



Philip Morris International  
Lausanne  
Switzerland  
May 25, 2020

Dear Sir / Madam

**We agree: When it comes to tobacco and Philip Morris International, actions speak louder than words.**

I write in response to the recent [article](#) in Responsible Investor by Alan J. Brown and Dr. Rachel Melsom, regarding Philip Morris International (PMI) and our Statement of Purpose<sup>1</sup>. I write both to correct factual errors made by Mr. Brown and Dr. Melsom in their comments, but also in the spirit of fostering dialogue among all those passionate about advancing socially responsible investing. Solution-driven discussions are quite naturally rooted to a large degree in healthy skepticism; however, such skepticism cannot exclude facts and must embrace an often-intense debate amongst all actors willing and able to put solutions on the table.

While PMI is widely known as a cigarette company, in 2016 we announced our new purpose: to deliver a smoke-free future by focusing our resources on developing, scientifically substantiating, and responsibly commercializing smoke-free products – such as *IQOS* - that are less harmful than continued smoking, with the aim of completely replacing cigarettes as soon as possible. The burning of tobacco produces the vast majority of harmful chemicals in cigarette smoke, and by eliminating the burning process – as is the case with smoke-free products – the levels of harmful chemicals generated can be significantly reduced compared with cigarette smoke. Whether a product reduces emissions of harmful chemicals compared to cigarette smoke has to be scientifically assessed for each product.

Based on the totality of available scientific research, we are convinced that switching completely to *IQOS*, although not risk-free, is a better choice for existing adult smokers than continuing to smoke cigarettes. More than 30 studies around the world conducted by third-party independent labs, public health authorities, and government authorities, verify these important elements of PMI's scientific findings (which is also public information and freely available on [www.pmiscience.com](http://www.pmiscience.com)).

Contrary to Mr. Brown and Dr. Melsom's claim, the U.S. Food and Drug Administration (FDA) has yet to make a decision on PMI's modified risk tobacco applications (MRTPAs) for *IQOS*, which will determine whether we will be able to market the product in the U.S. with risk-related messages in our communication with U.S. consumers<sup>2</sup>. It seems Mr. Brown and Dr. Melsom are confusing, either accidentally or deliberately, a January 2018 public meeting of the FDA's Tobacco Products Scientific Advisory Committee, which extensively discussed a number of issues regarding our MRTP application. To be clear, the Committee's considerations are recommendations made to the FDA and are non-binding.

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<sup>1</sup> The authors are referring to the open [letter to shareholders signed by PMI's Board of Directors](#), as part of PMI's [2020 Proxy Statement](#).

<sup>2</sup> See the FDA's [press release on 30 April 2019](#), where the FDA stated: "Additionally, today's action is not a decision on the separate modified risk tobacco product (MRTP) applications that the company also [submitted for these products](#) to market them with claims of reduced exposure or reduced risk."



Separately and independently of the MRTPA process, the FDA authorized *IQOS* for sale in the U.S. through the agency's pre-market tobacco authorization pathway in April 2019. To do so, under U.S. federal law, the agency had to conclude that the commercialization of *IQOS* would be "appropriate for the protection of public health". In the FDA's own words, among several key considerations that led it to authorize the sale of *IQOS*, "the products produce fewer or lower levels of some toxins than combustible cigarettes", although the FDA was also clear that while the decision "permits the tobacco products to be sold in the U.S., it does not mean these products are safe or 'FDA approved.' All tobacco products are potentially harmful and addictive and those who do not use tobacco products should continue not to." The FDA's decision marked the first – and, to date only – time an electronic smoke-free product had cleared the rigorous pre-market evidence review process in the U.S. The FDA is continuing its substantive scientific review of our MRTPAs.

Another area where the authors appear to find inconsistencies between our words and actions concerns our ongoing business in cigarettes. The reality of major business transformations is that they are not achieved in the short-term, and while our intention is to one day no longer sell cigarettes, the reality is that today we still compete in the cigarette business, and we have always been completely transparent about that.

As we continue to transform, one of our key transformational challenges concerns deciding how to compete within the cigarette market while simultaneously disrupting it with our smoke-free products. To be clear, we did not launch a new cigarette brand in 2018 in Indonesia: the cigarette brand Mr. Brown and Dr. Melsom referred to (Philip Morris Bold) was the rebranding of an existing product with 0.3% market share. It was part of our ongoing work around the world to shift significant amounts of commercial spending from cigarettes to smoke-free products. In that context, we streamlined our cigarette portfolio to focus on fewer brands and variants, reducing the global number of SKUs by over 700 in the last four years.

What is perhaps difficult for some to reconcile is how our objective to completely replace cigarettes with smoke-free alternatives is best served by maintaining our competitive position in the declining cigarette market. This allows us to generate the cash flows needed to continue investing in scientific research, product innovation and the commercialization of better alternatives. Moreover, it is precisely this leadership within the cigarette segment that enables us to engage more smokers regarding the benefits of switching, especially where we can communicate directly with our consumers (for instance through cigarette pack inserts).

While seeking to remain competitive in the cigarette segment in an efficient way, we give careful consideration to the coherence of the commercial activities needed to do so, such as selecting new product launches in response to changing consumer preferences or the actions of our competitors. We strive to make these decisions based on consumer insights, and responsible practices, and are guided by a clear principle: our decision to launch a new product in the combustible segment should not hinder the realization of a smoke-free future.

Our ambition is that by 2025, at least 40 million PMI cigarette smokers will have switched to smoke-free products. Indeed, actions speak louder than words, and in order to make the progress of our transformation both measurable and verifiable, we introduced a set of bespoke KPIs called [Business Transformation Metrics](#), in 2016, upon which we report periodically.



In 2019, 98 percent of our R&D expenditure and 71 percent of our global commercial expenditure had already been dedicated to our smoke-free products, which last year represented 18.7% of our global revenue and 7.6% of our sales volume. We are convinced that it is possible to completely end cigarette sales in many countries within 10 to 15 years, but for that to happen, manufacturers, governments, and public health stakeholders need to commit to making this a reality and act accordingly.

There is a robust debate in the investment community about the relative merits of exclusion, sometimes requiring divestment (versus engagement) as a strategic way to drive change and create positive impact. The initiative Dr. Melsom represents, Tobacco Free Portfolios, envisages a world free from tobacco, addressed directly through financial divestment from tobacco. Their theory of change rests on depriving tobacco companies (and those who do business with them) of the capital they need.

I understand where this reasoning is coming from: according to the [World Health Organization](#) (WHO), more than eight million people will die each year from smoking, or exposure to it. Addressing the well-known harms associated with cigarette smoking is a massive global health challenge, and the investor community – an important stakeholder – can certainly play a role in helping to resolve it.

However, exclusion/divestment as a strategic way to drive impact through investing does not capture the power of the process to make true change happen. Negative screening, exclusion, and/or divestment do little to incentivize companies and industries to effect positive change, or more importantly, to encourage change in consumer behavior. The reality is that the total number of smokers is expected to remain relatively stable at around 1.1 billion through 2025, according to the World Health Organization.

For those who believe that everything possible should be done to eliminate cigarette smoking, engagement with tobacco companies, starting with the only one who has committed to replacing cigarette sales with smoke-free products as soon as possible (and reporting on it rigorously and transparently) is not only essential, but urgent.

Exclusion rarely drives advancement. Making cigarettes obsolete can be achieved much more rapidly through inclusivity and openness. Our goals are really not that different and that is where the potential for creating impactful change lies: working together towards making the world smoke-free.

Huub Savelkouls

Chief Sustainability Officer

Philip Morris International