Analysis Criterion

Tobacco

Storebrand Sustainability Team

Storebrand aims to invest in companies that contribute actively to sustainable development. We believe such practices – when integrated into core business – will be financially rewarded. Furthermore, we have implemented a standard across the Group – the 'Storebrand Standard' – that leads to certain companies being excluded from investment, including those that derive more than five percent of their income from the sale of tobacco products or from components exclusively designed for such products.

Definition

Storebrand applies the World Health Organisation's (WHO) definition of tobacco products; "products entirely or partly made of the leaf tobacco as raw materials which are manufactured to be used for smoking, sucking, chewing and snuffing."

Scope

The criterion applies to producers and distributors whose sale of tobacco products, or components exclusively designed for such products, exceeds 5 percent of total sales. An example of components exclusively designed for tobacco products is filters. This threshold also applies to companies involved in cultivating and processing tobacco. However, companies are not covered by this criterion if they supply other products or services to the tobacco industry, such as advertising, fragrances or packaging.

Companies that have significant ownership – typically 50 percent or more[1] – in a company that produces or sells tobacco products or tailor-made components, are also excluded. In the event that subsidiaries of a company are involved in such activities, but are not publicly listed, the closest listed company above the subsidiary in the hierarchy, with a controlling interest, is excluded. In the event that a subsidiary involved is listed, the parent company is also excluded if it has a controlling interest in the subsidiary. If a parent company is involved, listed subsidiaries are only excluded if they are involved in the same unacceptable activities.

Methodology and data source:

If a company is detected to generate revenues from production or have more than 5% of its revenues from distribution of tobacco as screened by either of the data providers Sustainalytics or ISS-Ethix, the company will be excluded.

Background

The global tobacco industry is comprised of a small number of multinational companies and state monopolies. The largest state monopoly is located in China, which holds approximately 40 percent of the global market share. Five of the largest multinational tobacco companies account for another 40 percent.

[1] A set of factors determine the degree of control. Joint ventures are subject to a separate assessment.

It is a well-established fact that the use of tobacco products has a damaging impact on human health. According to the WHO "an estimated 4.9 million deaths per year are caused by tobacco. Without further action, it is predicted that in 2020 the mortality burden attributable to tobacco will increase two-fold. Together with HIV/AIDS, tobacco use is the fastest growing cause of death in the world and is set to become the leading cause of premature death in the 2020s." Scientific evidence has shown that any form of tobacco use may cause health problems in one's lifespan, and it frequently results in death and disability. Smokers have an increased risk of multiple cancers and heart disease. Chewing tobacco is known to cause cancers of the lip, tongue and mouth, as are cigar and pipe smoking. Even passive smoking has a damaging effect on health — WHO estimates that the risk of falling victim to lung cancer increases by between 20 and 30 percent for non-smokers exposed to passive smoking on a daily basis. Children are at particular risk from adults smoking; in particular, women smoking during pregnancy can adversely affect the development of their foetus.

Even though tobacco use is gradually declining in the West, there is an alarming increase in smoking in developing countries — regions poorly equipped both financially and structurally to handle health problems in the wake of the increased use in tobacco products.

While the moral arguments for not investing in tobacco products are clear, the financial arguments for not investing in them are equally convincing. The health risks related to the use of tobacco and the addictive nature of the product has resulted in a steady increase in the number of lawsuits facing tobacco companies by governments, individual smokers, and relatives of those having suffered its health consequences. Though not as widespread a practice in the rest of the world, US tobacco companies have been targeted for quite some time. Even though most of these cases are settled out of court, this still constitutes a great financial burden on the companies. An example of this is the November 1998 Master Settlement Agreement which requires the major tobacco companies in the US to pay 50 states an estimated USD 268 billion over 25 years to cover health expenditures related to the use of tobacco products.

Countries are also beginning to comprehend the financial burden of health expenditures caused by the use of tobacco products. Governments are responding to this problem by increasing taxes on tobacco products, restricting the advertising of tobacco products, banning tobacco use in public areas as well as introducing national campaigns and programs to reduce the number of people using tobacco products. The WHO Framework Convention on Tobacco Control came into force in 2005, and is ratified by 178 countries. The treaty attempts to curb smoking-related illnesses worldwide by restricting second hand smoking, tobacco advertising and sponsorships, and combating tobacco smuggling.

References

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