

Lausanne, September 06, 2021

To: Mr. Gary Retelny, President & CEO, Institutional Shareholder Services, Inc. (ISS)  
Ms. Georgina Marshall, Global Head of Research, ISS

From: Emmanuel Babeau, Chief Financial Officer, Philip Morris International (PMI)<sup>i</sup>

Dear Mr. Retelny and Ms. Marshall,

I write regarding your May 28, 2021, publication, "[On World No Tobacco Day, ISS ESG Deciphers the Contrasting Narratives Around Heated Tobacco Products](#)" (the "**Article**"). This letter endeavors to bring to your attention several points that I believe merit clarification. I hope it can help ensure that a respected advisor to financial institutions and corporates like ISS continues to maintain a fact-based and objective approach to its research and publishing, thereby avoiding the risk of misinforming or misleading its clients.

The Article wrongly states that, "*the USFDA's granting of a marketing authorization order to a heated tobacco product as a Modified Risk Tobacco Product has generated confusion regarding the 'reduced harm/risk' label*" further elaborating that, "*while the tobacco industry portrays the USFDA ruling as a victory for HTPs, the discussion is more nuanced. The industry failed to achieve its intended objective in the USFDA MRTP application, which was to acquire the 'risk modification' standard for HTPs.*" This statement closely echoes several highly partial articles<sup>123</sup> authored solely by individuals funded by Bloomberg Philanthropies' Stopping Tobacco Organizations and Products<sup>4</sup> who have a vested interest in sowing the very confusion they speak about.

Contrary to the assertions in the Article, there is no confusion, and the terms of the FDA orders are crystal clear.

On July 7, 2020, the U.S. Food and Drug Administration (FDA) authorized a version of IQOS, PMI's Heated Tobacco Product, as a Modified Risk Tobacco Product (MRTP) permitting reduced exposure claims<sup>5</sup> after a multi-year scientific review of over a million pages of scientific evidence by their experts. They found that the product and the authorized messages meet the statutory standard of being "*appropriate to promote the public health*" and are "*expected to benefit the health of the population as a whole taking into account both users of tobacco products and persons who do not currently use tobacco products.*"

FDA determined that the *available evidence to date* permits the following information to be communicated to adult smokers in the United States:

- *"The IQOS system heats tobacco but does not burn it*
- *This significantly reduces the production of harmful and potentially harmful chemicals*
- *Scientific studies have shown that switching completely from conventional cigarettes to the IQOS system significantly reduces your body's exposure to harmful or potentially harmful chemicals".*

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<sup>1</sup> <https://www.bmj.com/content/370/bmj.m3528>

<sup>2</sup> <https://tobaccotactics.org/wiki/pmi-iqos-fda-mrtp-order/>

<sup>3</sup> [https://exposetobacco.org/wp-content/uploads/STP054\\_FDA\\_IQOS\\_Brief\\_v3.pdf](https://exposetobacco.org/wp-content/uploads/STP054_FDA_IQOS_Brief_v3.pdf)

<sup>4</sup> Our responses to some of these articles are available on our website under the title '[Prohibition at any cost](#)' including three responses from Dr. Moira Gilchrist, Vice President, Strategic & Scientific Communications, Philip Morris International, to STOP - <https://www.pmi.com/our-initiatives/prohibition-at-any-cost>.

<sup>5</sup> <https://www.fda.gov/tobacco-products/advertising-and-promotion/modified-risk-orders>

FDA authorized *IQOS* because—in its own words<sup>6</sup>, and in the words of the statute—“*the available evidence, [without conducting long-term epidemiological studies], demonstrates that a measurable and substantial reduction in morbidity or mortality among individual tobacco users is reasonably likely in subsequent studies.*” Importantly, FDA could not have issued their authorization based on the mere possibility that *IQOS* would meet this criteria in the future. Scientific evidence plainly shows that smoking-related diseases take many years to manifest themselves. Similarly, it is reasonable to assume that it may take many years for the benefits of completely switching from cigarettes to a product that reduces exposure to the harmful chemicals that cause those diseases to become apparent and to be measurable.

