.jti.com/jti-suspends-investments-russia-and-continues-prioritize-safety-its-employees-and-their-families>

³⁰ Euromonitor Passport Tobacco in Spain Country Report (2020).

JTI was the second cigarette player in France and the UK in 2020, while also being the leader in fine cut tobacco in both markets. In France, JTI's share grew in both categories, particularly through its lower-priced Winston brand. JTI also grew its share in the UK in both categories, with its 3-for-1 deals on its Holborn Yellow and Sterling brands driving fine cut tobacco growth.

Company Assessment: KT&G Corp (KT&G)

Europe Harm Reduction Summary: KT&G Corp (KT&G)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 Russia	Yes	Recently Launched	-	4
 Ukraine	No	Recently Launched	-	6

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. No net effect score was recorded in Russia or Ukraine as RRP sales levels did not generate a market share. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

KT&G launches reduced-risk products in Europe

In 2020, KT&G was present in high-risk products in the European markets under review through cigarettes in Russia. KT&G entered the Russian market in 2003 and completed the construction of a manufacturing plant in 2010. KT&G's volume share of cigarettes increased from 0.7% in 2016 to 1.5% in 2020. KT&G's cigarette sales in Russia were achieved through the Esse brand. In 2020, KT&G launched its heated tobacco brand, Lil, in Russia and Ukraine, through a distribution partnership with PMI.³¹ As of the time of writing this report, KT&G had not made public any intention to transfer ownership of its Russian business or suspend operations in Russia.³²

³¹ KT&G News. (2021). Electronic Cigarette "Lil" Succeeds in a Breakthrough in 10 countries. Accessed July 2022. <https://en.ktng.com/ktngNewsView?cmsCd=CM0048&ntNo=467&rnum=474&src=&srcTemp=&currPg=1>

³² KT&G FY2022 Q1 Separate Financial Statements page 41 <https://en.ktng.com/report?cmsCd=CM0043>

Company Assessment: Philip Morris International Inc (PMI)

Europe Harm Reduction Summary: Philip Morris International (PMI)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 Bulgaria	Yes	Yes	#1 (of 4)	5
 Germany	Yes	Yes	#1 (of 4)	4
 Italy	Yes	Yes	#1 (of 4)	4
 Russia	Yes	Yes	#1 (of 5)	4
 Spain	Yes	Yes	#1 (of 4)	4
 Switzerland	Yes	Yes	#1 (of 4)	6
 Ukraine	Yes	Yes	#1 (of 5)	6
 Poland	Yes	Yes	#3 (of 7)	5
 Sweden	Yes	Yes	#3 (of 5)	6
 France	Yes	Yes	#4 (of 4)	5
 United Kingdom	Yes	Yes	#4 (of 5)	5
 Turkey	Yes	No	-	1

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRPs in a country where at least two RRP categories are legal. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

Widespread European country presence in reduced-risk products through heated tobacco

PMI had a reduced-risk presence in all the European countries under review except for Turkey and was the leader in reduced-risk products in six markets, principally through its heated tobacco offer.

In Bulgaria, PMI was the market leader in heated tobacco and increased its volume share to reach 90.7% in 2020. COVID-19 led to a shift in sales from IQOS boutiques to e-commerce platforms, and PMI used mobile consultants to sell products directly to consumers.

PMI continued to post volume growth in heated tobacco in Ukraine but saw its volume share drop from 97.6% in 2018 to 89.1% in 2020, as BAT entered the category. Following the invasion of Ukraine, PMI announced the suspension of its operations in Ukraine but is working on future supply from other production centers.³³

In Sweden and France, PMI was the only heated tobacco player in 2020 and grew strongly in both countries. In Sweden, PMI entered the market in 2019 and has continued to expand its offering, launching its HEETS Russet selection in January 2021.

³³ Pmi.com. (April 2022). Philip Morris International Inc. (PMI) Reports 2022 First-Quarter Results.

PMI was the first mover in heated tobacco in Germany, Spain, and the UK, and held a 100% volume share in each market in 2019. New entrants, however, entered the markets in 2020, with BAT targeting Germany and Spain, while JTI entered the UK. To date, however, the impact has been limited with PMI holding 95.3% volume share in Germany, 93.6% in Spain, and 99.7% in the UK. In Spain, PMI was also present in cartridges, although it exited the market in 2021.

