

SEPTEMBER 2020

# 2020 INDEX

## Executive Summary

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**The World Health Organization (WHO) estimates there are at least 1.1 billion smokers globally and more than eight million people die from tobacco-related causes each year.<sup>1</sup> While decades of sustained international effort, including the ongoing implementation of the WHO Framework Convention on Tobacco Control (FCTC), have helped to produce a gradual decline in smoking rates in many parts of the world, overall progress remains frustratingly slow.**

To accelerate progress, we need new strategies and tools to complement ongoing tobacco control efforts. In particular, a concerted effort to transform the global tobacco industry via a strategy of tobacco harm reduction could reduce users' current health risks and eventually help them to stop smoking entirely. This could in turn help drive cigarettes and other high-risk tobacco products out of the market, and improve and prolong hundreds of millions of lives.

Some tobacco companies already claim to support this agenda, but stakeholders are understandably skeptical of their motives or whether they will genuinely follow through. Other companies either haven't taken a position or are working to preserve the status quo. The Tobacco Transformation Index seeks to influence and hold companies accountable by objectively evaluating their commitments and actions on tobacco harm reduction.

Specifically, the Index assesses tobacco companies' activities concerning:

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

This report outlines the results of the first edition of the Tobacco Transformation Index, including overall key findings and detailed analysis of company rankings in each of its six measurement categories. It also provides individual profiles and summary results for each of the 15 companies in the index scope, which account for approximately 90% of current global tobacco product volume sales.<sup>2</sup> The 2020 index also references relevant circumstances and company activities in 36 countries accounting for approximately 85% of current global sales and consumption of tobacco products.<sup>3</sup> (Individual country fact sheets have been published alongside the index at [tobaccotransformationindex.org](https://tobaccotransformationindex.org).)

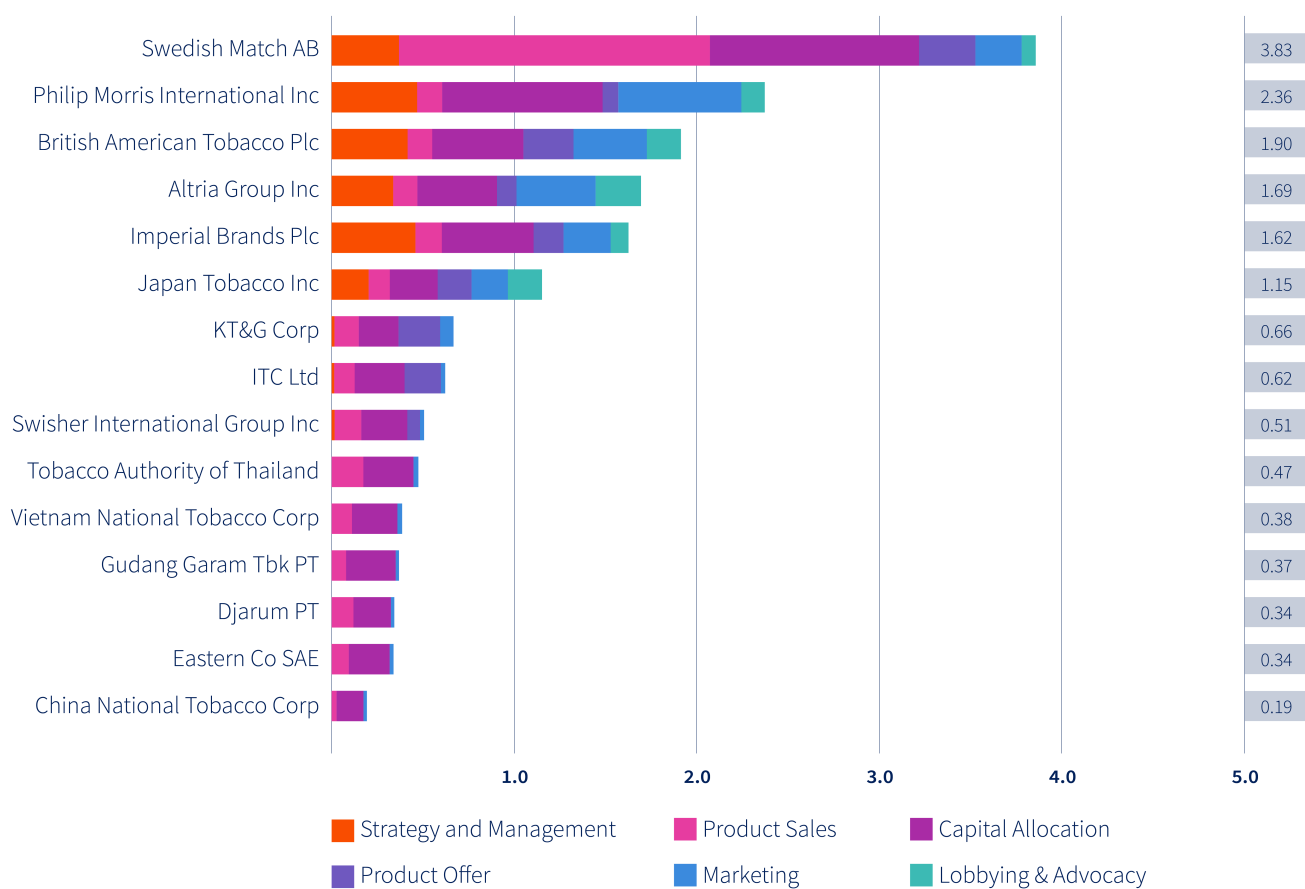
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<sup>1</sup> WHO. (2019). WHO Global Report on Trends in Prevalence of Tobacco Use 2000-2025. 3rd ed. Geneva, Switzerland.

