



Key Findings and Insights

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Background / Study Focus

The objective of this report is to bring together selected information associated with supporting research developed in the production of the 2022 Tobacco Transformation Index.

The mission of the [Foundation for a Smoke-Free World®](#) is to end smoking in this generation. The [Tobacco Transformation Index®](#) aims to accelerate the reduction of harm caused by tobacco use. The Index ranks the world's 15 largest tobacco companies on their relative progress toward harm reduction.

The Tobacco Transformation Index is designed to deliver on a key [goal](#) and related [purpose](#) of the 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.

Benchmarks, indices, and industry league tables are recognized tools for bringing focus to important issues in many industries. Key benefits of such tools are to stimulate corporate action toward desired outcomes, spotlight positive or negative performance and best practices, provide investors with added insight on strategic issues and long-term risks, hold companies accountable for commitments and activities, and equip stakeholders with information to challenge poorly performing companies. Non-financial indices are increasingly deployed to focus stakeholder attention and incentivize strategic action by companies.

The Tobacco Transformation Index [theory of change](#) is predicated on the forces of competition, differentiation, and constructive engagement. The Index aims to stimulate competition among companies to deliver the necessary transformation of the tobacco industry for the benefit of public health. The Index highlights differences across companies within the tobacco industry based on their actions, enabling stakeholders to become better informed and able to drive change. Through constructive engagement, investors and others can more clearly articulate their expectations and influence companies to change.

Tobacco is a sector for which it is common for investors to exclude ownership of the stocks. The Index [complements and facilitates](#) a broader trend, namely, acknowledgement of the social impact of investing. In conflict with the exclusionary approach of divestment and underweighting common in tobacco investing, a growing segment of the investor community is developing and applying environmental, social, and governance (ESG) criteria in the investment process, with the aim of positively influencing company behavior.

With this background in mind, the Foundation issued its [Request for Proposals: Advancing Industry Transformation](#) in 2018.