FDA is clear—as are we—that reduced exposure to harmful chemicals does not render the *IQOS* Tobacco Heating System safe or harmless. Nevertheless, with their authorization, they have explicitly permitted that exposure reduction information be made available to U.S. adults who smoke.

The Article cites a “*Mounting Body of Evidence*” that FDA’s MRTP authorization allowing reduced exposure claims “*should not necessarily be regarded as a vote of confidence*” and goes on to list a number of studies published in the scientific literature. Of note, all but one of these studies were authored by individuals from the University of California at San Francisco, a highly partial institution with well-known anti-tobacco and anti-tobacco industry leanings. The Article mischaracterizes the evidence regarding *IQOS*/heated tobacco products, including reliance on studies related to harmful and potentially harmful constituents (HPHCs), “HeatStick” charring, and cardiovascular disease risk. PMI has publicly responded to several of the studies cited in the article on [PMIScience.com](https://www.pmiscience.com) (e.g., on HPHCs [here](#), on charring of “HeatSticks” [here](#), and on cardiovascular disease risk [here](#) and [here](#).) Importantly, all the evidence cited in the Article was available to the FDA before it decided to authorize *IQOS* as a Modified Risk Tobacco Product allowing reduced exposure claims. It’s concerning that the authors of the Article appear to have placed more emphasis on the partisan views of anti-tobacco campaigners, than on the publicly documented findings of a highly respected U.S. government agency.

The Article fails to mention the growing body of other independent studies related to *IQOS*<sup>7</sup> which support key elements of our own science, including from other national government agencies<sup>8</sup>. Regrettably, this omission misleadingly portrays the state of the scientific evidence regarding *IQOS*, as well as FDA’s evaluation of that evidence.

The Article suggests that “*the rejection of the ‘reduced risk’ label is gathering momentum among regulatory bodies and independent product research,*” without providing any reference in support. In fact, this assertion is not supported by the facts. It would be correct to state that several countries around the world do not support tobacco harm reduction in their national regulation and therefore ban the marketing and sale of heated tobacco products and e-cigarettes, whilst allowing the sale of cigarettes. However, it is not correct to state that rejection of harm reduction, and therefore heated tobacco products like *IQOS*, is “*gathering momentum.*” As an example, as recently as May 25, 2021, the Philippines House of Representatives passed a Bill (with 192 supporting versus 34 opposing) that recognizes harm reduction measures as a public health strategy, and would permit the sale of Heated Tobacco Products if passed by the Senate<sup>9</sup>.

I note, with the greatest of respect, that the Article was authored by individuals who do not appear to have any scientific training or credentials, raising doubts about their ability to accurately and fairly assess all of the available evidence. Incomplete and inaccurate research may do a disservice to your clients, who are also our current and potential shareholders. What is perhaps most troubling is that, in seemingly repeating, and relying so heavily on, the positions of deeply biased anti-tobacco organizations and individuals, ISS has allowed itself to become entangled in a highly politicized debate that is neither centered on facts nor science. ISS appears to have lent its name and platform to amplify a one-sided message apparently without properly informing itself on or representing the totality of evidence. Investors, including PMI’s own shareholders, count on the neutrality

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<sup>6</sup> <https://www.fda.gov/media/139796/download>

<sup>7</sup> <https://www.pmiscience.com/whats-new/independent-studies>

<sup>8</sup> <https://www.pmiscience.com/whats-new/government-health-authorities-perspectives-on-heated-tobacco-products>

<sup>9</sup> <https://mb.com.ph/2021/05/25/house-approves-vaporized-nicotine-product-bill/>

of proxy advisors like ISS as part of their role and professional mandate. Yet the article appears to depart from neutrality when it questions PMI's worth as an investment regarding both values and value-at-risk strategies, based on a misleading construct.

