



**TOBACCO
TRANSFORMATION
INDEX**

INDEX EVOLUTION AND ENGAGEMENT REPORT

January 2023

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FOREWORD

Foundation Goal and Index Purpose

The Tobacco Transformation Index (“Index”) is designed to deliver on a key goal and related purpose of the Foundation for a Smoke-Free World (“Foundation”), namely, to drive the transformation of tobacco companies for the benefit of public health, and to inform the public about the activities of the tobacco industry that influence achieving a smoke-free world.

The Index aims to accelerate the reduction of harm caused by tobacco use through a biannual ranking of the world’s 15 largest tobacco companies (“Index Companies”) on their relative progress, or lack thereof, toward harm reduction.

In so doing, the Index aims to provide a guide to the key measurements that indicate commitment to, and progress toward, the reduction of harm. The Index highlights tobacco company actions that can deliver the greatest reduction of harm within a timebound horizon. Furthermore, the Index identifies and measures the actions and performance that most effectively indicate a translation of commitment into practical outcomes.

Index Evolution and Engagement

Significant historical efforts notwithstanding, the complex nature of the smoking and tobacco world mean that disease and deaths from the use of tobacco and nicotine products remain stubbornly high.¹

Research-driven evolution and effective stakeholder engagement are critical to the success of our mission and the delivery of our vision.

In 2019, the Foundation commissioned a wide-ranging global stakeholder consultation to consider and report on the potential of an index focused on tobacco industry transformation to drive material progress in delivering on the Foundation's mission and vision. The result was a series of multistakeholder dialogues which took place in seven countries, with the participation of individuals from a far wider range of countries, as described in the *Stakeholder Consultation Report* (March 2020).

¹ Although the number of smokers overall has declined from 1.37 billion (2010) to 1.29 billion (2019), annual deaths have risen from 6.3 million (2010) to 7.69 million (2019). By 2030, annual deaths are expected to reach 8 million (lower than the World Bank’s 2006 projection of 10 million but still higher than ever before). See *WHO Report on Trends in the Prevalence of Tobacco Use*, 3rd and 4th editions, and *The global burden of cancer attributable to risk factors, 2010-19: a systematic analysis for the Global Burden of Disease Study 2019*.

The many observations of the participating stakeholders and the related analysis set out in the resulting report have guided the Index work to date and will continue to guide it in the future, including the concept of Index evolution and the emphasis on scientific research and stakeholder engagement.

Three key recommendations made by participating stakeholders are relevant to this report. The first was a recommendation that, given the many complexities and sensitivities of the tobacco industry and its stakeholders, the Foundation should take a sequenced approach to Index development. The second was a recommendation that, given the critical role of investors in driving any industry transformation, we should begin with a focus on investors. The third was a recommendation that we should invest in understanding the country context within which the tobacco industry operates.

Applying these recommendations to the work in the Second Index Cycle, we focused our stakeholder engagement on investors, and we directed research resources to better understand country context, beginning with national regulatory and policy positions.

This report has been prepared to ensure that the many issues and multiple perspectives that affect industry transformation, and thus Index evolution, remain live in our own minds and those of our stakeholders.

Looking Ahead

We see this work as a continuation of a conversation begun in 2019. It is a conversation that we look forward to continuing, supported by ongoing evolution in research, stakeholder engagement, and related reporting, in the years ahead.

We anticipate working with all stakeholders as we strive to drive a transformation of the tobacco industry for the benefit of public health.

The Foundation is committed to open and ongoing dialogue.

We welcome comments and suggestions regarding the Index program. Please reach out to us.

David Janazzo
Tobacco Transformation Index Program Officer
Interim Co-President
Foundation for a Smoke-Free World

I. INTRODUCTION AND OVERVIEW

1. Purpose of This Report

This report describes the approach of the Tobacco Transformation Index (“Index”) to its evolution and engagement. The Index is funded through grants made by the Foundation for a Smoke-Free World (“Foundation”).

The work of the Index proceeds against the background of continued and widespread harm resulting from the persistent epidemic of tobacco use and smoking²:

- Over 1 billion people continue to be exposed to harm.²
- Nearly 8 million people continue to die every year as a result of that harm.²
- Many others—including families, societies, and economies—are impacted by the human, social, and economic harm and/or loss resulting from smoking.

Sustained global and national policy attention over decades notwithstanding, without a material change in the nature and impact of harm resulting from the sale and consumption of tobacco products, it is expected that tobacco-related deaths will rise to 8 million per annum by 2030, with 80% of those deaths being in low- and middle-income countries (LMICs).³ Our experience and research indicate that the transformation of the tobacco industry can contribute to material change.