Methods

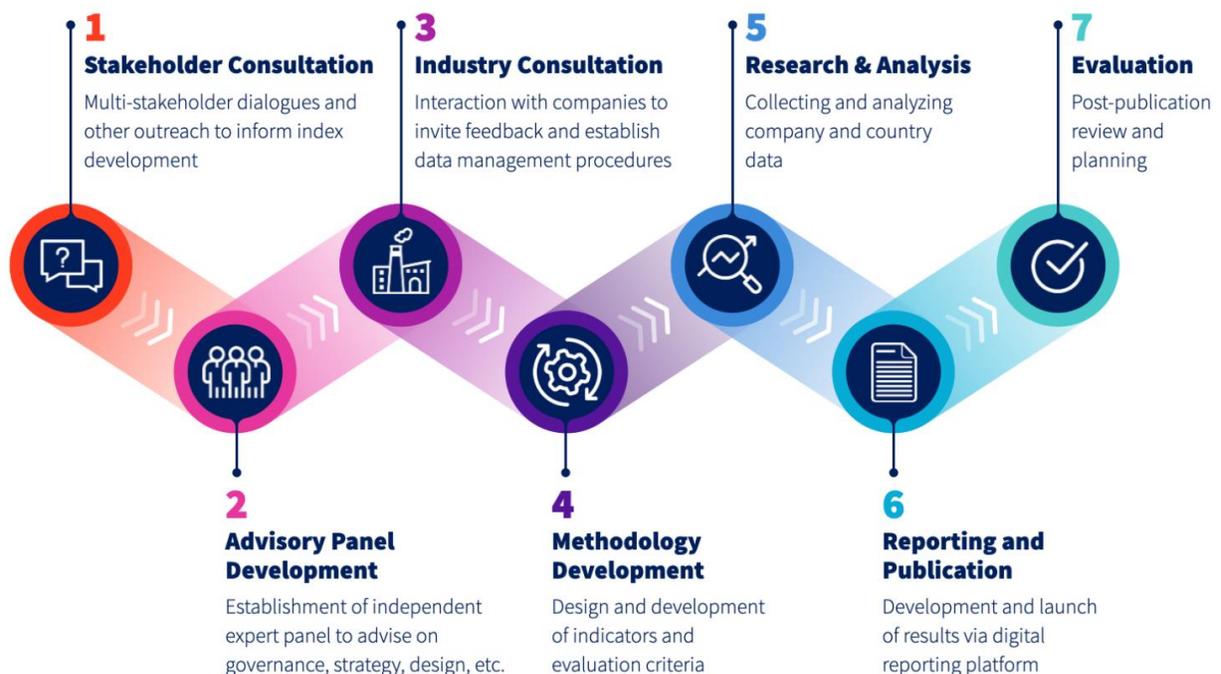
Process

Tobacco Transformation Index development is grounded by [stakeholder engagement](#). In this context, stakeholder engagement encompasses broad listening sessions, which provide valuable input to the Index design process, and focused dialogue with specific stakeholder groups, including investors and researchers. The [Index Evolution and Engagement Report](#) sets forth results to date, current state, and strategy looking forward to evolve the Index based on continuing research and effective stakeholder engagement.

[Industry engagement](#) is conducted separately.

The Index initiative is convened, funded, and overseen by the Foundation for a Smoke-Free World. The Foundation is responsible for overall strategic direction and [project management](#) design in line with its bylaws and strategic plan.

Figure 1. Tobacco Transformation Index Workflow



Index Research Partner, Euromonitor International, is responsible for Index process design, research and analysis, and reporting. The Index Advisory Panel provides independent, non-technical insight and non-binding advice on the evolution of the index with regard to its value as a tool to assist stakeholders in monitoring, evaluating, and incentivizing tobacco company

behavior, including actions that demonstrate relative progress toward tobacco harm reduction. The Technical Committee provides advice and insight to guide the development of the Index methodology in the areas of metrics and assessment criteria, determination of weightings at the indicator, sub-category, and category levels, and technical consistency with stated goals.

Methodology

The Tobacco Transformation Index evaluates Index Companies' activities and performance, against 35 underlying indicators, relevant to tobacco harm reduction. The Index is a relative ranking.

[Index methodology](#) consists of six measurement categories, each covering a distinct area of corporate activity and/or performance related to tobacco harm reduction. Each category is further broken down into subcategories, which are measured based on quantifiable indicators.

Figure 2. Tobacco Transformation Index Design Considerations



A reflected in Figure 2, Index methodology is based on a system of metrics that are qualitative and quantitative, represent past performance and leading indicators, constitute absolute, relative, and rate-of-change measures, which are weighted commensurate with materiality, utility, feasibility, and other factors associated with transformation.

Figure 3. Tobacco Transformation Index Category Weights

Category	Category Weight	Sub-Category	Sub-Category Weight
1 Strategy & Management	10%	1A Vision and Management Systems	80%
		1B Stakeholder Engagement	20%
2 Product Sales	35%	2A Volume Sales of Tobacco Products	80%
		2B Value Sales of Tobacco Products	20%
3 Capital Allocation & Expenditure	30%	3A Capital Allocation	80%
		3B Marketing Expenditure	20%
4 Product Offer	10%	4A Product Portfolio	60%
		4B Pricing	40%
5 Marketing Policy & Compliance	10%	5A Marketing Policy	65%
		5B Marketing Compliance	35%
6 Lobbying & Advocacy	5%	6A Lobbying & Advocacy	100%

Index methodology, for the purpose of the quantification of relative scoring, is also supported by additional research associated with the [Relative Risk Assessment](#), Per Stick Equivalent Conversion, and considerations of company activities in Low-Medium Income Countries (LMICs) versus High-Medium Income Countries (HMICs).

A key feature of the Index is its adoption of the Relative Risk Assessment, based on a [systematic review](#) of scientific studies of the health risks associated with 15 nicotine products. The review identifies the most harmful products, of which cigarettes are the most widely sold and thus represent the greatest risk to global public health as well as Reduced-Risk Products.

