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Index Company Feedback and Response



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1. Introduction

1A. Background

The Tobacco Transformation Index (“the Index”) evaluates tobacco companies’ commitments and actions as they relate to tobacco harm reduction. Specifically, the Index assesses tobacco companies’ activities concerning:

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

1B. Industry Consultation

Consultations with industry are conducted by the Index Research Partner, Euromonitor International.

Such consultations are designed to inform and update the 15 companies covered by the Index (“Index Companies”) about the program, obtain their feedback on proposed indicators, invite them to share data to be evaluated by the Index, and to review and verify the independent research conducted by the Index Research Partner.

Following a process established in the first Index cycle (2019-2020), the 2022 Index process began by gathering an extensive list of contacts for each company, reviewing company websites, and leveraging networks in the tobacco industry. Following an introductory email from the Foundation for a Smoke-Free World (“Foundation”), the Index Research Partner reached out to companies via an Index-specific email address. Each company received an introductory email and the Preliminary Methodology (February 2022), followed by multiple follow-up emails, and phone calls to confirm addresses and receipt of the messages.

Six of the 15 Index Companies replied to the invitation to engage. Four Index Companies shared feedback on the Preliminary Index Methodology, two of whom accepted further engagement via conference call. These two Index Companies had separate calls with the Index Research Partner to discuss the schedule for consultation; feedback on categories, sub-categories, and indicators; and any specific questions about the Index program.

The Index Company feedback process was facilitated by the Index Research Partner on an individual basis, allowing for no interaction between Index Companies. Given strict principles of transparency and accountability, the Index Research Partner communicated to Index Companies that the timing, nature, and content of interactions with Index Companies would be publicly disclosed. Consultation summaries are included in the Industry Engagement Summary.

All Index Companies, whether participating or not, continued to receive follow-up emails and updated material such as the Preliminary Index Methodology and preliminary data set unique to their company. The process ensured that all Index Companies were provided with relevant information and had equal opportunity to respond.

1C. Index Company Feedback and Response

This document consolidates and responds to written questions and comments the Index Research Partner received from Index Companies. Questions and comments are grouped by topic. The consolidated response covers several areas of interest including product classification, Index design, and methodology. In the spirit of transparency that guided all stakeholder engagements concerning the Index, this document is accessible to all stakeholders via the [Index website](#).

Questions and comments are not attributed to any single Index Company and may in some cases represent combined commentary from a few or several Index Companies. The Index development process included safeguards to ensure that data were not shared between Index Companies.

Where company feedback pointed to a need for Index research, appropriate recommendations were made to the Foundation.

2. Index Company Feedback and Response

2A. Product Classification

Product Classification

Several Index Companies expressed a range of (often divergent) views relating to the Relative Risk Assessment and product classification into High-Risk Products (HRPs) and Reduced-Risk Products (RRPs).

- One Index Company referred to the World Health Organization’s (WHO) conclusion that: *“Currently, there is no evidence to demonstrate that HTPs are less harmful than conventional tobacco products.”*
- One Index Company argued that there is a lack of long-term evidence of the health impact of RRP.
- A few Index Companies offered conflicting viewpoints on moist snuff and chewing tobacco, with one arguing that they should be classified as RRP, and another arguing that they should be classified as HRP.
- One Index Company raised the concern that the focus of the Index was centered on cigarettes, and it failed to capture a wide range of country-specific HRP that may potentially be even more harmful and widespread than cigarettes, such as bidi, cheroot, chuttah, chillum, hookli, dhumti, illicit cigarettes, gutkha, betel-quin, khaini, zarda, dokta, quimam, mishri, mawa, and pan masala.
- One Index Company argued that the Relative Risk Assessment should be simplified and that it should be made clear that average consumption patterns are taken into account.

