

THE IMPERATIVE TO ACCELERATE TRANSFORMATION OF THE TOBACCO SECTOR

GLOBAL TOBACCO & NICOTINE FORUM
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THE PAST NO LONGER PREDICTS THE FUTURE

What was unthinkable is becoming reality through the application of new and truly disruptive technologies. No sector of society will escape this reality.

Dirty and unhealthy legacy industries are transforming their activities and products toward cleaner ones. Consumers increasingly demand less pollutive, healthier, and more sustainable products. To cite a few examples of industries undergoing transformation, coal companies are shifting to renewable energy, waste management companies are shifting from dumping to recycling and reusing, automobile manufacturers are developing electric and hybrid cars and shifting away from reliance on the combustion engine, and food companies are cutting ingredients that threaten health. Progress will not be linear, but the trends point to increasingly aligned pressure for profitability and sustainability.

What do companies undergoing transformation have in common? They all use technological innovations to transform their core businesses. They are all responding to consumer demand for better, healthier, and more sustainable products. Change is often supported by investors and asset managers. Smarter regulations allow governments to steer sectors towards outcomes aligned with the [Sustainable Development Goals](#).

Efforts to tackle climate change provide a powerful example of this. Governments' voices, treaties, and protocols visible in the [Paris Agreement](#) that was negotiated at the Conference of the Parties of the United Nations Framework Convention on Climate Change and adopted by consensus on December 12, 2015, are complemented by a wide range of industry-led voluntary initiatives to harness market forces for good. The [Task Force](#) on Climate-related Financial Disclosures, chaired by Michael Bloomberg, included input from across the breadth of the financial services sector and called for transparent reporting on the true costs and mitigating opportunities of many sectors' contributions to climate. This initiative joins a growing segment of the investor community applying Environmental, Social, and Governance (ESG) criteria to the investment process.

Some companies are shifting their portfolios to more sustainable options, even while they continue to sell the most pollutive and, in some cases, unhealthy products. They need the flow of profits from their legacy products to cover the costs of the transformation toward these more sustainable options. That said, when dominant, dirty, and unhealthy

legacy industries effectively change, the resultant social, health, and environmental impact is orders of magnitude greater than the incremental contributions from startups who are already there.

Yet, these large polluters are often the target of divestment due to their historical and continued negative impact – they are shunned, dismissed, or barred from engagement by groups that are oblivious to how sectors transform.

WHAT DOES THIS HAVE TO DO WITH THE TOBACCO INDUSTRY?

Tobacco companies represent the archetypical unhealthy industry, producing cigarettes and other conventional tobacco products that are consumed by about **1.3 billion** people today.

The large publicly traded tobacco companies, state monopolies, and smaller manufacturers around the world have combined revenues of nearly USD 800 billion per year. They deliver almost USD 400 billion in tax revenue to governments. They sell more than five **trillion** cigarettes annually. This figure – five trillion cigarettes – excludes the illicit cigarette trade and locally manufactured combustible tobacco products. Tens of millions of farmers and millions of factory workers, distributors, and retailers are involved in the supply chain. It's a massive industry.

This comes at an unacceptably high cost to the health of populations across the globe. More than 7 million people die each year from smoking and from the use of other tobacco products. That makes tobacco products the leading cause of preventable deaths worldwide. Many more suffer from the consequences of smoking-related diseases. The end is nowhere in sight. The best projections of long-term trends suggest that even as health policies are being increasingly implemented, at least a billion people will continue smoking for decades. And a **billion** people will die prematurely this century from tobacco, if the *status quo* is maintained.

These exceptional risks to health led governments to develop the World Health Organization Framework Convention on Tobacco Control (**WHO FCTC**). It is the only time WHO has used its treaty-making authority. The FCTC has been adopted by **181 countries**. As with climate change treaties, the FCTC provides a government-led roadmap for action. Unlike the UN climate change processes, the FCTC has systematically excluded organizations responsible for creating tobacco-related risks and potentially holding the keys to mitigation.

We have a real opportunity and obligation to do more to reduce the long-term risks of tobacco use.

WHY DO WE BELIEVE THIS IS PARTICULARLY IMPORTANT NOW, AND WHY DO WE BELIEVE IT IS FEASIBLE NOW?

Some of the requirements for transformation of the tobacco sector are already in place: disruptive technologies, consumer demand, investor interest, and a few government leaders' voices. But many challenges remain.