In setting out the approach to Index evolution and engagement, particular weight was given to issues and questions addressed in the *Stakeholder Consultation Report* (March 2020).⁴ This report describes the global stakeholder consultation conducted by the Foundation in 2019 (the Initial Global Consultation) designed to consider the potential of the Index to deliver material progress in transforming the global tobacco industry for the purpose of reducing harm. Subsequent consultations were also conducted; all such consultations are documented.

² GBD 2019 Tobacco Collaborators (2021). Spatial, temporal, and demographic patterns in prevalence of smoking tobacco use and attributable disease burden in 204 countries and territories, 1990-2019: a systematic analysis from the Global Burden of Disease Study 2019. *Lancet* (London, England), 397(10292), 2337–2360.

³ National Cancer Institute. (December 2016). Monograph 21: the economics of tobacco and tobacco control. Retrieved December 22, 2022, https://cancercontrol.cancer.gov/sites/default/files/2020-08/m21_complete.pdf

⁴ See <https://tobaccotransformationindex.org/about-the-data/stakeholder-engagement/>

This report addresses evolution and engagement in the following three areas:

- i. **Index engagement**, including engagement with investors, industry, and wider stakeholder groups;
- ii. **Index design**; and
- iii. **Index research**.

The report concludes with an outline of next steps.

2. Introduction to the Index and Its Research Platform

The Index is a tool for scoring and ranking the relative performance of the world's largest tobacco companies for the purpose of driving a transformation of the tobacco industry toward material reduction of harm. Index outputs are compiled through indicators rooted in scientific research and research on the Index Companies.

Index scoring and ranking is based on an evaluation of Index Company commitments and actions across a two-year review period in a range of categories described in the Index Methodology. Methodology development and the scoring and ranking compilation are conducted by the Index Research Partner (IRP), Euromonitor International.

The Index presently evaluates industry commitments and actions across six categories, both quantitative and qualitative, associated with 35 underlying indicators. The categories and indicators are designed to assess tobacco company commitments and actions with respect to:

- i. Tobacco company acknowledgement of its role in harm and a corollary commitment to the reduction of harm;
- ii. The phasing out of high-risk products (HRPs) and the development and responsible offering of reduced-risk products (RRPs) to support users in moving away from HRPs;
- iii. Capital allocation and expenditure relating to the production and sale of HRPs and RRP;
- iv. The offering of RRP across both high- and medium-income countries (HMICs) and LMICs;
- v. The responsible marketing of, and prevention of access to, RRP to nonusers, especially youth; and
- vi. The disclosure of lobbying and advocacy positions.

The six categories and 35 indicators are expected to evolve through successive biannual Index cycles as research and engagement delivers deeper insights into the commitments and actions that drive and reduce harm.

Index Companies are scored through reference to the 35 Index indicators. A system of metrics, scoring, and weights is applied to quantitative measures. Qualitative measures are also translated into comparable numerical measurements.

Deeper insights into the Index can be found in the *Index Methodology* reports⁵ and the *Index Ranking Reports*.⁶

The Index research platform includes resources applied to the development of the Index, including scientific research and research into the tobacco industry and the context, including the regulatory and policy context, within which the tobacco companies operate.

Publicly available scientific research reports include:

- *Relative Risk Assessment*⁷
- *Global Trends in Nicotine*⁸
- *Global Patent Landscape*⁹

Publicly available contextual research includes:

- *Country Fact Sheets* profiling policy and regulatory conditions¹⁰
- *Company-Country Analysis* reports¹¹
- *Marketing Study Phase 1: Proposed Marketing Code* (study of industry marketing practices preparatory to development of a marketing code, supported by stakeholder engagement)¹²

⁵ See https://tobaccotransformationindex.org/wp-content/uploads/2022/09/Index-Methodology_September-2022.pdf

⁶ See https://www.smokefreeworld.org/wp-content/uploads/2020/10/2020_Index_Ranking.pdf

⁷ See <https://tobaccotransformationindex.org/about-the-data/relative-risk-assessment/>

⁸ See <https://www.smokefreeworld.org/advancing-industry-transformation/global-trends-nicotine/>

⁹ See <https://www.smokefreeworld.org/wp-content/uploads/2021/09/Patent-Landscape-Report.pdf>

¹⁰ See <https://tobaccotransformationindex.org/country-comparison/>

¹¹ See <https://tobaccotransformationindex.org/companycountryanalysis/>

¹² See <https://tobaccotransformationindex.org/wp-content/uploads/2022/06/Marketing-Study-Phase-1-June-2022.pdf>

3. Index Companies

The Index presently monitors, scores, and ranks the harm reduction-related performance and progress, or lack thereof, of the 15 largest tobacco companies in the world.