Results

2022 Index Results

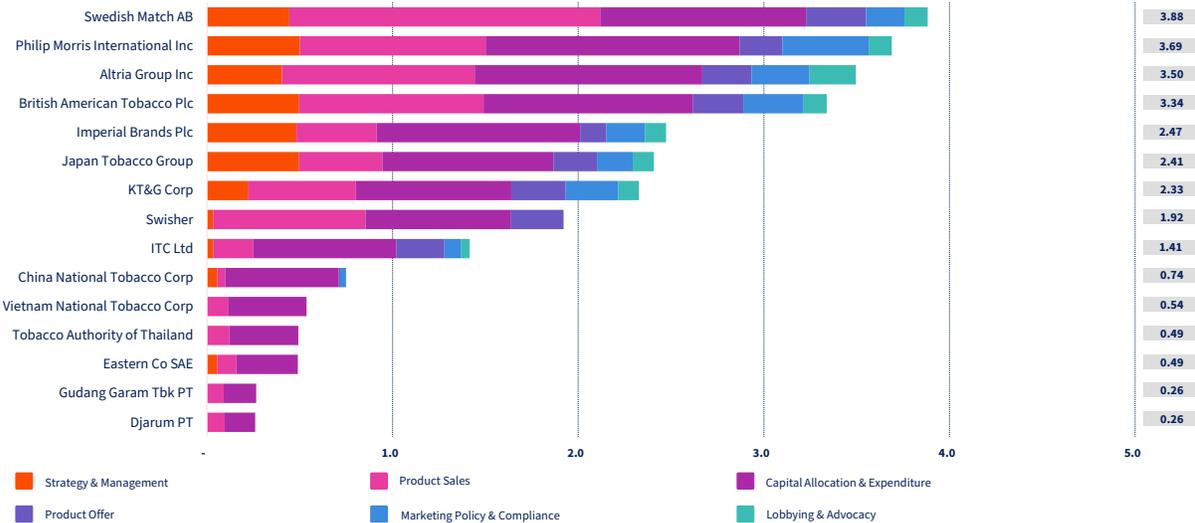
The 2022 Index demonstrates that the transformation of the tobacco industry toward harm reduction continues to be inconsistent and at an early stage.

Index research indicates that High-Risk Products (HRPs) accounted for about 95% of Index Company retail sales by volume in 2021. Reduced-Risk Products (RRPs) accounted for only 5%.

For the 15 Index Companies combined, in 2021, about 97% of RRP sales on a per-stick equivalent basis were in high-medium income countries (HMICs), with only 3% in low-medium income countries (LMICs). In other words, RRP are not available where the majority of smokers live and where the need is the greatest.

Simply put, the tobacco industry is not phasing out HRPs and/or transitioning smokers to RRP quickly enough to achieve the Foundation’s mission of ending smoking in this generation.

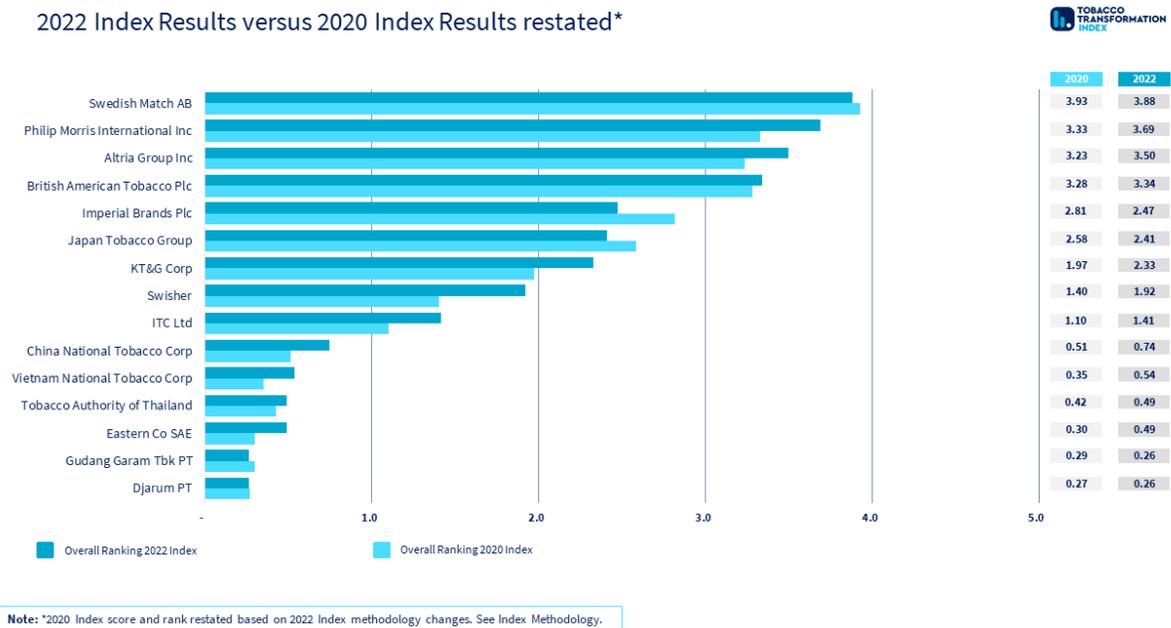
Figure 4. 2022 Tobacco Transformation Index Results