<sup>2</sup> Euromonitor International. (n.d.). Euromonitor's Passport Tobacco Database. <https://www.euromonitor.com>

<sup>3</sup> Ibid.

## Overall Index Ranking



# Overall Key Findings

## KEY FINDING 1

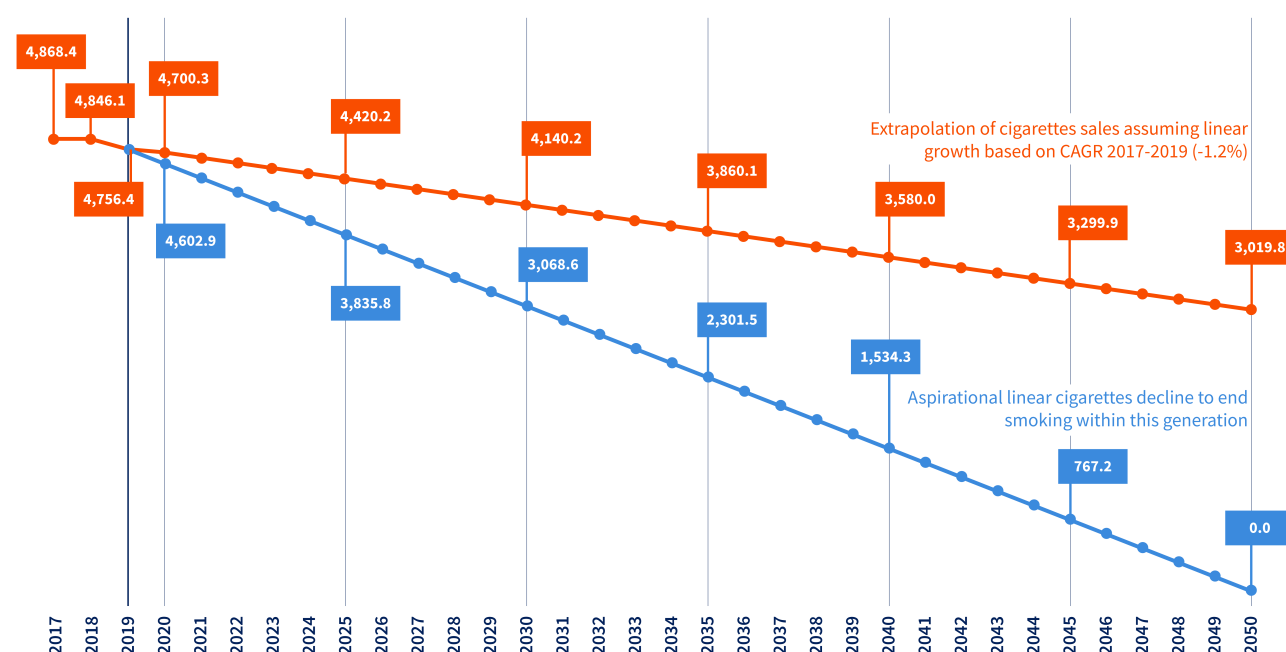
### Harm reduction progress is extremely limited. The tobacco industry is not phasing out cigarettes or transitioning smokers to reduced-risk alternatives quickly enough.

