

SEPTEMBER 2022

Advisory Panel Statement on 2022 Index

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About the Index Advisory Panel

The Tobacco Transformation Index (“the Index”) is supported by the Advisory Panel (“the Panel”). As defined by its [Charter](#), the Panel provides independent, non-technical insight and non-binding advice on the evolution of the Index. At the end of each Index cycle, the Panel delivers a statement for publication on the Index website.

The Panel operates independently from the Foundation for a Smoke-Free World (“FSFW” or “the Foundation”) and without any industry involvement. The Panel serves strictly in an advisory capacity and as such does not have formal decision-making authority and only engages in providing non-binding recommendations. General advice and insight may relate to good practice standards for the development of benchmarks. General advice and insight do not include research and do not pertain to technical matters.

Members are appointed by reference to professional qualifications and personal expertise and experience required to support Index evolution at each stage of the Index cycles. Members operate in an individual capacity and do not represent organizations. The present members bring knowledge and experience of the health care industry, public policy, international trade, sustainability standards, and stakeholder engagement. Membership of the Panel changed from that of 2020. Two Panel members left, and one new Panel member joined.

About This Statement

The following statement reflects the joint opinion and recommendations of the Panel members as of September 2022 on the development and execution of the second edition of the Index. Reflections are based on Index-related document review, ongoing assessment of Index communications and stakeholder interactions, and regular in-depth engagements with the Index team from September 2021 to September 2022.

In fulfilling its role and responsibilities, the Panel referred to international good practices in index design and the ISEAL Good Practices for Credible Benchmarking.

Disclaimer

This opinion does not constitute an assurance statement.

Panel Statement

The development of the second edition of the Tobacco Transformation Index happened amidst the global COVID-19 crisis and resulting impacts on people, economies, travel, and political change. We have also seen the war in Ukraine take center stage, along with inflation, rising energy costs, and food insecurity in many countries. The landscape of environmental, social, and governance (ESG) investing has come under criticism, with accusations of greenwashing, while at the same time sustainability priorities continue to be embedded in new regulations and disclosure requirements for the private sector.

Needless to say, it has been a turbulent period. It is therefore unsurprising that tobacco divestment campaigns and criticisms of the tobacco industry have somewhat slowed. Nevertheless, the devastating health impacts of tobacco persist, and both developed and emerging economies are less able to afford the costs.

Fortunately, a positive trend has been the continued growth in sustainability benchmarks, which aim to mobilize private sector responses to difficult global problems. The World Benchmarking Alliance introduced a new Financial System Benchmark, which compares financial institutions on their contribution to the Sustainable Development Goals, and a Just Transition Assessment, which ranks companies in high-emitting sectors on what they are doing to respect the rights of workers, communities, and the most vulnerable as they work towards low-carbon goals. We are pleased to see this trend is only growing stronger and is grappling with tough issues. Unfortunately, tobacco continues to be too controversial for many ESG-focused investors to openly engage with.

In this context, the Panel's opinion is that persistent mistrust of the tobacco sector has caused the Tobacco Transformation Index to remain on the margins of the global sustainability benchmark movement during its early stages of development. Engagement with investors and tobacco companies is nascent, and the premise of the Index has come under fire from extreme critical voices. That said, even some of the most critical perspectives on the first iteration of the Index admitted there are solid elements of the Index, with room to improve.

In our view, the most critical ongoing issue remains the funding by Philip Morris International (PMI) of the Foundation for a Smoke-Free World, which hosts and manages the Index. From the beginning, this has been an issue of concern for stakeholders, as noted in the 2020 Stakeholder Consultation Report. It continues to be an area of focus for the panel. We remain satisfied that the Index fills a crucial gap and offers a novel solution in tackling the urgent global smoking problem. It is also unlikely that the Index would have achieved proof of concept so quickly without the support of the Foundation. However, consistent with our recommendation in the 2020 Advisory Panel Statement, we believe it is essential for long-term credibility and impact that the Index becomes independent of tobacco industry funding.

The Panel noted that PMI's funding pledge to the Foundation was cut by approximately half as of September 2020 for reasons not disclosed to the Panel or the public. We were particularly interested in whether this may result in influence over activities of the Foundation, including the Index. We are pleased to observe that the Foundation remains funded and continues to make its financial statements and governance documents available via its website. Importantly, the Panel has not observed deviation in the Foundation's approach to the Tobacco Transformation Index initiative, its methodology, and its stakeholder engagement.

One of our top recommendations this year is once again that the Foundation actively initiates plans to transition the Index to independent funding and governance, as soon as practically possible. The Panel continues to emphasize the importance of dedicating capacity to pursue such options as soon as practically possible. Such independence, in our view, will significantly enhance the perceived credibility of the Index and potentially solve some of the key challenges identified in this year's statement.