The situation does not, however, mean that the Index has not identified change, including patterns of change.

In fact, the 2022 Index provides insights. The scores of ten Index Companies increased, and the scores of five Index Companies decreased, compared to the 2020 Index results as restated for methodology changes. The Index is a relative ranking.

Figure 5. 2022 Index Results versus 2022 Index Results Restated*



Selected Category Results – 2022 Index

Complete detail and discussion of Index Company performance organized by the six Index categories is available through [Index Results](#). Selected results, associated with three of the six categories, are summarized as follows.

The Strategy & Management category is viewed by [stakeholders](#) as a possible leading indicator of transformation, in other words, necessary but not sufficient. The top performers in the category were the six multinational tobacco companies. In addition, the 2022 Index recorded score increases by several tobacco companies compared to the 2020 Index, including a number outside the multinationals, due to additional disclosures made during the measurement period.

The “Performance” measures, starting with Product Sales, are assigned the highest weights by the Index, indicative of quantitative results and actions. The Product Sales category is assigned a 35% weight.

The top four companies in the [Product Sales](#) category – Swedish Match, Altria, Philip Morris International, and British American Tobacco – which are unchanged compared to the 2020 Index, demonstrated relatively consistent strategy and performance toward harm reduction.

Some companies regressed due to their actions related to Products Sales scoring. Several companies made early stage moves related to sales of reduced-risk products

For 2021, on [Product Sales by Net Sales Value](#), only one company of the 15, Swedish Match, generated a majority of its sales through RRP.

The Capital Allocation & Expenditure category is assigned the second highest weight at 30%, reflecting potential leading indicators in research and development (R&D), capital expenditures, marketing expenditure, and mergers & acquisitions (M&A).

Several companies are directing the [majority of capital and R&D investments](#) toward RRP. Others are making early investments toward future production of RRP.

Discussion

Company Activities

The 2022 Index demonstrates that differentiation is forming across the largest tobacco companies, related to measures of commitment, performance, and transparency.

The Index brings visibility to the divergent strategies, product sets, and performance across the 15 largest tobacco companies in the world. Index Companies are adopting distinct approaches and varying levels of strategic commitment to tobacco harm reduction, along with contrasting levels of execution of the respective strategies.

The outcomes are influenced by several factors, including ownership type, operating environment, and regulatory context. Based on the 2022 Index results, the Index Companies are coalescing around five broad clusters associated with patterns of behavior:

Strategic commitment & execution: Swedish Match, Philip Morris International, Altria, and British American Tobacco have demonstrated strategic commitment toward tobacco harm reduction and relatively consistent execution.