The 15 companies assessed by the 2020 index achieved only a marginal decline in cigarette sales, from 4.9 trillion to 4.8 trillion sticks (-1.2% CAGR) globally, during the review period of 2017-2019.<sup>4</sup> At this rate, it will take decades to eliminate smoking, meaning many more smokers will die and society will continue to bear the dire health and economic consequences of high-risk tobacco consumption.

While cessation remains the best overall course for improving the health of smokers, reduced-risk alternatives represent a crucial pathway for transitioning consumers away from high-risk products. However, in 2019, the global share of reduced-risk products accounted for only 3% in value and 2% in volume of overall tobacco and nicotine-related sales for the 15 companies in the index.<sup>5</sup> This underscores how far the industry still has to go to meaningfully contribute to tobacco harm reduction.

#### At the present rate of decline, sales of high-risk tobacco products will remain a significant global problem for decades to come.

##### 2017-2019 Cigarettes Volume Sales Globally (Billion Sticks) and Extrapolation of Future Data Based on Linear Growth



**Source:** Tobacco Transformation Index based on estimations of company data derived from publicly available resources (including company financial and sustainability reports, quarterly and half-year updates, press releases, investor briefings, and company presentations); industry and financial databases (Passport, Orbis, and Capital IQ); interviews with industry experts.

**Note:** Please note that data refer only to the 15 companies in the Index scope.

\* 2019-2050 CAGRs for cigarettes volume sales calculated assuming linear growth, based on historic 2017-2019 period performance.

<sup>4</sup> Estimate from Tobacco Transformation Index research.

<sup>5</sup> Ibid.

## KEY FINDING 2

# A small group of companies have made public commitments to harm reduction, but none have shifted their focus enough to ensure the accelerated decline of cigarettes and other high-risk products.

Six of the 15 companies evaluated have acknowledged their role in tobacco harm reduction and made commitments to tackle the challenges of tobacco-related death and disease. However, these companies have so far failed to shift a significant share of their sales towards reduced-risk products. In 2019, only two companies achieved more than a single-digit share of total sales from reduced-risk products, while other companies offering reduced-risk products averaged only 3%.<sup>6</sup>

Top-ranked companies do appear to be shifting more financial resources towards reduced-risk products, in the form of research and development (R&D), mergers and acquisitions (M&A), and capital expenditures. However, many companies continue to invest heavily in marketing of high-risk products. Among the six companies claiming commitments to harm reduction, between 30-55% of their marketing budgets are still devoted to high-risk products.<sup>7</sup>

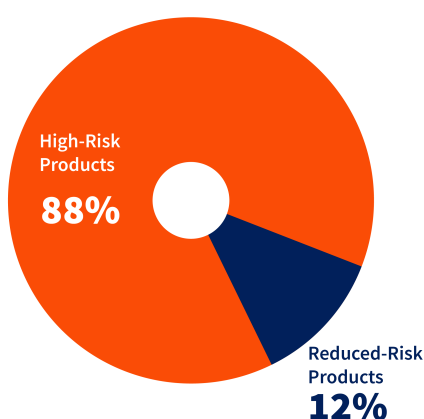
These figures show that, despite their commitments, even the highest-ranked companies have much more to do to translate their harm reduction strategies into meaningful results.

## A small number of companies are shifting resources towards development of reduced-risk products, but also continue to spend significant amounts on high-risk products.

Average Share of Net Value Sales, Capital and R&D Investments, and Marketing Expenditure of Reduced vs High-Risk Products for the Six Companies Claiming Commitment to Harm Reduction (Altria, BAT, Imperial, JTI, PMI, and Swedish Match)