In Russia, PMI held an 80.7% volume share of heated tobacco, and while this reflected a decline as other companies have entered the market since 2017, PMI still posted strong volume growth. In addition to its own brand, PMI started distributing KT&G's Lil brand in 2020.³⁴ Following the invasion of Ukraine, PMI announced plans to suspend investments and scale down manufacturing in Russia, while the board of directors was working on options to exit the Russian market in an orderly manner.³⁵

In Poland, having lost volume share in heated tobacco in 2018 and 2019 in the face of new entrants, PMI grew its share in 2020 to reach 97.0%, in part helped by the launch of its IQOS 3 Duo range.

Since 2018, PMI's volume share of heated tobacco in Italy has remained relatively stable at just over 98.0% in 2020. PMI supported this with product launches, notably IQOS Duo in 2019. PMI also extended its IQOS line in Italy into cartridges with the launch of the VEEV variant. In Switzerland, PMI delayed the launch of VEEV citing COVID-19-related supply issues caused by COVID-19, however its volume share of heated tobacco in the country recorded 91.0% in 2020.

PMI remained the leader in cigarettes in eight European markets under review

PMI was present in cigarettes in all the European markets under review and increased its volume share in 2020 in Bulgaria, Germany, and Russia.

In Germany, PMI extended its market leadership in cigarettes in 2020 and despite declines or static performance in other markets, PMI was also the leading cigarette manufacturer in France, Italy, Poland, Spain, Switzerland, Turkey, and Ukraine. In Sweden and the UK, PMI remained the second and fourth largest cigarette players, respectively, although PMI lost volume share in 2020.

PMI's second-largest high-risk category was fine cut tobacco, in which PMI was the market leader in Italy, posting a 34.6% volume share in 2020. Other significant markets included France, Poland, and Switzerland (where PMI is third) and Germany, Spain, and Switzerland where it is fourth. Of these markets, Spain was the only country in which PMI posted a volume share gain in 2020, increasing to 8.7% (from 7.9% in 2019).

³⁴ KT&G News. (2021). Accessed July 2022.

<https://en.ktng.com/ktngNewsView?cmsCd=CM0048&ntNo=467&rnum=474&src=&srcTemp=&currPg=1>

³⁵ Pmi.com. (March 2022). Philip Morris International Inc. (PMI) Announces Concrete Steps to Scale Down Operations in the Russian Federation and Its Intention to Exit the Market Accessed July 2022.

<https://www.pmi.com/media-center/press-releases/press-details/?newsId=25011>

Company Assessment: Swedish Match AB (Swedish Match)

Europe Harm Reduction Summary: Swedish Match AB (Swedish Match)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 Poland	No	Yes	#1 (of 7)	5
 Sweden	Yes	Yes	#3 (of 5)	6
 Germany	Yes	Yes	-	4
 Spain	No	Yes	-	4
 Switzerland	No	Yes	-	6
 United Kingdom	No	Yes	-	5

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. No net effect score was recorded in Germany, Switzerland, Spain or United Kingdom as RRP sales levels did not generate a market share. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

Swedish Match is predominantly focused on reduced-risk products

Swedish Match had a reduced risk presence in six markets - Sweden, Poland, Germany, Spain, Switzerland, and the UK.

In Sweden, Swedish Match was the market leader in Swedish-style snus, recording a 58.4% volume share in 2020, through an extensive brand portfolio. Swedish Match accounted for six of the top 10 brands in the category, with General the market leader. Sweden was the only EU member state which had an exemption from the EU's ban on Swedish-style snus. In Sweden, the category is reaching maturity and Swedish Match's sales have declined since 2017 as more competitors have entered the market. However, Swedish Match's sales in Sweden have increased in non-tobacco nicotine pouches over the same period, through the brands Zyn and Swave. In 2020, non-tobacco nicotine pouches were not regulated under tobacco law in Sweden. In 2021, an inquiry proposed that a new act for tobacco-free nicotine products be implemented. The proposed legislation would introduce advertising restrictions and the need for health warnings on non-tobacco nicotine pouches. At the time of writing, this legislation had not been implemented.³⁶

In Poland, Swedish Match's Zyn brand posted an 8.4% volume share of non-tobacco nicotine pouches in 2020.