That said, we note the tremendous amount of effort that the Foundation has invested in the Index. The Foundation may currently still be the best home for the Index while proof of concept continues to be demonstrated. However, given the effort that will be required to attract alternative funding and establish an independent governance structure, more urgency is required.

In the meantime, the Panel believes the following two measures are in keeping with good practice and can go some way to enhance the credibility and integrity of the Index regardless of its funding source:

- ***Commissioning an independent audit of the Index methodology.***
- ***Establishing a dispute management policy and mechanism for 1) companies who may dispute a score or aspect of their evaluation, and 2) any other stakeholders who may want to register a formal criticism for which they request a process and/or response.***

We continue to strongly support the Index as a much-needed initiative to disrupt entrenched positions and empower investors to help bring about change in the tobacco industry. The Index does this by proposing a practical route for industry transformation, a scientific basis for assessing and comparing risk reduction efforts, and a company ranking to incentivize competition to improve. However, there remain several assumptions in the Index that we recommend continue to be tested, as well as practical considerations in terms of ensuring the Index actually achieves its goals.

As well as the key recommendations noted above, the following are other observations and recommendations for the future:

- 1) The scientific basis for comparing tobacco products on the spectrum of harm remains a novel and valuable contribution of the Index.** The Panel has been satisfied that FSFW has invested considerable efforts in good faith to create a rigorous scientific approach to underpin the Relative Risk Hierarchy embedded in the Index methodology to compare tobacco products. The hierarchy adds sophistication compared with simple categories of combustibles versus non-combustibles, which have been used in other frameworks. However, it will need to be regularly updated to adjust to market changes and maintain scientific defensibility, as was done for the 2022 Index. If the Index is successful in driving industry change towards reduced-risk products, then we can expect ongoing product innovation, which requires monitoring and research to understand the degree of harm resulting from new products. This approach will also need to convince the market, investors, and governments in order to gain necessary traction. ***We believe the Index is on the right track in this respect and we encourage ongoing vigilance to maintain the integrity of this approach and gain stakeholder support.***
- 2) The narrow focus of the Index on product and marketing responsibilities of the tobacco industry continues to fill a key gap in traditional ESG ratings of tobacco companies.** In November 2021, PMI was included for the second consecutive year in the Dow Jones Sustainability Index North America. As of July 2022, British American Tobacco remains one of the top 10 constituents of the FTSE UK 100 ESG Select Index. In both cases, the companies are being ranked on a variety of ESG measures, including labor practices, biodiversity, climate change, and other topics, alongside product strategies. While their overall ESG performance is admirable, it should not divert attention from the inherent harm of their products or scrutiny of ethical fundamentals, such as marketing and lobbying practices across both developed and emerging markets. We therefore continue to support the Index's specialized focus on the issues of product sales and investments, marketing, and lobbying. These topics were also prioritized by stakeholders in the 2019-2020 stakeholder dialogues. We similarly welcome the addition of a proposed marketing code, which can guide companies on how to improve their practices. However, we advise the FSFW not to lose sight of potential negative, unintended consequences that may result directly from behaviors being advocated by the Index. For instance, the drive towards reduced-risk products may result in negative impacts on workers, communities, and the environment. For example, changes in product designs could lead to different types of waste, such as e-waste; and changes in production processes or investments could result in job losses and impacts on suppliers. In such cases, the unintended consequences could be material and need to be considered. We appreciate that the Foundation is leading efforts to support agricultural diversification in Malawi. ***We strongly recommend that the FSFW includes a component in its future strategy for the Index that explores potential negative impacts on labor, communities, and the environment.***
- 3) The Index is designed to be a tool for engagement with companies with an expectation that this engagement will lead to changes in behavior.** During the development process for the second iteration of the Index, the Index research partner developed a structured method for engaging with tobacco companies. While the Panel is satisfied that suitable

outreach efforts were made and recognizes that company interaction with the Index is voluntary, we feel the level of resulting engagement was disappointing. The Panel recommends continued efforts in this area. In addition, there was once again an asymmetry in terms of responses from publicly listed tobacco companies versus private and state-owned companies. The former make up the bulk of the companies that have responded to Index outreach to date. There has been no response from the private and majority state-owned companies. However, as noted in the 2022 Index Report, some of the privately held and majority state-owned companies have begun to or are considering offering reduced risk products. Given the relative volume of sales these companies represent, this transition could have a large positive impact. ***As recommended in 2020, we encourage the Index to develop a more robust outreach strategy for private and state-owned tobacco companies. In a similar vein, we think that a proportionate approach may also be merited for engagement across the Index constituents, namely to focus engagement on companies that dominate tobacco sales and therefore could achieve the biggest positive impact.*** Ultimately, proof of success will occur if the Index is actually having the desired impact, which is to accelerate transformation of tobacco companies. ***The Panel encourages the Index team to develop measures to determine whether it is possible to attribute changes in company behavior to the Index or to actions by users of the Index, such as investors.***