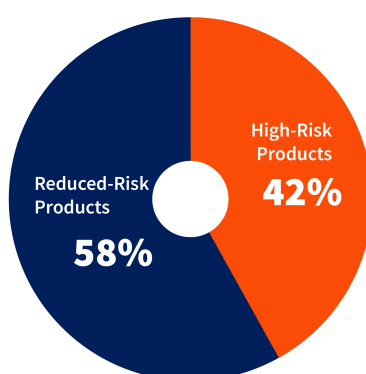
### Net Value Sales

In 2019



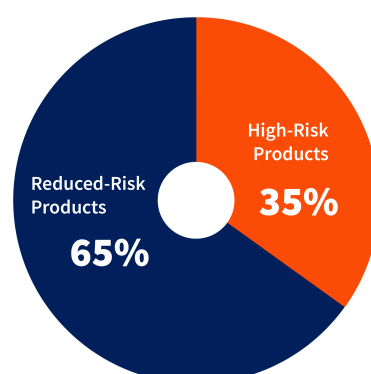
### Marketing Investment

Over 2017-2019



### Capital and R&D Investment

Over 2017-2019



**Source:** Tobacco Transformation Index estimates derived from publicly available sources (including company financial and sustainability reports, quarterly and half-year updates, press releases, investor briefings, and company presentations); industry and financial databases (Euromonitor International's Passport databases, Orbis, and Capital IQ); and interviews with industry experts.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

### KEY FINDING 3

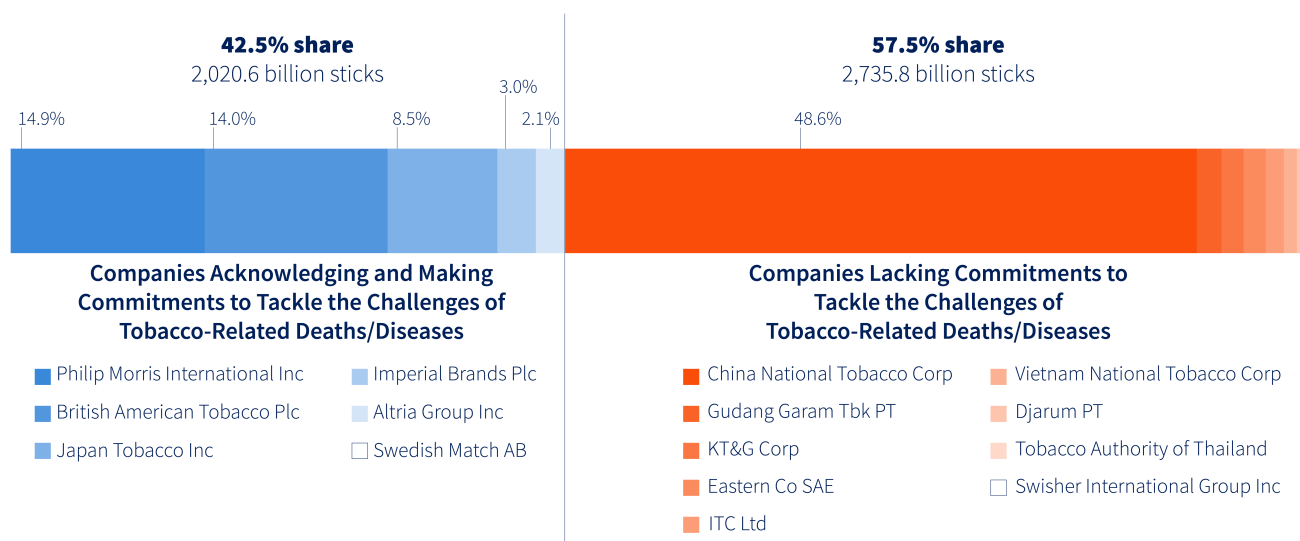
## The majority of companies have not made any commitment to harm reduction and/or continue to set targets to increase sales of high-risk tobacco products.

Nine of the 15 companies fail to acknowledge any role in tackling the challenges of tobacco-related death and disease, and have made no explicit commitment to harm reduction. Collectively, these companies account for almost 60% of global cigarette volume sales and dominate in low- and middle-income countries, where the highest number of smokers live.<sup>8</sup> China National Tobacco Corp (CNTC) alone sells nearly half (48.6%) of the cigarettes associated with companies in the index, meaning that even modest efforts could translate into a significant reduction in overall tobacco-related harm globally.<sup>9</sup>

Three of these companies – CNTC, Eastern Co SAE, Vietnam National Tobacco Corp (Vinataba) – also continue to set targets to increase sales of high-risk tobacco products. This reflects the fact that many companies remain solely focused on cigarettes and other high-risk products. Similarly, although KT&G Corp and Swisher International Group Inc have made investments in reduced-risk alternatives, their efforts to further grow their traditional high-risk tobacco businesses demonstrate that they have not yet fully embraced the goal of harm reduction or transitioning consumers away from high risk products.