Swedish Match has expanded its sales of non-tobacco nicotine pouches in other European countries, and Swedish Match's brands were also available in Germany, Spain, Switzerland, and

³⁶ Lexology. (2022). New legislation for tobacco-free nicotine products expected in 2022 Accessed July 2022. <https://www.lexology.com/commentary/healthcare-life-sciences/sweden/westerberg-partners-advokatbyr-ab/new-legislation-for-tobacco-free-nicotine-products-expected-in-2022>.

the UK in 2020. Swedish Match also sold its General Swedish-style snus in Switzerland and had presence in Germany through chewing tobacco.

Company Assessment: Swisher International Group Inc (Swisher)

Europe Harm Reduction Summary: Swisher International Group Inc (Swisher)

Country	Company HRP Presence	Company RRP Presence	Net Effect Ranking	Legal RRP Categories
 Ukraine	Yes	No	-	6
 United Kingdom	Yes	No	-	5

Source: Tobacco Transformation Index 2021 Country Fact Sheet, and Euromonitor Passport (published May 2021, data to end 2020).

Net Effect Ranking: Ranking of company at a country level, versus the other 14 companies assessed as part of the analysis. A company will not register a positive Net Effect score if it does not sell RRP in a country where at least two RRP categories are legal. See Appendix – Company Assessment for more details on Net Effect scoring.

Legal RRP Categories: Reflects the number of legal RRP categories in the country (out of a total of 6).

Note: The above table focuses on regulatory factors but does not include non-regulatory factors that may limit a company's actions in a market. Some, but not all, of these factors are assessed in the analysis below.

Swisher had limited presence in Europe and sells no reduced-risk products

Swisher was present in two of the European markets under review - Ukraine and the UK - in 2020. In Ukraine, Swisher was present in cigarillos with volume share of 0.9% in 2020. In the UK, Swisher only recorded sales in cigars, where its volumes have been in marginal decline but its share remained relatively stable at 2.1% in 2020. Swisher does not sell any reduced-risk products in Europe.

Companies not present in Europe

Six of the 15 companies assessed by the Tobacco Transformation Index do not have presence in the European markets under review: Altria Group Inc, Eastern Co SAE, Gudang Garam Tbk PT, India Tobacco Company Limited (ITC Limited), the Tobacco Authority of Thailand, and the Vietnam National Tobacco Corp.

5. Appendix

Country Context Approach

In Figure 1 of this report (page 9), four metrics were used to provide country context:

- **RRP legality of commercialization (out of six):** This metric represents the number of reduced-risk product categories that can be legally commercialized in a given market.
 - Cartridges
 - E-liquids
 - Heated tobacco
 - Non-tobacco nicotine pouches
 - NRT products (regulated under pharmaceutical legislation)
 - Swedish-style snus (see page 36 “Product Scope” for full list of product definitions)
- **RRP taxation (average overall tax burden):** The taxation rates represent the share of taxes as a percentage of the final price of each tobacco product. Taxes include tobacco-specific excise taxes, ad valorem taxes, retail taxes and other taxes, but exclude import tariffs. To calculate this figure, each country’s national tax rates are applied to the median price for each category of products. Median prices are ascertained during store audits, where product availability and pricing information is gathered during visits to various point-of-sale locations in each country, conducted between June and August 2021. For this specific metric, the tax burden of each individual (legal) reduced-risk product was taken and an average created across all reduced-risk products.
- **Ability to market RRPs (out of 30):** This metric represents the number of channels through which reduced-risk products can be legally advertised in the market. The maximum is 30, since there are six total possible reduced-risk product categories, and five channels:
 - Advertising in press and other printed media
 - Advertising on radio
 - Audiovisual commercials (e.g., cinema, YouTube, TV)
 - Retail product display
 - Advertising in stores
- **Disposable income per capita:** The average level of disposable income across the population of a country, in US dollars (USD), in 2020.