Selection of the 15 Index Companies is based on an evaluation of cigarette volume sales and total net revenue sales, as well as other factors.

In 2021, the 15 Index Companies accounted for approximately 90% of global tobacco product volume sales.

4. Harm Reduction

The Index focuses on the reduction of harm by measuring the commitment, performance, and transparency of the Index Companies, as those factors increase or decrease the likelihood of disease or death.

Relevant commitments and strategies related to performance and transparency include a phasing out of the production and sale of HRPs. The phasing out of HRPs is key to the commitment and performance pillars of the Index Methodology.¹³

In the Initial Global Consultation, some stakeholders questioned whether harm reduction was a sufficiently ambitious goal and suggested an alternative focus on achieving tobacco-free status. Others disagreed, noting that the essence of the harm-reduction approach is its focus on the achievable over the perfect.

Based on a wide range of scientific research highlighting the potential for a significant reduction of harm through the replacement of HRPs with RRP, it was decided that the Index would measure company performance by comparing ratios of HRPs and RRP, across various measures and including rates of change over time.

The Foundation is aware that there exists a diversity of views as to how harm can be reduced and by whom. We also recognize that the range of such views may vary from country to country, whether countries of origin or countries that are markets for tobacco products. We intend Index research and our stakeholder engagement to explore these views, in line with Index evolution.

¹³ See 2022 *Tobacco Transformation Index Methodology* (September 2022), p 11, available at https://tobaccotransformationindex.org/wp-content/uploads/2022/09/Index-Methodology_September-2022.pdf

We also are aware of the sensitivities and controversies concerning the spectrum of RRP. For example, while Index design is rooted in scientific research, including research on relative risk and related hierarchies of risk,¹⁴ national policies and regulations differ in the range and type of RRP permitted.

Country-level nicotine and tobacco regulatory context is an area of ongoing Index research and attention, including research conducted by the IRP. This research process began in the first Index with country fact sheets and continued in the second Index with the commissioning of a series of company-country analysis reports¹⁵ focusing on the regulatory frameworks across a wide spectrum of countries organized on a regional basis.

We expect work on country context to expand and deepen as the Index develops a clearer understanding of the interplay between country context and company performance regarding the universal challenge of harm reduction.

Both the Foundation and stakeholders are acutely aware of the importance of ensuring that Index Companies are not rewarded for increasing harm including promoting youth and non-smoker uptake of RRP, which are not risk-free.

We are mindful of the importance of ensuring sustained industry, investor, and consumer awareness that cessation remains the best overall path for reducing harm and improving public health. This focus on cessation is a major emphasis of IRP design and research and of stakeholder engagement, including engagement with investors and Foundation-funded research.

Index focus on transformation means that alternative nicotine producers not owned by tobacco companies are not addressed by the Index. We expect this to be a subject of continued stakeholder interest.

5. Peer Indices and Benchmarks

In designing the Index, the Foundation considered similar harm reduction initiatives focused on industry impact. These include industry-specific indices, most notably the *Access to Medicine Index*, which has been instrumental in encouraging the pharmaceutical industry to do more to

¹⁴ Murkett, R., Rugh, M., & Ding, B. (2022, September 20). *Nicotine products relative risk assessment: an updated systematic review and meta-analysis*. F1000Research. Retrieved December 22, 2022, from <https://f1000research.com/articles/9-1225>

¹⁵ See https://www.smokefreeworld.org/published_reports/

address the health of underserved populations, and the *Access to Nutrition Index*, which focuses on the food and beverage industry.

6. Stakeholders

Prior to the design and conduct of the Initial Global Consultation, the Foundation commissioned a leading sustainable impact and reporting advisory firm, SustainAbility Inc., to conduct an initial mapping of the universe of Index stakeholders. This process resulted in the identification of six stakeholder groups:

- Investors
- Tobacco companies
- Governments
- Academics and researchers
- Public health advocates
- Tobacco users

For the purposes of engagement, and in response to trust concerns raised by almost all stakeholders, stakeholder engagement with the tobacco industry was separated from broader stakeholder engagement.

The diversity and divergence of stakeholder interests and views were highlighted in the Initial Global Consultation and associated report, in which several stakeholders strongly recommended a focus on key stakeholders in general, and investors in particular, while other stakeholders emphasized the importance of working with the broadest possible range of stakeholders.

The Foundation decided to work at both levels sequentially, that is, to focus on investor stakeholders in the Second Index Cycle, while remaining mindful of the wider range of stakeholder interests, and to expand engagement with the wider stakeholder universe over time, including an expanded stakeholder engagement process during the Third Index Cycle.