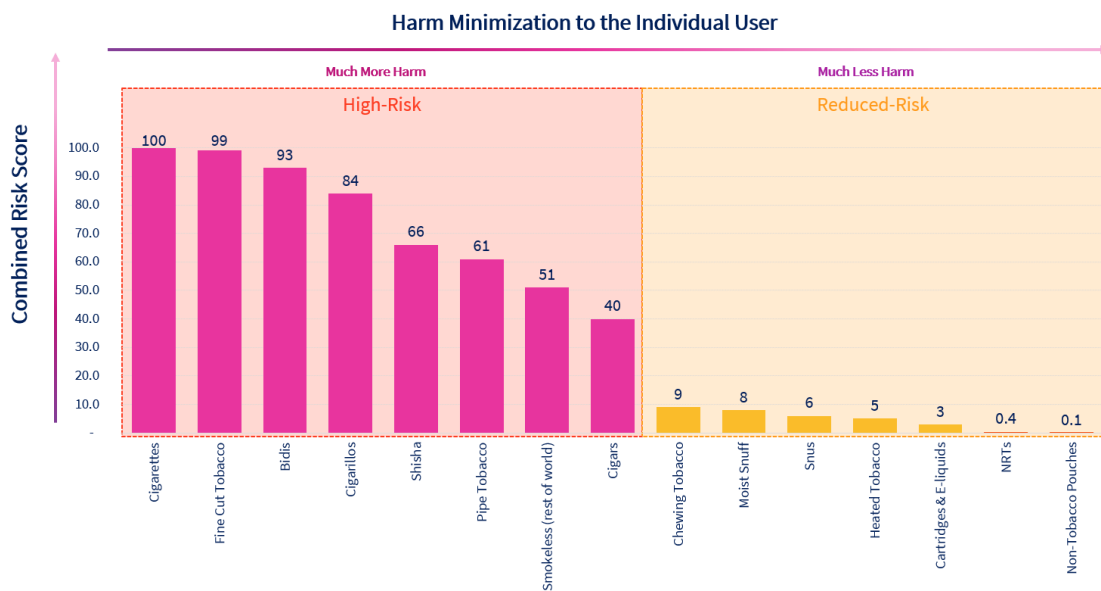
Response. The Foundation for a Smoke-Free World commissioned an independent literature review of the scientific research pertaining to the relative level of risk of tobacco product categories prior to the publication of the 2020 Index. This process was updated for the 2022 Index. The Index recognizes that a clearer reference to the underlying evidence related to RRP enhances the Index’s value and justifies the boundaries between different levels of product risk. Given that the body of scientific research in this area is likely to develop over time, product classification is likely to be an important area of Index Methodology evolution.

The Relative Risk Assessment, as updated in the 2022 Index Methodology, is based on a systematic review of previous scientific studies of the health risk associated with nicotine products. A total of 836 studies were reviewed in detail in 2022 to extract risk data and assess the level of risk for each product type. The products were analyzed in terms of their toxin emissions and epidemiological data, which were combined on a scale from 0 to 100 (low to high risk) to derive a combined risk score for each product. Additional

details on the Relative Risk Assessment are available in the publication “Nicotine Products Relative Risk Assessment: An Updated Systematic Review and Meta-analysis.”¹

The 2022 Relative Risk Assessment, summarized in Figure 1 below, was leveraged to evaluate Index Companies’ product offers and sales, and to quantify indicators scoring according to relative risk. To do so, the relative risk by product was used as a multiplier for each Index Company’s sales and offers in the HRP and RRP categories.² For example, volume sale of cigarettes was multiplied by the relative risk of cigarettes (100), while volume sale of chewing tobacco was multiplied by its relative risk (9), in order to reflect the different level of risk associated to each Index Company’s product sales and offer.³

Figure 1. Relative Risk Assessment 2022



Source: Murkett, R., Rugh, M., Ding, B. (2022). *Nicotine Products Relative Risk Assessment: An Updated Systematic Review and Meta-analysis*, Produced for the Foundation for a Smoke-Free World. London, UK: Biochromex.

Moist snuff and chewing tobacco were re-categorized as RRP in the 2022 Index. The Index will continue to revisit this categorization as more research becomes available.

The range of nicotine and tobacco products available across countries is considerable, and wider than the Index Companies’ product scope. Thus, products which may be widespread in some countries, such as

¹ Murkett, R., Rugh, M. & Ding, B. (2022). *Nicotine Products Relative Risk Assessment: An Updated Systematic Review and Meta-Analysis*.