Company Assessment Approach

Each company was assessed and given a “Net Effect” score per country, calculated as follows:

- Reduced-risk product volume share 2020 (40% weighting)
- Reduced-risk product volume absolute change 2015-2020 (40% weighting)
- High-risk product volume share 2020 (10% weighting)
- High-risk product volume share change 2015-2020 (10% weighting)

Risk Classification

“Reduced-risk products” is an aggregate category which includes sales of cartridges, e-liquids, heated tobacco, Swedish-style snus, non-tobacco nicotine pouches, and NRT products.

“High-risk products” is an aggregate category which includes sales of cigarettes, cigars, cigarillos, fine cut tobacco, pipe tobacco, shisha, moist snuff, and chewing tobacco.

Each product’s position on the risk spectrum³⁷ was taken into account and volume sales adjusted to reflect this. Volume sales were also converted into per-stick equivalents, in order to sum up all categories to create the aggregates.

Normalization

Given the disparate nature of the four data points that are taken into account in the Net Effect score, a normalization process was implemented. Company scores across the four metrics were aggregated according to the respective weighting and normalized on a scale of 0 to 5.

A Net Effect score of 0 means that a company is not making any harm-reduction progress in that market, relative to competitors. A Net Effect score of 5 means that a company is making the most progress toward harm reduction in that market, relative to competitors.

Country Context

If a company sells high-risk products in a market but does not sell any reduced-risk products, it automatically registers a Net Effect score of 0, as it is regarded as not contributing to harm-reduction efforts. The exception to this is markets where no reduced-risk products are legal or where the only ones that are legal are NRT products, as in such markets it is not regarded as viable for tobacco companies to sell reduced-risk products. The reason for not taking into account the legality of NRT products is that they are commonly regarded as operating in the pharmaceutical sector, which tobacco companies have limited access to.

³⁷ Reduced-risk product definition based on [Relative Risk Hierarchy \(RRH\)](#) produced by Rachel Murkett et al, October 2020, based on a systematic review of the scientific literature and analysis of the best available evidence.

Net Effect Calculation: Example

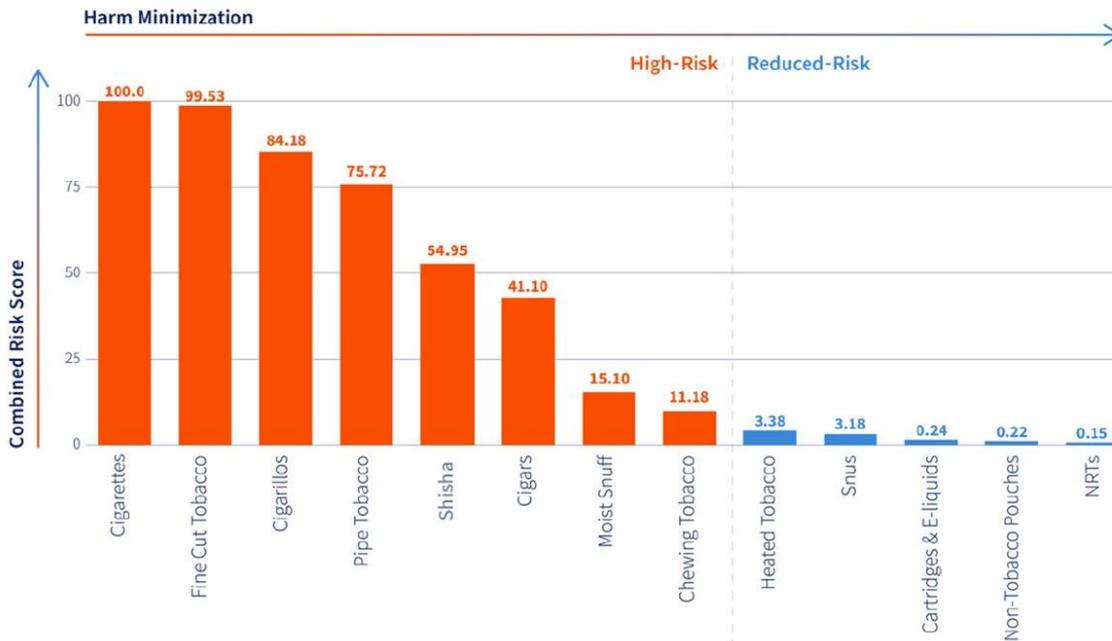
 Bulgaria		RRP Volume Share 2020 (%)	RRP Volume Absolute Change 2020 vs 2015 (Millions Sticks)	HRP Volume Share 2020 (%)	HRP Volume Share Change 2020 vs 2015 (Percentage Points)	Net Effect (Normalized, 0-5)
Philip Morris International Inc		53.6%	+748.71	16.6%	+0.5	4.8
Japan Tobacco Inc		1.4%	+15.53	10.1%	+1.8	1.0
Imperial Brands Plc		0.2%	+2.52	7.1%	+1.3	1.0
British American Tobacco Plc		5.1%	+71.50	33.8%	+24.4	0.4