- 4) **The Index can be a powerful tool for raising awareness about current industry practices, market conditions, and barriers to change that are preventing transformation of the tobacco sector.** In our own experience as Panelists, the Index and supporting research, such as the Country Fact Sheets and the research on state-owned companies, shed critical light on the dynamics of the tobacco industry; addressing the roles of companies, investors, governments, farmers, and consumers across different regions. The Index methodology has done well to hone in on the most important sensitivities within companies and markets that affect the potential to achieve desired changes. These assumptions should continue to be scrutinized by both critics and supporters. We hope the Index team can do more to engage a wide variety of stakeholders in debate on these various dynamics. We feel the Index is not yet achieving a sufficient level of outreach and general communications to realize its potential as a lever for change. We focused much of our feedback in this Index cycle on recommendations to improve the visibility and messaging of the Index, including by using social media more effectively and improving searchability of the website. All our recommendations were taken seriously and followed up with actions. We recognize that the Index requires significant effort by a relatively small team and therefore it is challenging to cover all bases. We believe much has been achieved. ***However, we see the need for scaled-up awareness and communications efforts as imperative following the launch of the second Index.***

With the objective of reaching a broader audience, we offer the following additional recommendations for this important area:

- ***We encourage the Index team to consider how to reach out to a wider audience that does not always seek information in English. For example, the main documents, activities, and other news included on the website could have a link to abstracts in other languages, such as Chinese, Spanish, French, Japanese, etc. This would allow search engines to capture those abstracts and take the reader to the full piece in English.***
- ***Key words and phrases in other languages can be incorporated into the website and reports for identification by search engines, with the aim of attracting other nations' users to come to the website and make use of translatable web pages.***

- ***More use can be made of translatable web pages in relation to the Index results and general website.***
- ***Feedback should be solicited from investors and other stakeholders to determine whether the Index and related materials, including the website, are used, useful, and accessible, and to seek recommendations for improvement.***

5) Critical criteria for success in this endeavor relate to earning and retaining stakeholder trust and ensuring integrity of the Index itself. The first release of the Index occurred in the midst of the COVID-19 pandemic, constraining the ability to conduct broader in-person stakeholder engagement. Moreover, global attention to public health and economic shocks overshadowed the Index launch and implementation. As a result, the reception of the first Index created less momentum to for this second Index than we would have liked. Formal stakeholder engagement since the release of the first Index in September 2020 was conducted virtually under COVID conditions, and chiefly through (i) stakeholder dialogue webinars in 2021 with investors and researchers, and (ii) a program update webinar in June 2022. We are pleased to note that the Index team has tackled critical perspectives of the Index head-on. The methodology was strengthened through a transparent process in response to stakeholder feedback, while ensuring that 2022 results are comparable with those from 2020. Input from the initial stakeholder consultations for the first Index continued to be useful and relevant. However, in our view, the engaged stakeholder community remains small and cautious. ***While we applaud the efforts made and planned, the Panel recommends that the Index team further increase their efforts during the next cycle to expand their stakeholder network, particularly in emerging markets.***

Other observations: The Panel notes that we were once again empowered to raise all concerns and issues honestly and openly with the Index team throughout the second Index development process. The Panel appreciates that the Index team was very open and responsive. The following are some specific examples of actions taken that were the subject of recommendations by the Panel:

- Leveraging expert communications resources.
- Improving accessibility and searchability of content on the Index and FSFW websites.
- Increasing the publication of research reports to broaden the audience of the Index.
- Appointing a Technical Committee to provide in-depth review of the Index methodology and data analysis, which has been active during the development of this second Index.

A number of other measures undertaken by the Index team were endorsed by the Panel, including

- Maintaining a consistent engagement with interested stakeholders and companies.
- Research and publication of regional company-country reports, which outline tobacco company behavior within the context of the regulatory environment. We recommend that the reports are expanded and deepened to follow the evolution and extent of the regulatory frameworks in different jurisdictions.
- Research and publication of an updated Relative Risk Hierarchy report.
- Release of videos and webinars to improve stakeholder engagement and transparency.
- Modifications to the Index methodology as a result of stakeholder and Technical Committee feedback. The revised methodology was shared for further stakeholder feedback before applying it to the second Index.

Overall, the Panel continues to be satisfied that the Tobacco Transformation Index is staying true to its mandate and is adhering to high standards of integrity and scientific rigor. We believe this is a much-needed tool to help investors better understand tobacco company behavior and drive the transformation of the industry to smoking cessation or less harmful products.

This statement is the unanimous view of the Panel.

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