### Nine of 15 companies have not made any commitment to tobacco harm reduction.

2019 Global Share of Cigarettes Volume Sales (%) and Commitments to Tackle the Challenges of Tobacco-Related Deaths/Diseases



**Source:** Tobacco Transformation Index assessment based on estimations of company data derived from publicly available sources (including company financial and sustainability reports, quarterly and half-year updates, press releases, investor briefings, and company presentations); industry and financial databases (Euromonitor International's Passport, Orbis, and Capital IQ); and interviews with industry experts as well as the review of available information coming from a company's websites, formal financial and non-financial reporting such as annual CSR or sustainability reports, as well as other documents such as press releases, codes of conduct, policies, values, guidelines, and FAQs.

**Note:** Please note that data refers only to 15 companies in the index scope.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

## KEY FINDING 4

# The highest-ranked companies in the index are mostly publicly traded multinationals, while private and state-owned companies lag behind.

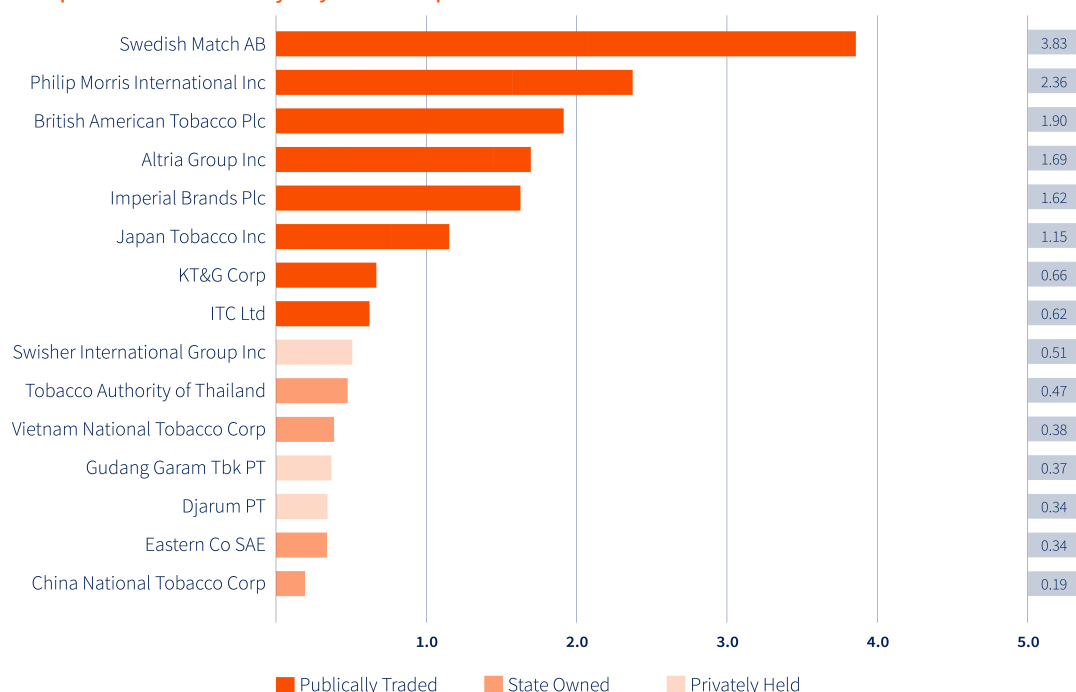
The six companies at the top of the ranking are all publicly traded and therefore subject to more reporting requirements and scrutiny from investors and other stakeholders. Most also operate across multiple markets with differing regulations and other dynamics affecting industry competition and consumer preferences. Together, these factors compel higher levels of transparency and may also encourage greater responsiveness to tobacco harm reduction.

In comparison, private companies do not have the same imperative to attract or retain investors, or to respond to external inquiries or pressure related to the evolution of their businesses. And state-owned companies are subject to even more unique influences. Of the six companies with some degree of state ownership in the index, five – CNTC, Tobacco Authority of Thailand (TOAT), Vinataba, ITC Ltd, and Eastern – are in the lower half of the Index rankings.