*Note: Showing companies included in the Index only. Excludes other tobacco companies present in the market which are not included in the Index.
"N.A" means company does not offer any products in category*

Product Scope

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

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



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

Product	Type	Definitions	Per Stick Conversion
High-Risk Products			
Chewing Tobacco	Smokeless Tobacco	Chewing tobacco consists primarily of two types of product: Asian-style and US-style, available in those specific geographic areas; and other chewing tobacco available in all other markets.	1g = 0.7 cigarettes
Cigarettes	Combustible Tobacco	The definition of cigarettes for the purposes of the Index is duty-paid, machine-manufactured, white-stick products. This product category also includes hand-rolled kretek cigarettes present in Indonesia, and other brands of cigarettes that do not use white paper. However, it excludes non-machine-manufactured products such as bidis/beedis (India) and papirosy (Russia), and other smoking products made with tobacco but that either do not resemble cigarettes as recognized in the US or Europe, or those that are not machine-manufactured.	

Product	Type	Definitions	Per Stick Conversion
Cigarillos	Combustible Tobacco	Cigarillos are defined as miniature cigars, with a ring gauge of <29. Ring gauge is usually listed under a brand as Length/Ring and is a number indicating the circumference of the cigar's cross section and is enumerated in sixty-fourths of an inch (64/64 = 1 inch). Length does not matter as much in determining cigarillos versus cigars, as some cigarillos can be quite long. However, six inches (15cm) is the maximum length a cigarillo tends to be.	1 unit = 5.4 cigarettes
Cigars	Combustible Tobacco	Cigars are made of tobacco wrapped in leaf as opposed to paper. The product varies considerably in terms of price, quality, and size. Different terms are used to describe the various types of cigar, depending on the country. Cigars generally consist of three sections: the filler, the binder, and the wrapper. Cigars are defined as having ring gauges of 30 or more.	1 unit = 8.1 cigarettes
Fine Cut Tobacco	Combustible Tobacco	Fine cut tobacco is usually sold in plastic or foil pouches, metal tins, or plastic tubs. It can also be flavored.	1g = 2.0 cigarettes
Moist Snuff	Smokeless Tobacco	Moist snuff is either loose or pre-portioned in miniature-sized "teabag" pouches that are placed on the gum and sucked on. Moist snuff is distinguished from Swedish-style snus by its processing: moist snuff is fermented, compared to Swedish-style snus which is pasteurized (heat-treated).	1g = 1.4 cigarettes
Pipe Tobacco	Combustible Tobacco	Western-style pipe tobacco includes cut tobacco sold in packaged format for smoking in pipes and available in pouches, tins, and cans.	1g = 3.2 cigarettes
Shisha	Combustible Tobacco	Middle Eastern-style water pipe tobacco is also known as "shisha", "hookah", or "nakhla". Shisha tobacco is also referred to as molasses tobacco and is moist and sweetly flavored - often with fruit.	1g = 0.3 cigarettes
Reduced-Risk Products			
Cartridges	Vapor Products	This product category consists entirely of sales of pre-filled pods or capsules for use with a non-cig-a-like closed system device. Currently, these are universally proprietary in nature (pods are usable exclusively with a single specific hardware device).	1ml = 13 cigarettes
E-Liquids	Vapor Products	E-liquids include nicotine and non-nicotine bottled e-liquids which are decanted by the consumer into a tank for heating and inhalation. E-liquids can have different nicotine levels and flavors.	1ml = 13 cigarettes