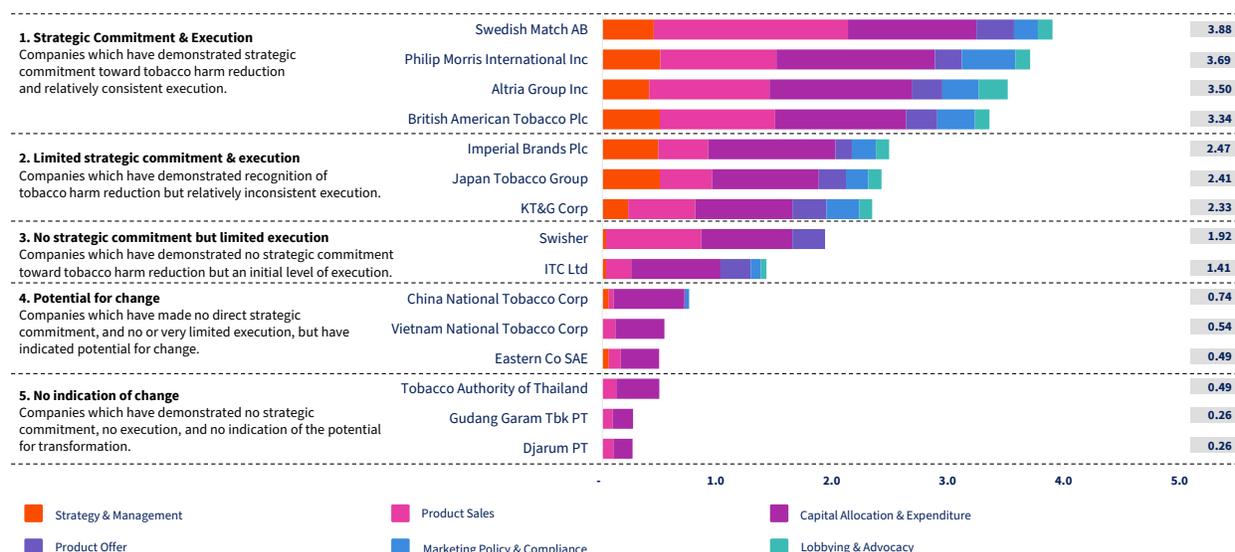
Limited strategic commitment & execution: Imperial, Japan Tobacco Group, and KT&G have demonstrated recognition of tobacco harm reduction but relatively inconsistent execution.

No strategic commitment but limited execution: Swisher and ITC have demonstrated no strategic commitment toward tobacco harm reduction but an initial level of execution.

Potential for change: CNTC, Vinataba, and Eastern have made no direct strategic commitment, and no or very limited execution, but have indicated potential for change.

No indication of change: TAOT, Djarum, and Gudang Garam have demonstrated no strategic commitment, no execution, and no indication of the potential for transformation.

Figure 6. 2022 Index Results – Index Companies and Patterns of Behavior



Note: Tobacco Authority of Thailand’s score (0.491) is marginally higher than that of Eastern Co SAE (0.489). For the purposes of clustering, Index Companies are assessed on their publicly-communicated strategic commitment, and level of execution, toward tobacco harm reduction. In 2021, Eastern Co SAE stated its intention to offer RRP (heated tobacco) in Egypt in the future. In contrast, during the review period 2019-2021, Tobacco Authority of Thailand did not publicly state an intention to offer RRP.

The 2022 Index demonstrates that momentum toward tobacco harm reduction is developing across a subset of the 15 Index Companies.

About half of the Index Companies have adopted strategies regarding tobacco harm reduction and, to varying degrees, are performing toward their objectives through product offers, sales, and investments over the review period 2019 to 2021. Within this group, reflected in Figure 6 clusters 1 and 2, some companies progressed, and others regressed in Index scoring due to their actions over the period compared to the first Index. For example, Imperial Brands made the “strategic decision” to withdraw its closed system vaping product

from Russia and Japan, and its heated tobacco product from Japan, as the company prioritized “investment in other market category combinations in line with our strategy.” Japan Tobacco Group score in the Product Sales category declined due to the company’s increasing HRP Volume Sales driven by its international business.

The next group (clusters 3 and 4) encompasses multiple companies that are potentially in the process of establishing early momentum as demonstrated by leading indicators associated with investments and/or strategies toward tobacco harm reduction. Over review period, several companies have taken action or stated intended future action, which suggests the potential for future contribution to industry transformation. Eastern in 2021 indicated it plans to start selling RRP in Egypt in the near future. Vinataba in 2021 indicated it is considering the possibility of selling RRP in Vietnam in the future. Time will tell if transformation comes to fruition.