We are aware of the need to deepen the work of the Index on stakeholder mapping so that we can address the complex interests created by tobacco and smoking to reflect the full spectrum of the global population and the diverse geographies impacted.

7. Wider Context

Stakeholders and the Foundation are clear that the country context within which tobacco companies operate is a significant factor in the ultimate speed and success of industry transformation.

Index country fact sheets and company-country reports represent first steps toward providing access to information and research. We are aware that far more work, including both research and stakeholder engagement, is required. We also are aware that such work will be complex and, in certain aspects, possibly sensitive. We see this as a key area of Index evolution, with stakeholder engagement informing and supporting research and vice versa.

II. Index Evolution and Engagement

1. CONTEXT AND FOCUS

This section describes the context within which we approach both Index evolution and stakeholder engagement.

1.1 Initial Global Consultation

At the outset of Index development, the Foundation engaged SustainAbility to develop an Initial Global Consultation to form the basis of the Index design and a reference framework for future engagement.

The result was a six-month series of eight multistakeholder dialogues and small-group consultations, convened by SustainAbility and conducted under the Chatham House Rule across seven countries representing a broad range of stakeholder perspectives and geographic regions.

Locations were chosen to exemplify diverse regions in terms of smoking prevalence, population, and the presence of leading tobacco companies and investors.

Stakeholders represented a wide variety of disciplines and institutions, including academics and researchers, NGOs and philanthropic organizations, think tanks and policy organizations, international organizations, media, and investors.

Key questions and issues discussed included:

- Feasibility of an index focused on the tobacco industry's role in harm reduction;
- Value of such an index to a range of stakeholders, including companies, investors, public health experts, and civil society;
- Range of topics and types of indicators that would be most helpful; and
- Role of country context in measuring company performance.

Supplemental conversations were held by phone, through mail, in direct meetings during the process, and in subsequent follow-up discussions.

Stakeholders broadly acknowledged that, if done right, the Index has the potential to foster a useful multistakeholder discussion and process that could meaningfully shift the trajectory of this harmful industry.

—Stakeholder Consultation Report (March 2020)

1.2 Balancing Perspectives

Many stakeholders who participated in the Initial Global Consultation highlighted the diversity of stakeholder interests and the challenges of balancing multiple stakeholder expectations, including seemingly conflicting expectations.

A number of stakeholders noted the diversity—and, in some areas, conflict—of expectations. Notwithstanding decades of multilateral and national effort, including the efforts of countries, experts, and civil society, the absence of a constructive and inclusive platform to hold multistakeholder dialogues aimed at achieving material tobacco harm reduction is a long-term challenge.

A principle of the Index is that research and stakeholder engagement support the facilitation of a more constructive and inclusive dialogue within and among stakeholder groups.

1.3 Exploration for Evolution

We recognize that our stakeholder engagement may not be able to balance perspectives in and of itself, but we aspire to create an open, exploratory framework within which diverse stakeholder views and experience can be considered against the measure of a material reduction in harm.

This aspiration is a key consideration in the Foundation's commitment to Index evolution.

1.4 Focus as We Explore

We are aware that we are building an Index for stakeholder use. With this awareness in mind, we took the advice of many early stakeholders who cautioned us against trying to be “all things to all people” and strongly recommended that we focus on key stakeholders. The importance of working with investors and company managers to understand the detailed factors likely to drive and/or reflect industry transformation was repeatedly highlighted. As a result, engagement with investors and with Index Company managers, conducted separately, has been central to Index design and will likely remain so.

Thus, while the first Index design and launch engaged a wide range of stakeholders, the second Index stakeholder engagement focused more heavily on investors. Another key group has been scientific researchers, whose skill and experience can also help answer investor questions

regarding harm reduction and/or the tobacco company performance factors that best measure progress in industry transformation.

Focus does not preclude dialogue with the wider range of stakeholders. We believe that diversity of input is critical to building the broader momentum required for industry transformation. We also believe that understanding diverse stakeholder views is critical to shaping an industry transformation that delivers a material reduction in harm.

1.5 Opposing Stakeholders

The Initial Global Consultation delivered lively debate and some strongly opposing views on what most participants agreed were complex issues that would not be resolved easily and would require a long and sustained process of engagement.

We are aware, however, that many of those who share our concern to reduce harm do not share our view that the tobacco industry can and should play a role in the effort against smoking. We are also aware that others disagree on the interpretation of the scientific research into the causes of harm, the efficacy of RRP, and the role they may play in achieving harm reduction.

Not all stakeholders have, therefore, been willing to engage.

Some expressed no desire to engage with the tobacco industry. Others appreciated the Foundation's purpose and goal but have not supported the concept of an index as a means of driving change.