² The Relative Risk Assessment applied to the indicators in the following sub-categories: 2A Volume Sales of Tobacco Products; 2B Value Sales of Tobacco Products; 4A Product Portfolio (only for indicators 23 Ratio of Product Portfolio (Reduced vs High-Risk Products) and 24 Ratio of Product Portfolio (Reduced vs High-Risk Products) – Rate of Change).

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

cheroot, pan masala, and illicit cigarettes are not directly included. For the 2022 Index, bidis and gutkha (Figure 1, “Smokeless (rest of world)”) were added to the Relative Risk Assessment.

For the 2022 Index, the presentation of the Relative Risk Assessment was simplified. Relative risk figures are shown to the nearest whole number (except figures less than 1, whereby figures are shown to one decimal place). The 2022 Index Methodology makes it clear that the Relative Risk Assessment takes into account average consumption patterns as part of the assessment. For example, a typical cigarette user smokes more cigarettes per day than a typical cigar user smokes cigars, and this consideration is factored into the Relative Risk Assessment analysis.

2B. Scope and Scoring

Scope and Scoring

A few Index Companies argued that the regulatory context in different countries impacts companies' ability to offer RRP, and therefore scoring could be influenced by a given Index Company's geographic footprint. This situation is particularly relevant in countries where certain RRP are banned, such as India and Australia.

One Index Company argued that the LMIC versus HMIC multiplier unfairly penalizes global companies (compared with single-country companies), and that regulation may be the key factor impeding a global Index company from selling RRP in some LMICs.

One Index Company asked whether the Index would consider a company's diversification to other industries as part of industry transformation.

Response. With regard to regulation, the Index recognizes that the context in which Index Companies operate varies significantly from country to country, thus affecting individual Index Companies' strategies, performance, and ultimate pathways to tobacco harm reduction. For this reason, country research is conducted by the Index Research Partner, and complementary [Country Fact Sheets](#) are published annually, which provide information on the local context in which Index Companies operate. Country Fact Sheets include relevant regulation, prevalence and influence of the tobacco industry, and the state of smoking and public health, thus serving as a mechanism to contextualize each Index Company's score. Country Fact Sheets presently cover 36 countries, chosen to represent 85% of the current global population of adult smokers, adjusted to include a balance of HMICs (High-Medium Income Countries), and LMICs (Low-Medium Income Countries).

Published Index research also includes a "[Company - Country Analysis](#)" report series, introduced during 2022, which assesses Index Company activity at the country level, taking the country-level nicotine and tobacco regulatory context into account.

With regard to the LMIC versus HMIC multiplier, one of the Tobacco Transformation Index's four stated objectives is "ensuring consistency of tobacco harm reduction activities across all markets of operation, within regulatory guidelines." The LMIC versus HMIC multiplier is therefore crucial in ensuring that this objective is met.

With regard to diversification outside of the tobacco sector, the Index aims to accelerate the reduction of harm caused by tobacco use. It is focused on how Index Companies are (or are not) operating and

investing toward tobacco harm reduction. Therefore, the Index does not consider Index Companies' interests in sectors other than tobacco.

With regard to all points covered under scope and scoring, the Index Research Partner will again conduct a thorough methodology review during each successive Index cycle, as part of Index evolution. In the third Index cycle, the review will assess, among other factors, the potential benefits and limitations of including regulatory factors directly as part of the Index scoring, as well as the implications of assessing Index Companies on their divestments in the tobacco industry, and/or investments outside of the tobacco industry.

2C. Product Sales

i. Rate of Change

One Index Company sought clarity on whether the absolute size of a company is taken into account in the “Rate of Change” indicators.

Response. The Index calculates Rate of Change using the absolute value at the start of the review period, and the absolute value at the end of the review period. The Rate of Change is the absolute difference between the value at the end of the review period (2021), minus the value at the start of the review period (2019), divided by the value at the start of the review period (2019). Therefore, all Index Companies, regardless of size (in terms of absolute volume/value sales) are able to achieve a leading score on Rate of Change indicators.

ii. Phasing out HRPs

One Index Company sought clarity on how the “phasing out” of HRPs is measured by the Index, and over what timescale.