Disruptive technologies are available to end combustion and cut exposures that kill and cause so much disease. Michael Russell's **statement** from 1976 says it all: "People smoke for nicotine, but they die from the tar." Forty years later, we now have a growing portfolio of products that substantially reduce the risks associated with combustible cigarettes by **decoupling** nicotine from the lethal smoke. They complement snus, which has been used for over 6 decades. Snus, an option for smokers seeking nicotine without the excess risks, was neglected by most governments. E-cigarettes, a wide variety of vaping devices, heat-not-burn products, and more, are now in markets around the world.

A solid body of evidence shows that the reduced-harm portfolio of nicotine products **cuts the exposure** level of several known health risk markers by at least 90%, and in some cases closer to 99%, from that of combustible cigarettes.

Smokers with knowledge of the benefits of harm reduction are responding positively and in growing numbers to products that provide them with the pleasure and reward they seek from nicotine, without exposing them to the risks associated with combustible cigarettes. Their voices, suppressed for decades in debates about how to best end smoking, are becoming organized as they demand **their** right for policies and research to be developed and implemented, and demand **their** needs be considered. This is how progress occurred in getting better treatments for patients living with AIDS – by the patients themselves – and this is how progress is underway in other areas of chronic disease.

In some countries, reduced-harm products are displacing combustible cigarettes at a rate never experienced in tobacco control. The numbers are impressive. Over 10 million people use e-cigarettes in the US with about half using them as their sole source of nicotine. Millions more use snus and e-cigarettes across Europe. In Japan, according to **company reports**, the introduction of heat-not-burn products is associated with a 24% decrease in total domestic cigarette sales from January to July of this year (2018) compared to the same period in 2016. No other mature market has seen one-quarter of its cigarette market disappear in just 2 years. Similar data are now emerging from Korea.

These trends are especially remarkable given the often-hostile media and frequently confused messages from public health organizations about the potential health benefits of these alternative nicotine-delivery products.

Our recent Foundation's **global poll** has documented the level of confusion across more than 17,000 subjects (smokers, ex-smokers and non-smokers) in 13 countries, representative of all levels of socioeconomic development. It reveals that smokers incorrectly view nicotine as a cancer-causing substance, contrary to what **Scott Gottlieb, FDA Commissioner, and Mitchell Zeller** stated: "Nicotine, though not benign, is not directly responsible for the tobacco-caused cancer, lung disease, and heart disease that kill hundreds of thousands of Americans each year." In some countries, our survey finds e-cigarettes ranked as equally as or more harmful than combustible cigarettes. Yet, in nearly all countries, most smokers want to quit or reduce their risks. I strongly agree with **Scott Gottlieb** who recently said at the Society for Research on Nicotine and Tobacco (SRNT) Annual Meeting, "We need to correct many of the misperceptions and confusion around nicotine, like the commonly held belief that nicotine causes cancer."

Failure to correct these misconceptions will lead smokers to keep smoking combustibles and die prematurely from smoking-related diseases. Misconceptions are emboldening some governments to ban harm-reduction products, leading to dire consequences for smokers who are seeking to switch to these products. Misconceptions could also slow down innovation led by the private sector that could develop better products that are also priced to reach the low- and middle-income countries where **80%** of the world's 1.1 billion smokers live.

WHO has perhaps “unwittingly” added to the confusion by failing to provide governments with the type of evidence and guidance we see emanating from public health authorities in the US and here in the UK. In both countries, open dialogue between all stakeholders, including industry players, is actively supported and allows for new evidence and science to be part of the policy process driven by governments.

Many in this audience are all too aware that the strongest and most coherent voices for tobacco harm reduction come from here, the UK. The House of Commons, Public Health England (PHE), Royal College of Physicians (RCP), Action on Smoking and Health, UK Government **committees**, and others find that vaping poses only a small fraction of the risks posed by smoking. PHE also reports that switching completely from smoking to **vaping** conveys substantial health benefits. **PHE** also reports that switching completely from smoking to vaping conveys substantial health benefits. **RCP** recommends that e-cigarettes appear to be effective when used by smokers as **an aid to quit smoking**. RCP also states that “the hazard to health arising from long-term vapor inhalation from the e-cigarettes available today is unlikely to exceed **5% of the harm caused by smoking tobacco.**”

In contrast, WHO's exclusion of many from the FCTC process who have the intention and ability to accelerate an end to smoking is hampering development of policies that could cut premature deaths faster than many traditional public health interventions. A **recent publication** by leading international legal scholar, Gregory Jacobs, provides details of how the FCTC processes have promoted such secrecy and exclusion. His work deserves to be widely studied and considered.