The majority of those who declined to engage in the Initial Global Consultation appeared to do so due to concerns about the role for the tobacco industry in harm reduction in general, and specific concerns about the Foundation's disclosed funding relationship with Philip Morris International Inc. Some of those who declined actively discouraged others from participating as well.

The continued absence of the most critical of voices remains a source of regret, as it presumably hinders building constructive and inclusive dialogue within and among stakeholder groups. And the Foundation continues to invite and welcome all dialogue and feedback, however critical.

We continue to rely on the valuable knowledge, insight, and perspective of diverse stakeholders. We remain committed to open and ongoing dialogue with all interested parties.

The reduction of harm from tobacco is a matter of widespread concern and interest. All views are important contributions to tackling this long-standing blight on the health of humanity.

Therefore, all comments and questions are welcome.¹⁶

1.6 Independence

Against a background of longstanding and deep mistrust of the tobacco industry, the independence of the Foundation, and thus the Index, was specifically and extensively addressed in the Initial Global Consultation. It was also examined in individual discussions with experts, including individuals experienced in developing and/or using indices, and with the Advisory Panel.

Stakeholders participating in the Initial Global Consultation consistently noted the importance of avoiding the risk of undue influence, or impressions of undue influence, by the tobacco industry, including the acceptance of industry funding.

Many dialogue participants took the view, however, that while industry funding was not an ideal solution, the scale, urgency, and persistence of harm caused by tobacco justified a new, if controversial, approach.

And in the light of long-standing boycotts and bans on the tobacco industry, many dialogue participants acknowledged that it was difficult to imagine that any approach other than that taken by the Foundation and the Index could accelerate material progress in the reduction of harm.

That said, several stakeholders focused on the importance of separating the Index from tobacco industry funding.

Stakeholder recommendations that the Foundation commit to alternative funding are acknowledged by the Foundation. In the interim, however, the Foundation is aware that work will be required to demonstrate proof of concept for the Index as a prerequisite for building the credibility necessary to secure independent funding sources.

With the appointment of an IRP, we adopted a project management structure for the Index. To support Index processes, the Foundation has developed a working protocol for Index engagement with tobacco companies. The protocol is founded on three key principles:

¹⁶ See <https://tobaccotransformationindex.org/get-in-touch/>

- i. Separation of design and conduct of industry and nonindustry stakeholder dialogue;
- ii. IRP leadership of a specific and transparent process for industry engagement; and
- iii. Transparency with regard to stakeholder concerns about undue tobacco industry influence, and the Foundation’s response to these concerns.

1.7 Index-Company Engagement

Communications with Index Companies on Index methodology and data request and validation are managed by the IRP.¹⁷

1.7.1 Stakeholder Trust, Company Impact

Participants in the Initial Global Consultation expressed concerns about Foundation communications with tobacco companies.

On the question of Index Company impact, the *Advisory Panel Statement on 2022 Index* recommended that procedural steps and standards be considered with a view to establishing an appropriate policy and mechanism for the examination of disputes.

As a result, during the course of the Third Index Cycle, we intend to engage with stakeholders to consider how best to balance concerns about ensuring Index independence while meeting governance standards regarding Index impact on Index Companies.

¹⁷ See https://tobaccotransformationindex.org/what-we-do/project_management/

2. INDEX DESIGN

This section summarizes our approach to Index purpose, including the evolution of Index methodology, research, and analysis, and engagement with external experts.

2.1 Independently Led

As noted above, the IRP is responsible for Index process design, research and analysis, and reporting.

2.2 Quantitative and Qualitative

Index design aims to accelerate the reduction of harm caused by tobacco use by objectively measuring indicators organized across six categories of Index Company performance. Three of the categories are quantitative, and three are qualitative.

Quantitative categories:

- Product sales
- Product offer
- Capital allocation and expenditure

Qualitative categories:

- Strategy and management
- Marketing policy and compliance
- Lobbying and advocacy

As Index research and stakeholder engagement expands, the IRP will continue to explore indicator evolution across all categories, including the qualitative categories that lack standards for tobacco companies.

With regard to the above, the Index project includes research to identify and address the lack of standards. For example, the Foundation made a grant for *Marketing Study Phase 1: Proposed Marketing Code*¹⁸ as a prelude to the development of industry standards, supported by stakeholder consultation.

¹⁸ See <https://tobaccotransformationindex.org/wp-content/uploads/2022/06/Marketing-Study-Phase-1-June-2022.pdf>

2.3 Strategic Pillars

Alongside the six categories, the Index applies a set of three pillars to assess key tobacco harm-reduction factors: commitment, performance, and transparency.