Product	Type	Definitions	Per Stick Conversion
Heated Tobacco	Vapor Products	Heat-not-burn devices include products, generally manufactured by major tobacco companies, which allow the consumer to heat rather than combust a tobacco product. Heated tobacco is the consumable element of heat-not-burn devices, which comes in the form of pods or in specially designated cigarette sticks.	1 unit = 1 cigarette
Non-Tobacco Nicotine Pouches	Smokeless Tobacco	Non-tobacco nicotine pouches are manufactured in a similar way to Swedish-style snus using ingredients such as filler, flavors, stabilizers, and nicotine, but do not contain tobacco.	1 unit = 1 cigarette
NRT Products	NRT Products	Nicotine-based products, such as gum, lozenges, patches, and inhalators, used to aid smoking cessation. Also includes nicotine-based products sold as capsules, micro-tabs, or sprays.	1 unit = 10 cigarettes (patches) 1 unit = 1 cigarette (non patches)
Swedish-Style Snus	Smokeless Tobacco	Swedish-style snus is either loose or pre-portioned in miniature-sized “teabag” pouches that are placed on the gums and sucked on. Swedish-style snus is distinguished from moist snuff by its processing: Swedish-style snus is pasteurized (heat-treated), compared to moist snuff which is fermented.	1g = 1.4 cigarettes

Sources: Euromonitor International Passport’s Tobacco and Consumer Health databases, and the National Cancer Institute’s Dictionary of Cancer Terms.

Acronyms

BAT - British American Tobacco Plc

CNTC - China National Tobacco Corp

EU - European Union

HIC - High-Income Country

HRP - High-Risk Products

JTI - Japan Tobacco Inc

KT&G - KT&G Corp

LMIC - Low- and Middle-Income Country

NRT - Nicotine Replacement Therapy

PMI - Philip Morris International Inc

RRP - Reduced-Risk Products

Sources

British American Tobacco Plc. (2021). ESG Report 2021.

BAT.com Russia business update and revised guidance.

https://www.bat.com/group/sites/UK__9D9KCY.nsf/vwPagesWebLive/DOCCEKV9

Changes made to the Decree of 30th of December 2021, No.228. Italian Content Accessed July 2022

<https://www.senato.it/service/PDF/PDFServer/BGT/01332658.pdf>

Euromonitor International's Passport Tobacco database (last updated in May 2021).

Foundation for a Smoke Free World, EU Menthol Cigarette Ban Survey. Accessed July 2022

<https://www.smokefreeworld.org/eu-menthol-cigarette-ban-survey-2/>

Imperial Brands Plc. (2021). Annual Report and Accounts 2021.

Imperial Brands Plc CAGNY. (2021). Our Transformation to Unlock Value.

Imperialbrandspc.com Imperial Brands Key announcements. Update on Russia & Ukraine.

<https://www.imperialbrandspc.com/media/key-announcements/2022/update-on-russia---ukraine>

Japan Tobacco Inc. (2021). Integrated Report 2020.

JTI.com JTI suspends investments in Russia and continues to prioritize the safety of its employees and their families.

<https://www.jti.com/jti-suspends-investments-russia-and-continues-prioritize-safety-its-employees-and-their-families>

KTNG.com Electronic Cigarette "Lil" Succeeds in a Breakthrough in 10 countries. Accessed July 2022

<https://en.ktng.com/ktngNewsView?cmsCd=CM0048&ntNo=467&rnum=474&src=&srcTemp=&currPg=1>

KT&G FY2022 Q1 Separate Financial Statements page 41

<https://en.ktng.com/report?cmsCd=CM0043>

Nicotine pouches recognized by Italian law. Accessed July 2022

<https://www.svapomagazine.it/i-sacchetti-di-nicotina-riconosciuti-dalla-legge-italiana/#:~:text=Le%20bustine%2C%20%20C3%A8%20esposto%20nell,prodotti%20provenienti%20da%20Paesi%20terzi.>

Obelis Group. Nicotine Pouches are no longer considered to be a medicinal product. Accessed July 2022.

<https://www.obelis.net/nicotine-pouches-are-no-longer-considered-to-be-a-medicinal-product/>

Philip Morris International Inc. (2021). Integrated Report 2020.

Philip Morris International Inc. (2022). 2022 First-Quarter Earnings Results.

PMI.com Philip Morris International Inc. (PMI) Announces Concrete Steps to Scale Down Operations in the Russian Federation and Its Intention to Exit the Market.