Differing ownership structures create different incentives for companies in relation to tobacco harm reduction. However, the ongoing crisis of tobacco-related death and disease demands a response from the entire industry. Private and state-owned companies in particular should be called upon to do more, and should voluntarily disclose more details to inform their stakeholders.

## The highest-ranked companies in the index are mostly publicly traded multinationals, while private and state-owned companies lag behind.

### Companies' Score and Majority Ownership



**Details on ownership:** Eastern Co SAE is 50.5% owned by the Egyptian Ministry of Investment; Gudang Garam Tbk PT is 75.5% owned by the Wonowidjojo Family; ITC Ltd is publicly traded but state enterprises own 24.2% of the company; Japan Tobacco Inc is publicly traded but the Government of Japan owns 33.3% of the company.



## KEY FINDING 5

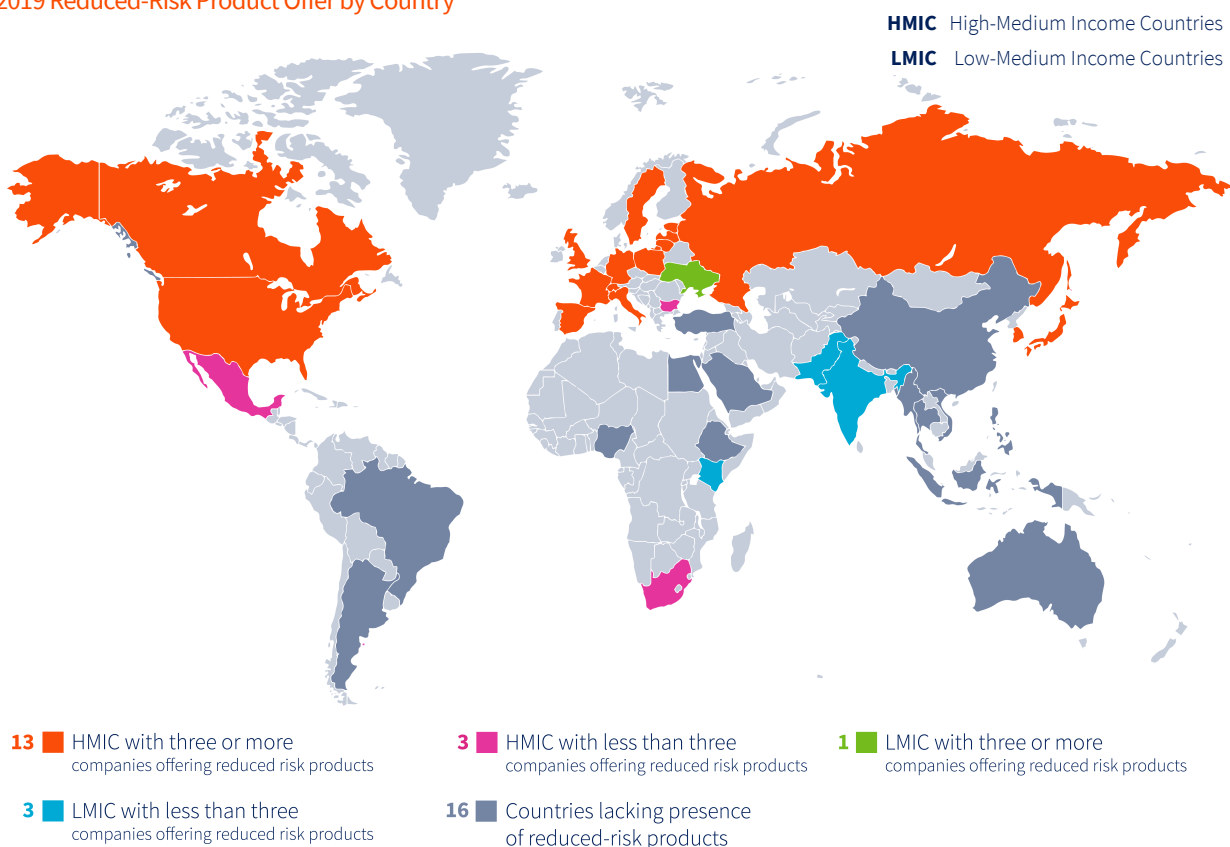
# Tobacco companies are focusing most of their reduced-risk product efforts on higher-income countries, while high-risk product sales in lower-income countries continue to grow.