Stakeholders considered performance to be the most important factor. Commitment was generally considered to be necessary but not sufficient, given historical mistrust of the tobacco industry.

2.4 Indicators and Evolution

Index indicators are based on scientific and industry research. Index indicators evolve to address stakeholder feedback through successive Index cycles to take into account new research and insight. Index Methodology is developed by the IRP.

Index indicators are at the core of the Index Methodology. As the Index works through the complexities of the nicotine and tobacco ecosystem and the scientific insights delivered by research, the evolution of Index indicators is a key focus of Index development.

Industry research related to Index Methodology includes consultations with Index Companies. These consultations are managed by the IRP and are addressed in the *Industry Engagement Summary* (September 2022).¹⁹

The Index Technical Committee reviews development of methodology, scoring, and ranking.

The *Advisory Panel Statement on 2022 Index* recommends additional attention to assurance, which we intend to address in the Third Index Cycle.

¹⁹ See <https://tobaccotransformationindex.org/about-the-data/industry-engagement/>

3. INDEX RESEARCH AND ANALYSIS

This section addresses Index research and analysis, including evolution thereof.

Research for the Index funded through grants made by the Foundation is used to support Index evolution, including stakeholder engagement.

Research funded by grants made by the Foundation is available on the Foundation website.²⁰

3.1 Industry Research

Industry research and analysis is led by the IRP and is available on the Index website.

3.2 Scientific and Academic Research

The Foundation is committed to funding research that is nonduplicative and novel, focusing on scientific and regulatory gaps.

The Foundation makes grants to fund Index research in accordance with the process and procedures of the Foundation's grants program.²¹

3.3 Industry-Impact Research

Research is conducted by the IRP in three areas:

- i. Country context
- ii. Company commitments and actions
- iii. What companies say versus what companies do

i Country Context

The country context in which tobacco companies operate varies widely. The improvement of stakeholder understanding of this complexity is an area where the Index has significant potential to evolve and to provide valuable insight over time.

²⁰ See <https://www.smokefreeworld.org/awarded-grants/>

²¹ See <https://www.smokefreeworld.org/grants-program/>

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

—Stakeholder Consultation Report (March 2020)²²

In the First Index Cycle, 36 country fact sheets were published to better understand country policies and regulations. Research was updated in the Second Index Cycle.

During the Second Index Cycle, a series of company-country reports was published, organized by region.

At present, country context reporting focuses on regulatory and policy frameworks, areas seen as core by many stakeholders. Equally, however, many stakeholders highlighted the importance of understanding the wider spectrum of economic, social, cultural, and systems context.

The Foundation recognizes the value of understanding country context, and of providing deeper contextual insights into tobacco company commitments and actions for all stakeholders. Such insight supports a more constructive and inclusive dialogue within and between stakeholder groups.

Wider country context research is under consideration for the Third Index Cycle and beyond.

ii Company Commitments and Actions

The Index commissions research in response to company actions.

In the Second Index Cycle, the IRP conducted specific supplementary research on tobacco industry marketing, including engagement with key experts.

More broadly and fundamentally, however, participants in the Initial Global Consultation also noted the importance of understanding the role of underlying corporate and cultural systems on Index companies. For example, the commitments and actions of the 15 Index Companies take place within a range of company ownership structures. These include global public ownership, private ownership (including family ownership), state ownership, and variations of these types. At the same time, Index Company structures sit within a number of different state and public systems, including systems based on concepts of companies as narrowly defined and

²² See *Stakeholder Consultation Report* (March 2020), p29, available at <https://tobaccotransformationindex.org/wp-content/uploads/2021/09/Stakeholder-Consultation-Report.pdf>

bounded entities built around the notion of core competencies on the one hand, and systems based on concepts of companies as having wider social value and/or responsibilities on the other.

While complex, these are areas where research can deliver value to all stakeholders. They have also been identified by stakeholder investors as areas of importance and are thus important to Index Companies.

As noted above, the Foundation expects to work with stakeholders and researchers in this area in Third Index Cycle and beyond.

iii What Companies Say Versus What Companies Do

From the outset, stakeholders emphasized the importance of looking beyond what companies say they are doing, or are going to do, to what they actually do.

This includes both taking note of what companies say they are going to do—particularly commitments to future action—and assessing action in the whole and over time.

The importance of capturing both what companies say and what they do, and of capturing the difference between the two, is an important focus of Index design.

3.4 Industry Engagement

Index Company engagement is designed to:

- Deliver greater industry understanding of Index purpose and goals; and
- Better understand industry commitments and actions, as well as the context within which these take place.

To this end, the IRP shares a preliminary Index Methodology with Index Companies as well as individualized company datasets for verification, comment, and feedback purposes.

