

EVOLVING ENVIRONMENT

MATTHEW PHILLIPS
Chief Development Officer

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Our operating environment is evolving rapidly, with regulatory and social change influencing trends in nicotine consumption and an increasing number of smokers switching to potentially less harmful Next Generation Products (NGP) such as vapour, oral nicotine and heated tobacco products.

The value of the world tobacco market, however, remains significant at approximately US\$785 billion (excluding China) with over 5,400 billion cigarettes consumed a year. Around a billion adults still choose to smoke and will continue to do so well into the future.

Here, Chief Development Officer Matthew Phillips answers key questions about some of the issues related to our evolving environment.

Q How do you seek to influence regulation?

A We seek to constructively engage with regulators and encourage them to draw on our substantial expertise when considering legislative measures.

Our engagement with regulators and other stakeholders is increasingly centred on education about the potential public health benefits of NGP and the importance of the science that underpins them.

These conversations are fundamental to getting future regulation right, particularly as the NGP landscape is developing so fast.

We recognise that regulators need the right information, from the right sources, to have the confidence to be able to make important decisions around these products and we're committed to supporting this process.

Q What trends are you seeing in the development of NGP regulation?

A Essentially, we're seeing two broad philosophies playing out. On the one hand, there's the approach of 'prove it before you sell it', where regulatory standards are put in place to ensure products do what they say before they are sold. This is epitomised by the approach taken by the Food and Drug Administration (FDA) in the USA.

In other countries, the harm reduction potential of NGP is accepted early and regulation enables these products to go on sale as soon as possible. In the UK, for example, adult smokers are being encouraged to make the transition through clear communication that focuses on the health risks of combustible cigarettes compared with the risks associated with NGP.

Q Why are you promoting potentially less harmful NGP at the same time as continuing to sell cigarettes?

A The continued growth of NGP depends on the profits generated by our tobacco business. We use the strong cash flows from tobacco to develop our NGP operations, investing in technology, innovation, science and brands to create a compelling portfolio of products with potentially lower health risks.

As much as we want to see increasing numbers of adult smokers transition to NGP, we have to recognise that a significant number still choose to smoke cigarettes or use other tobacco products, and it's important that they are supplied by responsible companies like Imperial.

Q What exactly has been happening with vapour in the USA during the year?

A The vapour environment has become extremely volatile and the growth of the category has significantly slowed due to health and youth access concerns.

It's distressing to see reports of death and ill-health being linked to vapour products. To our knowledge our blu brand has not been implicated and according to the Centers for Disease Control and Prevention, most cases are linked to the use of illicit vaping products.

In terms of youth access, federal legislators have put forward a number of proposals to stop vapour products getting into the hands of young people, including an increase in the purchase age from 18 to 21 and banning flavours. In parallel, many states have moved ahead with their own regulatory and excise agendas.

Q What are you doing to make sure your NGP aren't getting into the hands of young people?

A No one wants to see young people smoking, vaping or using any other NGP, we're very clear on that at Imperial: these products are for adult smokers only.

As a result of that firmly held belief, the issue of youth access prevention has always been a priority across our tobacco footprint and the robust approach we take is extended to the way we market and sell NGP.

Our prevention programme includes prohibiting underage online sales through age verification systems and monitoring transactions for fraudulent activity, unauthorised wholesaling and sales by proxy, where products are purchased on behalf of minors.

We also demand stringent commitments to prevent underage access from our retail partners and enforce these through random compliance checks.

The responsible way we conduct ourselves is enshrined in the marketing standards we have for tobacco and vapour and both documents are published in full on our website.

Q What about the use of flavours? Doesn't that attract non-smokers, particularly children?

A No, we don't believe they do. A growing body of research shows flavours play a critical role in attracting and retaining adult smokers into the vaping category, directly contributing to tobacco harm reduction and declining smoking rates.

Our own research among adult vapers in the USA, shows that the adult smoker journey to vaping often begins with familiar flavours like tobacco and menthol. However, the vast majority later progress to other flavours.

So, we cannot ignore the importance of flavours to the vapour category but we must ensure that they are not marketed in a way that appeals to young people.

Q What do you see as the biggest risk, in regulatory terms, to effective NGP legislation?

A The biggest risks are over-regulation and over-taxation of NGP before they have the chance to develop and be properly understood by consumers. We believe these heavy-handed responses stem from misunderstandings about the nature of NGP and their conflation with tobacco products.

NGP are an entirely different proposition to tobacco, given their potentially reduced risk profile and the technology they deploy, and we believe they have a significant role to play in tobacco harm reduction policies.

Q How are tobacco control policies impacting your business and are you concerned about the continual decline in tobacco volumes?

A Tobacco continues to be highly regulated and in a variety of different ways. This has been the case for many years and we're very experienced at managing the impact.

Moving forward, we believe tobacco control policies should evolve to fully recognise and leverage the public health potential NGP offers. As I said earlier, it's vital we have a legislative framework that raises standards and gives smokers the confidence to try NGP.

As for volume declines, this is something else we've been effectively managing for a long time. The scale of decline varies from market to market and is still more than offset by pricing.

Q What are you doing to make sure your brands and products aren't being smuggled?

A The smuggling and counterfeiting of tobacco remains a significant global problem and the consequences are considerable as children can more easily obtain cigarettes, smokers are deprived of the quality they expect and governments and legitimate retailers are deprived of revenues. Much of the problem is down to disproportionate regulation and excessive excise policies.

We're committed to tackling illicit trade and apply stringent controls to our distributors. We also employ a dedicated team of specialists to help disrupt the supply of illegal cigarettes and a lot of the work they do involves partnering with law enforcement agencies. In 2019 the intelligence we shared with these agencies resulted in 360 million illicit cigarettes being seized.