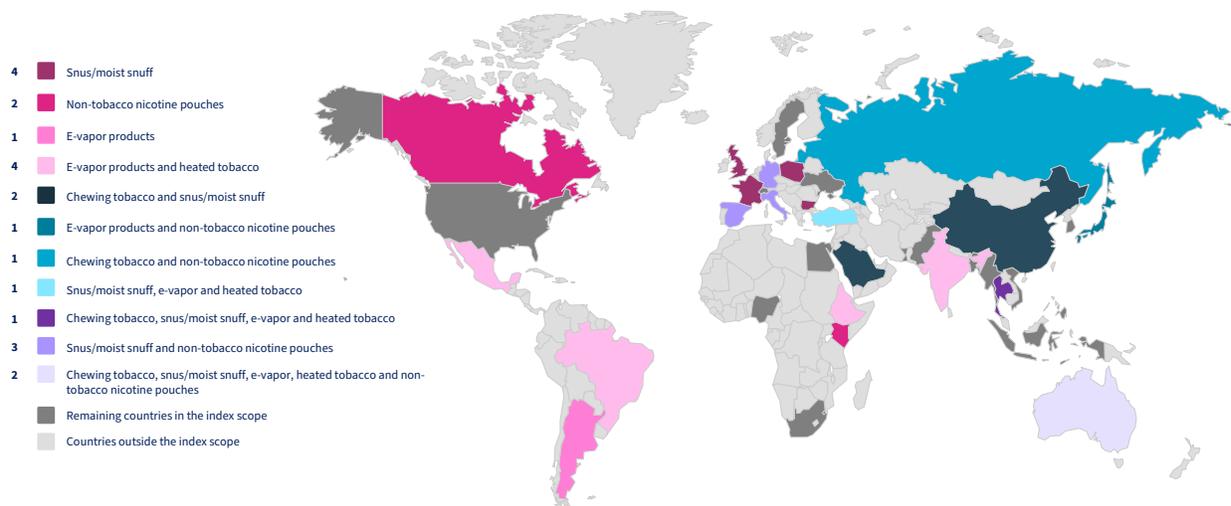
Several companies (cluster 5) remain essentially cigarette producers.

Country Policy

RRP legality of commercialization influences companies’ opportunities for tobacco harm reduction. As reflected in Figure 7, the commercialization of the following products was prohibited: snus and moist snuff, in 13 of 36 Index Countries; closed system vaping products and e-liquids, in ten of 36 Index Countries; non-tobacco nicotine pouches, in nine of 36 Index Countries, and heated tobacco products, in eight of 36 Index Countries

Figure 7. Bans on RRP Across the 36 Index Countries in 2021

Bans on RRP Across the 36 Countries in the Index Scope 2021



Source: Country Fact Sheet Dashboard.

Notes: 1. Showing the 36 Index Countries only (See Index Methodology, “Country Scope”).

2. Data was collected in April 2022, except for Russia and Ukraine which was collected in July 2021.

3. E-vapor products refer to closed system and e-liquid products containing nicotine. Nicotine-free products are excluded from the above analysis.

Company-Country Analysis

Nicotine and tobacco product bans are part of the story, but so are tobacco company actions. Across the 15 Index Companies, 36 Index Countries, and six RRP categories, the Index [company-country analysis](#) finds that restrictive or uncertain regulatory environments correlate with limited RRP availability; disposable income per capita correlates strongly with RRP presence; and tobacco companies maintain presence in HRPs (i.e., cigarettes).

Index research indicates that tobacco companies do not consistently sell RRPs in countries where they are legally allowed and also sell HRPs.

Of the [36 countries](#) covered by the Index, three RRP categories—heated tobacco products (HTPs), e-vapor, and nicotine pouches—were legal in 16 of the 36 countries in 2021. Of the 16 countries, six are LMICs. The three product categories are identified for the analysis because of their relevance in the [reduced risk assessment](#), as well as their availability in company portfolios. The analysis studied the six tobacco companies that sell HRPs in multiple countries.

Figure 8 demonstrates that in countries where the tobacco companies sell HRPs, British American Tobacco and Philip Morris International offered RRPs in 88% and 73% of the countries, respectively. Japan Tobacco Group and Imperial Brands offered RRPs in about half of those markets, with KT&G at 33% and Swisher at 9%. In LMICs, only British American Tobacco and Philip Morris International offered RRPs in countries where the products are legal.