As a result of widespread stakeholder concerns about trust, tobacco companies, including Index Companies, are not invited to participate in broad stakeholder engagement.

The IRP's industry consultation process is described and illustrated in *Index Company Feedback and Response* (September 2022).²³

3.5 Expert Support and Assurance

The Foundation is aware of the critical importance of ensuring that all research is supported by expert insight and governed by external assurance processes.

i Advisory Panel

The Index Advisory Panel has been constituted in each Index cycle to provide independent, nonbinding, and nontechnical advice on the overall evolution of the Index.

In each Index cycle, the panel has been regularly briefed by the Index Program Officer and the IRP as part of an open process of engagement.

Panel members have had access to the IRP and the Index Technical Committee. They have also been part of a review process of published Index research.

At the end of each Index cycle, the Advisory Panel has delivered an independent panel statement for publication on the Index website.²⁴

ii Technical Committee Support

During the course of the Second Index Cycle, an independent Technical Committee was established to provide advice and insight to guide methodology development in the areas of metrics and assessment criteria, determination of weightings at the individual indicator, subcategory, and category levels, and technical consistency with stated goals.

As with the Advisory Panel, Technical Committee members are appointed for the duration of the Index cycle. They bring proven expertise and experience in analysis of the tobacco industry.²⁵

The Technical Committee reviewed the 2022 Tobacco Transformation Index and provided a statement on the consistency and soundness of the Index methodology process and of key changes resulting from the application of that process to the 2022 Index.

²³ See https://tobaccotransformationindex.org/wp-content/uploads/2022/09/Index-Company-Feedback-and-Response_September-2022.pdf

²⁴ See https://tobaccotransformationindex.org/wp-content/uploads/2022/09/Advisory-Panel_Statement_Sept_2022.pdf

²⁵ See https://tobaccotransformationindex.org/wp-content/uploads/2022/09/Technical_Committee_Statement_September_2022.pdf

iii Assurance

The Foundation is aware of the importance and value of securing independent assurance of Index work, including research work supporting the Index methodology.

We note the recommendation of the Advisory Panel, set out in the *Advisory Panel Statement on 2022 Index*, concerning the conduct of an independent audit of Index methodology. We intend to address the matter in the Third Index Cycle.

4. STAKEHOLDER ENGAGEMENT

This section addresses our approach to stakeholder engagement in the context of both sustainability and environmental, social, and governance (ESG) frameworks as well as Index evolution.

An overview of our Second Index Stakeholder Engagement can be found in our *Stakeholder Consultation Report* (October 2022).

4.1 Sustainability, ESG, and Stakeholders

The role of the Index in the context of sustainability and ESG was raised in the Initial Stakeholder Consultation and has continued to be considered by the Foundation and its expert advisors.

The Foundation shares the United Nations (UN) Decade of Action goals as expressed in the UN's *Sustainable Development Goals* (SDGs) (2015) and as described in the Foundation's *Commitment to Sustainable Development Goals* (July 2022)²⁶ and related map.²⁷

We view the Index as playing a role in the UN SDGs 3 (good health and well-being) and 9 (industry, innovation, and infrastructure), through SDG 17 (partnerships). The Foundation believes that the appropriate approach to influencing industry transformation is indirectly through strategic partnerships.

With regard to ESG, some of the participants in our Initial Global Consultation thought it would be beneficial to expand the focus of the Index to create a “one-stop shop” to score and rank overall ESG performance within the tobacco industry. However, a strong majority worried that this could dilute the Index core focus on harm reduction.

Yet other stakeholders, including investors, perceive particular Index value in delivering, over time, a better understanding of the diversity of the country contexts in which the world's 15 largest tobacco companies originate and in which they sell.

The Foundation's view is that the reduction of harm should be part of any and all measurements of tobacco company SDG performance.

²⁶ See <https://www.smokefreeworld.org/wp-content/uploads/2022/07/Final-Legend-to-the-SDG-2022-.pdf>

²⁷ See <https://www.smokefreeworld.org/wp-admin/images/Strategic%20Plan%202022%20517.pdf>

Index design monitors a range of comparison frameworks, and our Second Index Cycle research has focused on better understanding country context. We expect the focus on country context, including stakeholder engagement with regard to the same, to increase in the Third Index Cycle.

4.2 Stakeholders and Index Evolution

We share our stakeholders' view that stakeholder engagement is critical to the success of any index.

Our focus on transforming the world's tobacco industry to reduce harm means that stakeholders are many and varied. They include investors, tobacco companies, governments, academics and researchers, public health advocates, and tobacco users. They also include entities, organizations, and individuals who disagree with our approach in terms of our dialogue with the tobacco industry and/or our focus on scientific inquiry as a basis for harm reduction.