Companies that offer reduced-risk products are mostly focusing their efforts on selected high-medium income countries, where overall smoking rates are lower and cigarette sales are already declining. Three large multinationals – British American Tobacco Plc (BAT), Japan Tobacco Inc (JTI), and Philip Morris International Inc (PMI) – collectively offer reduced-risk products in 15 of the high-medium income countries in the index scope. However, their reduced-risk alternatives reach just three low-medium income countries.

While there may be legitimate business reasons for this discrepancy, by allowing it to persist, companies risk the impression that they are merely being opportunistic or are not truly committed to tobacco harm reduction. In order to meaningfully displace cigarettes and other high-risk products, it is essential that companies' harm reduction efforts address all markets, especially those where the largest proportion of the world's smokers live and harm reduction could have the greatest impact.

## Tobacco companies are focusing most of their reduced-risk product efforts on higher-income countries.

### 2019 Reduced-Risk Product Offer by Country



**Source:** Tobacco Transformation Index estimates derived from publicly available resources (including company financial and sustainability reports, quarterly and half-year updates, press releases, investor briefings, and presentations); interviews with industry experts and in-country research.

**Note:** Please note that data refer only to the 36 countries in the index scope.



## KEY FINDING 6

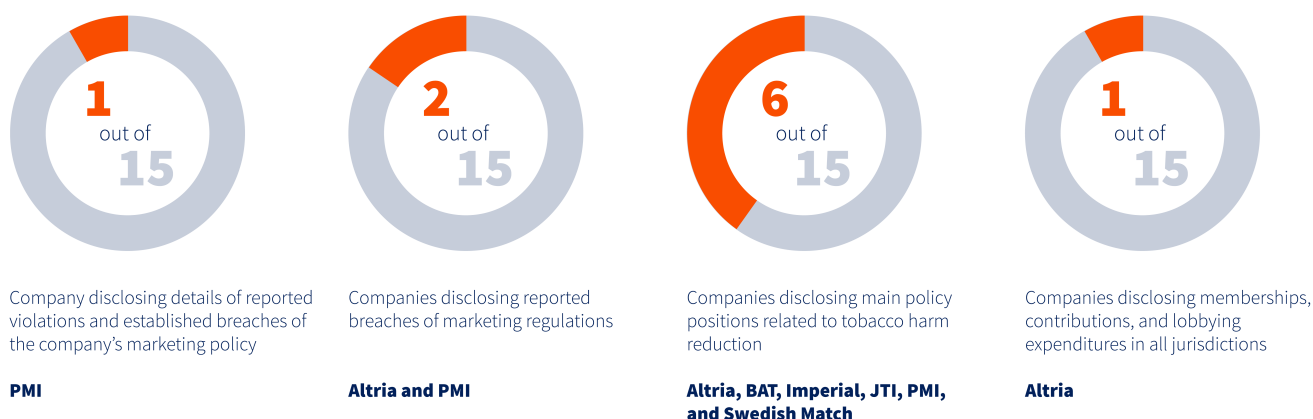
# Better disclosure and greater overall transparency are needed.

Lack of trust in the tobacco industry's actions and motivations, and the fast-changing nature of tobacco-related science, politics, and competition, mean that transparency is essential for tobacco harm reduction to be effectively implemented and evaluated. In general, companies should be disclosing as much detail as possible concerning their relevant policies, strategies, and performance, as well as their stances on and responses to public policy and other external factors influencing the trajectory of tobacco harm reduction.

There is currently a significant lack of disclosure with only six of the 15 companies covered by the index scoring points for transparency indicators. BAT and PMI each scored 57% of the points available, Altria Group Inc reaches 50%, while Imperial Brands Plc, JTI, and Swedish Match AB each score 40%.<sup>10</sup>

### Few companies provide adequate disclosure for stakeholders to monitor and evaluate their approach to harm reduction.

#### Summary of Companies' Disclosures Concerning Marketing and Lobbying and Advocacy



**Source:** Tobacco Transformation Index estimates based on the review of available information from company websites, formal financial and non-financial reporting such as annual, CSR or sustainability reports, plus policies, commitments, statements, such as those related to a company's policy commitments. These could be codes of conduct, policies, values, guidelines, FAQs and other related documents.

<sup>10</sup> Estimate from Tobacco Transformation Index research.