The FCTC's traditional government-led public health measures have been successful and remain the cornerstone of tobacco control, but progress has been too slow. As Deborah Arnott, Chair of Action on Smoking and Health (ASH) recently **wrote**, “Nearly a decade after the Convention had come into force, only one country had implemented all these policies at the highest level, and 40% had implemented none.”

It is time to address the needs of smokers by stepping up harm reduction and smoking cessation. This will be done by engaging with all those who are committed to end the use of combustibles. That is the spirit of FDA's Scott Gottlieb and Mitch Zellers' latest **comments** on tobacco regulation guidance, in which they explicitly acknowledge the need for standards to “mutually benefit industry and the FDA.”

Senior global health leaders have started to acknowledge the importance of tobacco industry transformation and what it means for how we engage with the industry to build solutions. In the opening session of the preparatory meeting for the Third High Level Meeting of the General Assembly on Noncommunicable Diseases (NCDs) (held in New York on July 5, 2018), Sania Nishtar, a Co-Chair of the WHO Ad Hoc Commission on NCDs, **addressed** many technological innovations shaping the future of health care and added that “the private sector is aligning incentives to announce the end of cigarettes.” She went on to say that “attacking lifestyle choices, corporate interests, vilifying others, or creating an oversimplistic enemy narrative is not going to help.” ***I fully agree.***

Progress can and will be accelerated by technology disruption and by changing the very structure of the tobacco industry and nicotine ecosystem, starting with the biggest players. One significant, but rarely discussed reality is **China's** dominance as the major source of combustibles. Current data show that China National Tobacco Corporation accounts for approximately 38% of worldwide tobacco production by volume. The largest 15 producers account for about 86% of production globally.

China is well-positioned to assume leadership in industry transformation and develop reduced-harm products, relative to combustibles, and to displace combustibles. To borrow a Chinese saying, "We are all in the same boat in a tempest." If the Chinese were to embrace harm reduction across their vast monopoly, the global impact would be massive. I believe this is inevitable. China's leadership is sending the right signals about ending the use of the combustible motor engine. China is also home to where e-cigarettes were invented and where most are currently made. In January 2017, President Xi, **addressing** the World Economic Forum in Davos, made a powerful commitment to expand the use of technologies in the service of humankind. The health gains from expanding technology to end smoking would be massive.

WHAT SPECIFICALLY WILL THE FOUNDATION DO TO SUPPORT INDUSTRY-WIDE TRANSFORMATION THAT LEADS TO THE END OF SMOKING?

I hope you have noted our recently announced initiative to investigate biomarkers of exposure to nicotine-delivery products – for which a **Request for Proposals** has been issued. With better biomarkers of exposure, epidemiologists could evaluate the impact of new reduced-harm products faster and more effectively; researchers could report data, currently provided by self-reporting product users, in an unbiased manner; insurers could improve their underwriting to fully capture risk changes; and consumers could assess their changes in risk as they switch or quit.

We are investing in academic centers to plug deep gaps in human and institutional capacity to drive a 21st century technology-enhanced approach to ending smoking globally, and particularly across the developing world.

We will soon announce plans to stimulate the development of a pipeline of more effective and affordable smoking-cessation products needed in developing countries. Current cessation methods are simply not having the needed impact.

We have launched the first of regular polls to deepen our understanding of how to best help smokers quit or switch to reduced-harm products. We are now building a platform to dynamically interact with smokers, correct their misperceptions of risks, and provide them with solutions to quit or reduce their risks relative to smoking. These are all necessary measures, but together they remain insufficient to tackle the large opportunity of transforming the entire legacy tobacco sector.

Our first contribution to that vision is announced today. We must learn from other sectors and not solely rely on government-led actions. Voluntary industry-wide efforts that complement and, in some cases, lead government regulations are needed.

We launch a bold call for proposals to develop and implement the means to critically evaluate industry progress toward a smoke-free world and highlight actions undertaken by industries to undermine such progress. The aim of this initiative is to develop an annually published **Smoke-Free Index**[®]. We expect the successful grantees to take the following actions:

1. Provide quantifiable evidence of how companies are addressing or impeding transformation.
2. Collect and compile verifiable metrics on:
 - a. Research and development of reduced-harm products
 - b. Shifts in capital expenditures and marketing spending away from combustibles and towards reduced-harm products
 - c. Evidence of the phasing out of cigarette production – and much more
3. Monitor the extent to which the tobacco companies make reduced-harm products available and affordable – not only in high-income countries, but also in low- and middle-income countries. We applaud the Sustainability Accounting Standards Board (**SASB**) for producing a provisional standard and proposed changes for sustainability accounting for the tobacco industry – but we are going much farther.