Response. Within the Strategy & Management category, one of the qualitative metrics is “Company has a policy or mission statement to phase out high-risk tobacco products AND offer reduced-risk product alternatives”.

In addition, within the Product Sales category, the indicator “Ratio of Volume Sales (RRPs vs HRPs) – Rate of Change” captures the extent to which an Index Company’s sales of HRPs are declining over time relative to its sales of RRPs.

2D. Capital Allocation & Expenditure

i. M&A weightings

One Index Company challenged the weight of M&A indicators and argued that Index Companies with no M&A on RRP's would be penalized, despite positive action in other areas.

Response. The two indicators that comprise M&A together account for 3.8% of the total Index weight. M&A is one type of investment, along with capital expenditure, R&D expenditure, and marketing expenditure. Together, the four investment types, which comprise the Capital Allocation & Expenditure category, account for 30% of the total Index weight.

ii. R&D expenditure on HRP's

One Index Company commented that R&D expenditure on HRP's may be mandatory, i.e., ensuring that products comply with consumer safety regulations, and might not necessarily represent expenditure toward investment in HRP's.

Response. Of the two indicators related to R&D, the indicator that has by far the higher weighting is "Ratio of R&D Expenditure (RRP's vs HRP's)". The other indicator, which measures R&D expenditure on HRP's only, has a much lower weighting. Therefore, the emphasis is not on the absolute expenditure on HRP's but on the balance between expenditure on RRP's and HRP's.

2E. Product Offer

i. Innovation

One Index Company argued that too much weight is placed on an Index Company's current portfolio, rather than where the business is going (i.e., the transformation taking place).

One Index Company suggested an additional indicator, focused on innovation which rewards companies that innovate in terms of state-of-the-art RRP technology.

Response. The Index recognizes that assessing an Index Company's future direction is important, which is why the Capital Allocation & Expenditure category (including the proportion of R&D expenditure and capital expenditure on RRPs) is weighted higher (30%) than the Product Offer category (10%).

Regarding innovation, Index Companies that drive product innovation are likely to have higher research and development (R&D) and capital expenditure on RRPs. This aspect is captured in the Capital Allocation & Expenditure category.

The Foundation has commissioned and [published research](#) assessing the RRP patent landscape.

ii. Weighting and complexity

One Index Company argued that the increase in weight of the Pricing sub-category, from 20% to 40%, was inappropriate, arguing that lower-priced RRPs may encourage non-tobacco users to start consuming RRPs.

Another Index Company argued that the pricing analysis was complex and difficult to understand.

Response. The Pricing sub-category within the Index assesses the difference in retail price between HRPs and RRPs offered by Index Companies. Offering RRPs at a relatively high price (on a Per Stick Equivalent basis) compared to HRPs is considered contrary to the goal of promoting tobacco harm reduction.

One of the four stated aims of the Index is "preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products, especially youth." The Index encourages Index Company

behavior that incentivizes current HRP users to switch to RRP, while discouraging behavior which incentivizes non-users to start using RRP.

In June 2022, as part of the Index research program, a [Marketing Study](#) was published, containing a proposed marketing code for RRP manufacturers to follow. Fundamental to this code is that RRP are not marketed to non-smokers or non-users of HRP.

At the same time, the Marketing Policy & Compliance category contains a range of indicators that encourage Index Companies to offer RRP in a responsible way, including encouraging full transparency in the event of a reported marketing policy breach.

With regard to perceptions of complexity, the Pricing sub-category contains just two indicators. The first indicator compares the average lowest retail price of each Index Company's RRP per country to the average lowest retail price of the Index Company's HRP in the same country. The second indicator measures how this ratio changes over time ("Rate of Change"). Because taxation makes up a significant portion of retail pricing and varies from country to country, the Index recognizes that the Pricing sub-category has limitations in linking outcomes solely to Index Company actions, and it therefore awards the sub-category a relatively low weight (4% of the total Index weight).