Therefore, the convening of a diverse group of stakeholders can be challenging.

Wide in geographic reach and diverse in stakeholder groups, the Initial Global Consultation provided critical insight and raised questions that continue to be valuable and important to Index development.

Because it was conducted under COVID conditions and took into consideration the Initial Global Consultation advice to focus and sequence, our Second Index Cycle engagement was different in form and focus from that of the first cycle. In form, the engagement was primarily conducted online, particularly through webinars. Webinar recordings and materials were shared online and accompanied by invitations for public comment. In focus, the second cycle engagement was designed primarily to address factors relating to investment, with investors (as our stakeholders have highlighted) having an important role to play as actual and potential drivers of industry transformation, whether by reference to market and/or social and economic factors.

Bearing in mind the focal points of our Third Index Cycle evolution, including deepening our understanding of complex country context, we expect our Third Index Cycle stakeholder engagement to widen in focus, while retaining the emphasis on understanding the specific investor questions that help us use the market to leverage industry transformation.²⁸

²⁸ An overview of our Second Index Cycle Stakeholder Engagement can be found at: <https://tobaccotransformationindex.org/about-the-data/stakeholder-engagement/>

III. OUR FORWARD EVOLUTION AND NEXT STEPS

1. Evolution

The Index is working toward a transformation of the tobacco industry to promote a material, progressive, and accelerated reduction of harm, in line with the Foundation's goal of ending smoking and smoking-related death and disease in this generation. To achieve these aims, Index evolution will focus on the following five areas:

i. Index Methodology

Through the work of our IRP, and supported by stakeholder engagement, we will continue to interrogate and refine Index indicators and related evidentiary standards, including their transparency.

ii. Foundation Research to Support Index Evolution

Research funded by grants from the Foundation will continue to support Index evolution.

iii. Country Context

We will continue to expand our understanding of country context to support Index effectiveness with regard to the diversity of the world's tobacco industry and to the complexity of issues related to the reduction of harm from tobacco and smoking.

iv. Stakeholder Consultation and Engagement

We will continue to engage with stakeholders in line with Index evolution and impact.

We will also continue to review and develop our stakeholder engagement framework in line with Index evolution and impact, and within the complex range of issues raised by the challenges of tobacco and smoking.

v. Governance, Including Assurance and Funding

We will continue to review and strengthen our governance in line with Index evolution and impact, including Index funding, Index transparency, and Index accountability.

We will deepen our work on external assurance and address Advisory Panel recommendations, including the establishment of a dispute management policy and related mechanisms.

2. Next Steps

This report has outlined the Index approach to Index evolution and engagement under the Second Index Cycle with due reference to the continuing value of the Initial Global Consultation.

In the three months following publication of the *2022 Index Ranking Report* (September 2022) and the related *2022 Index Methodology* (September 2022) report, we reviewed the 2022 Index and the work conducted under the Second Index Cycle as well as our plans for Index evolution and engagement in the Third Index Cycle.

Based on the above and on the recommendations of the Advisory Panel, our plans for the Third Index Cycle (2023-2024) include:

- Development of an assurance system and processes for Index scoring, including both data and indicators, and a related dispute management policy and mechanism;
- Continued review of the research program;
- Introduction of a research focus on country context;
- Review of stakeholder mapping and engagement regarding Index mission, goals, and Index theory of change; and
- Implementation of our plans, including engagement with stakeholders, and reporting on progress.

CLOSING REMARKS

Evolution and engagement are at the heart of Index success.

We appreciate the time and attention you have given to this report.

We will continue to report on our progress in these areas in future Index cycles and we welcome questions, comments, and feedback on this, as with all our processes and work, at:
<https://tobaccotransformationindex.org/get-in-touch/>.

We look forward to hearing from you.

David Janazzo
Tobacco Transformation Index Program Officer
Interim Co-President
Foundation for a Smoke-Free World

ABBREVIATIONS, ACRONYMS, AND DEFINED TERMS

ESG	Environmental, social, and governance
HMICs	High- and medium-income countries (as defined by the World Bank and applied in the Index methodology)
HRP (plural HRPs)	High-risk product(s)
Index Company	Tobacco company evaluated by the Tobacco Transformation Index
Index cycle	Biannual cycle through which the Index evolves
Initial Global Consultation	Global consultation process conducted in 2019
IRP	Index Research Partner
LMICs	Low- and medium-income countries (as defined by the World Bank and applied in the Index Methodology)
RRP (plural RRP(s))	Reduced-risk product(s)
SDG (plural SDGs)	Sustainable development goal(s)