By undertaking this program, we are building on insights gained from related approaches that are underway in the pharmaceutical and food industries, and from the **Climate-related Task Force I** referred to earlier. Their insight that current valuations of the energy and gas sectors undervalue long-term climate risks is analogous to the way investors and asset managers undervalue the massive health risks associated with smoking and undervalue the opportunities for continued profitability through transformed business models.

Successful grantees will engage in a series of **listening seminars** in multiple countries with various stakeholder groups: tobacco control groups; investors; academics; policy-makers; and NGOs – to seek input toward the development of the Smoke-Free Index process design.

We recognize the need for the tobacco industry and other industries with material interests in ending smoking to be consulted in the development of the **evaluation criteria**. There is a need to hold them accountable for data transparency and ensure the methodology is sound, realistic, and current. We expect that oversight will be led by senior and seasoned investors, academics, and tobacco control experts who are **independent** from both the Foundation and the tobacco industry.

HOW DOES THIS DIFFER FROM APPROACHES CARRIED OUT UNDER THE UMBRELLA OF “INDUSTRY INTERFERENCE” LED BY WHO AND BY BLOOMBERG PHILANTHROPIES’ STOP INITIATIVE?

While we agree with WHO and the STOP campaign about the need to call out what is unacceptable in clear and vocal ways, our approach includes the following:

1. We value open and wide dialogue over exclusion.
2. We expect grantees to evaluate and index all major manufacturers of combustibles in their assessment. Our review of media coverage of “industry interference” over the last 6 months showed that 90% of coverage addressed 4 tobacco companies whose combined sales account for somewhat more than a third of world cigarette output. Ten percent of coverage addressed 10 other tobacco companies and entities that sell the remaining roughly two-thirds of cigarettes. Global coverage is critical if we are to achieve global impact.
3. We will encourage use of a systematic approach to collecting verifiable data and specific examples of illegal actions or actions that are incompatible with good corporate practices.
4. We will use the WHO FCTC definition of tobacco control to guide the scope of work.

There are too many daily stories of what any reasonable person would consider unacceptable. Let me highlight just three, each addressing very different issues. (1) HM Sampoerna (owned by PMI) markets cigarettes to young people in Indonesia through social media and live **concert** sponsorship, despite a government ban on such practices. This action is in a country that has among the highest smoking rates for men in the world. (2) Reemstma (owned by Imperial Brands) is **rallying** tobacco companies in Germany to explicitly oppose a smoke-free future in favor of maintaining the *status quo*. A coalition in support of a smoke-free future should actively oppose this. (3) ITC (an Indian tobacco company) and other manufacturers either maintain silence on, or possibly support, the Indian Federal government **advisory** to states to ban reduced-harm products, knowing this will lead to continued smoking of combustible cigarettes and bidis. This is possibly the tip of the iceberg of ways in which some tobacco companies are using protectionist pressures to block health gains that would be possible through harm reduction.

This forum includes several major tobacco manufacturers. Let me challenge you to do more across the tobacco industry. Some of you have explicitly committed to ending the sale of combustible cigarettes or, at least, to accelerate access to a portfolio of reduced-harm products. However, each company has made its pledges individually. We have yet to hear a consolidated voice from the tobacco industry worldwide committing to end the sale of combustibles. **Tobacco companies’ leverage in the market to assert greater influence on each other to act more decisively to end the use of combustible cigarettes globally is long overdue – especially in developing countries.**

I worked towards industry-wide agreement among the top 10 food multinationals as they tackled global marketing to kids and product transformation together. A few forward-thinking CEOs played decisive roles in cajoling their competitors to do so. They knew that was needed to prevent those making changes for good from being competitively disadvantaged by laggards in the industry. Governments take years to implement regulations. You, in industry, could implement voluntary actions faster and more decisively if you, all together, took bold steps. We will employ the Smoke-Free Index to objectively measure your actions against your words on an annual basis, creating a scorecard through which your progress – or lack thereof – can be fairly evaluated by all.

Today is exactly one year since I stood before you in New York as we launched the Foundation. We are now geared up and ready to invite all stakeholders who have an interest in ending smoking, ***including our critics***, to join us in this unprecedented effort to objectively measure progress, enforce accountability, and incentivize transformation toward a world free from combustible tobacco – a smoke-free world.