Cigarette smoking causes serious disease and the best way to avoid the harm of smoking is never to start or, for those who do smoke, to quit. However, it is important to recognize that hundreds of millions of adult smokers will not stop smoking unless presented with a better alternative to continued smoking. Combined with existing measures to discourage initiation and encourage cessation, product innovation has the potential to benefit smokers and consequently have a positive impact on public health. Our priority is to address the health impacts associated with smoking by encouraging adults who would otherwise continue to smoke to switch to better, science-based alternatives, ultimately phasing out cigarettes.

Deceived by the partisan views of a few, the Article seems to miss the most important point, which is that to end smoking, and thereby address associated health impacts, our company can play a very important role by (1) developing and commercializing scientifically substantiated products that represent a better alternative than continued smoking; (2) providing broad access and accurate information to those adults who continue to smoke, to ensure these better products accelerate the decline of smoking prevalence around the world; and (3) simultaneously working to phase out cigarettes, ensuring that these products ultimately replace them for those adults who do not quit. This is the most important contribution we can make to public health and is indeed the cornerstone of our purpose and business strategy.

Allow me to conclude by referring to the article's mention of Dr. Bronwyn King AO, Founder & CEO of [Tobacco Free Portfolios](#), noting that a supposed, *"uplift in sustainable finance has seen tobacco-free exclusions widely adopted by mainstream financial institutions."*

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 positive impact. The initiative Dr. King represents envisages a world free from tobacco, addressed directly through financial divestment from tobacco. Its theory of change rests on depriving tobacco companies (and those who do business with them) of the capital they need.

We understand the origin of this reasoning. According to the World Health Organization (WHO), approximately 7 million people will die each year from smoking-related diseases. Addressing the well-known harm 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, financial exclusion/divestment as a strategic way to drive impact fails to capture the power the investor community has in terms of making 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 WHO. For those who believe that everything possible should be done to eliminate cigarette smoking, engagement with tobacco companies, starting with PMI as the only one who has committed to completely phase out cigarettes, and report on it rigorously and transparently, is not only essential, but urgent.

The authors of the Article appear to have largely based their analysis (and even some specific language) on the positions taken by organizations such as STOP and the WHO, who are ideologically opposed to industry transformation and tobacco harm reduction. The actions of these Bloomberg-funded organizations in calling for better alternatives to be banned or treated like cigarettes, risks perpetuating the status quo to the detriment of adult smokers and public health more generally. It's a great pity that the Article neither challenged these views, nor gave more balance and perspective to the debate, which would have allowed investors to judge for themselves what the best way forward is.

Nevertheless, PMI remains willing and open to engaging with you and your colleagues on these complex topics in the future. On this occasion, the authors of the Article failed to take a seemingly obvious, important and necessary step, and could easily have contacted us for comment prior to publication given that the Article was only about PMI. This would have greatly improved the overall accuracy and balance of the Article and thus better informed (and arguably not misinformed) ISS's clients, adults who smoke, and stakeholders more generally.

If we want to accelerate a smoke-free future and see the ultimate end of cigarettes, it's critical that inclusive conversations with all relevant stakeholders take place, based on facts and science, not on ideological opposition to change and exclusion of the industry.

Regards,



Emmanuel Babeau

Chief Financial Officer  
Philip Morris International

CC: Suzanne Rich-Folsom, Senior Vice President & General Counsel  
Marian Salzman, Senior Vice President Communications  
Darlene Henry, Vice President, Assistant General Counsel & Corporate Secretary  
Jennifer Motles, Chief Sustainability Officer

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<sup>1</sup> We are strong believers in transparency, a hallmark of ESG reporting and analysis. Towards that end, we will be publishing this letter in the transparency section of our website: <https://www.pmi.com/sustainability/our-approach-to-sustainability/sustainability-resources>