Market presence is not the same as product sales volume, and cigarettes remain the dominant category. However, such performance indicates a divergence in strategy and execution across the largest tobacco companies.

Figure 8. Product Offers By Company
Number of Countries in Which Company Offers HRPs and RRPs and Where HTPs, E-Vapor, and Non-Tobacco Nicotine Pouches Were Legal in 2021

2021	Total (16 countries)			LMICs (6 countries)		
	<i>HRPs</i>	<i>RRPs</i>	<i>Ratio</i>	<i>HRPs</i>	<i>RRPs</i>	<i>Ratio</i>
British American Tobacco	16	14	88%	6	4	67%
Philip Morris International	15	11	73%	6	2	33%
Japan Tobacco Group	15	7	47%	5	0	0%
Imperial Brands	13	6	46%	4	0	0%
KT&G	3	1	33%	2	0	0%
Swisher	11	1	9%	4	0	0%

Conclusion

The tobacco industry is not phasing out HRPs and/or transitioning smokers to RRP quickly enough to achieve the Foundation’s mission of ending smoking in this generation.

Further, RRP are not available where the majority of smokers live and where the need is the greatest.

In addition, restrictive or uncertain regulatory environments correlate with limited RRP availability.

That said, the 2022 Index demonstrates that differentiation is forming across the largest tobacco companies, related to measures of commitment, performance, and transparency, and that momentum toward tobacco harm reduction is developing across a subset of the 15 Index Companies, albeit at varying degrees.

The objective of the Index is to monitor and bring visibility to Index Company behavior over time, with formal Index release occurring in two-year cycles and accompanying research between publications.

Shortcomings

Structural Company Differences

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 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. Therefore, developing an Index methodology to score and rank such a divergent group of companies is challenging.

Funding Source

Some stakeholders view industry funding as a non-starter. Many participants in the [stakeholder dialogues](#) have taken the view, however, that while industry funding is not ideal, the scale, urgency and persistence of harm caused justifies a new, if controversial, approach.

Lack of Public Health Involvement

The outcome is self-fulfilling. Opponents have opted out of the Index development process and/or have pressured health professionals not to participate. For example, the Foundation specifically reached out to eight opposing stakeholders in 2022. As a result, [Stopping Tobacco Organisations and Products \(STOP\)](#) personnel at the University of Bath issued an “alert,” rejecting the approaches and encouraging all tobacco control and public health colleagues in its network to do likewise. We understand that health professionals may be wary of the Index initiative, but the oppositional approach also impedes the ability to ensure critical parties can influence the Index design and development.

Lack of External Oversight

The Foundation established a [project management](#) structure for the Index. We intend to seek independent audit of the Index methodology in the future.

Industry / Company Involvement

Industry, or better stated, company involvement, if conducted properly, should increase the robustness of Index methodology. Further isolating companies leaves them to their own devices, which may only preserve the status quo. Providing incentives to tobacco companies in concert with leverage for investors adds to the tools available to stimulate industry transformation that otherwise might not occur. The Index also offers stakeholders a mechanism to more clearly articulate their expectations and influence companies to change.

Engagement with Index Companies is conducted primarily by the Index Research Partner, Euromonitor International, as part of preliminary methodology development, as well as [data collection](#), verification, and feedback. The Index preparation process includes safeguards to ensure that data are not shared between Index Companies.

[Industry Engagement](#) reports document the timing, nature, and content of interactions with tobacco companies and industry groups. [Company Feedback and Response](#) report consolidates and responds to written questions and comments the Index Research Partner received from Index Companies.

Other frameworks

Some parties have strong opposing views to the work of the Foundation and/or the Tobacco Transformation Index. For example, [Tobacco Free Portfolios](#) aims to reduce and ultimately eliminate all investment in tobacco. Index critiques often cite one another and include common references, as noted above.

Detailed written critiques are welcomed, including papers that critique the Index itself and/or [propose frameworks for alternate views](#) of tobacco industry transformation and [calls](#) for the same.