2F. Marketing and Youth Access Prevention

Marketing and Youth Access Prevention

One Index Company offered support for the inclusion of indicators related to Youth Access Prevention in the Marketing Policy & Compliance category, with the view expressed that it is a critical aspect of tobacco harm reduction.

Response. As noted above, one of the Index’s four stated objectives is “preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products, especially youth.” The Marketing Policy & Compliance” category contains two indicators assessing Index Companies’ provisions for Youth Access Prevention. The Marketing Study: Phase 1 Proposed Marketing Code proposes a marketing code for nicotine and tobacco companies to ensure RRP’s are advertised and promoted to existing nicotine and tobacco users in a responsible way, while preventing appeal to non-smokers and youth. The Marketing Study is expected to form the basis of stakeholder consultations regarding the development of a tobacco industry marketing code during the course of the third Index Cycle.

2G. Other Index Company Questions and Comments

i. Qualitative indicators

A few Index Companies highlighted that some indicators are subjective.

One Index Company also stated that further transparency was required in the assignment of scores.

Response. With regard to subjectivity, the Index Methodology includes qualitative as well as quantitative factors. Two of the three Index pillars (Commitment and Transparency) require a qualitative assessment of company behavior. Three of the six Index categories are also qualitative, while three are quantitative. The quantitative categories are assigned relatively high weights. The Methodology was developed in response to stakeholder feedback compiled during the initial, global, stakeholder consultations conducted in 2019 and carried forward since.

Details on the metrics for each indicator are available in the Index Methodology. Index Company scores for the related qualitative categories (Strategy & Management, Marketing Policy & Compliance, and Lobbying & Advocacy) are assigned through a qualitative assessment of Index Company annual reports and other available publications. As part of the Preliminary Data Set review, the Index process allows for each Index Company to review the assessment of each qualitative indicator and provide feedback and/or supporting evidence for consideration. Reflecting the qualitative nature of the categories, the Index assigns a relatively low weight to the categories, compared to the Performance categories (Product Sales, Capital Allocation & Expenditure, and Product Offer).

Regarding transparency, as part of the established process, which spans a six-month period, all Index Companies are offered multiple chances to connect with the Index Research Partner to ask clarifying questions, as well as the chance to review their company's Preliminary Data Set, offer comments, and submit alternate sources for consideration. For the 2022 Index, three of 15 Index Companies provided feedback on their Preliminary Data Set, while 12 Index Companies did not provide feedback. Further details can be found in the Industry Engagement Summary .

ii. Additional factors for Index methodology consideration

One Index Company suggested a number of additional factors that could be considered in the future:

- A company's conversion rate of current HRP users to RRP.

- The number of dual users (dual HRP & RRP users, or users of multiple RRP).
- The efficacy of each RRP category in reducing HRP consumption rates.

Another Index Company argued that the Index is already complicated and that the number of indicators should be reduced.

Response. The Index continually reviews and assesses available data sources and considers potential additional and/or alternative indicators for future iterations. The Index strives to achieve the balance between delivering focus and detail versus effectiveness of use. A review of all indicators, as well as the conducting of additional stakeholder engagement sessions, will take place leading up to the publication of the third Index in 2024.

3. Appendix

3A. Definitions

HRPs (High-Risk Products) - Combustible or other high-risk nicotine products, which includes bidis, cigarettes, cigarillos, cigars, pipe tobacco, fine cut tobacco, gutkha, and shisha.

RRPs (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 (closed system vaping products, e-liquids, and heated tobacco), chewing tobacco, moist snuff, non-tobacco nicotine pouches, NRT products, and snus.

HMIC (High-Medium Income Country) - As defined by the World Bank (as of July 2021), a country with a national income per person (GNI per capita) of USD4,096 or more in 2021.

LMIC (Low-Medium Income Country) - As defined by the World Bank (as of July 2021), a country with a national income per person (GNI per capita) of up to USD4,095 in 2021.

LMIC versus HMIC multiplier – See 2022 Index Methodology, “LMIC versus HMIC Multiplier”, for further details.