Aberdeen Position Statement – Tobacco

April 2025

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The issue

Tobacco companies are commonly excluded from sustainable investment funds. Many institutional fund managers and asset owners now exclude tobacco from their investment portfolio entirely.

Tobacco companies can provide strong income and investment returns. Nevertheless, the industry faces social and structural challenges, including increasing regulation and heightened consumer concern around the health dangers. Smoking rates are decreasing in developed markets while increasing in emerging markets. Still, cigarette volumes are diminishing. In response, tobacco firms are pivoting to 'smoke-free' Next Generation Products (NGPs) and presenting this offering as a less harmful alternative.

Tobacco is responsible for over eight million deaths a year – the subject of significant international scrutiny.[1] The health impacts of NGPs are increasingly subject to public scrutiny. It is challenging to confidently assert that NGPs are harmless in the long term, especially considering reports that they often attract a younger user base, who might not otherwise be exposed to nicotine.

While the health impact of tobacco remains the industry's most salient sustainability issue, there are other areas of concern. The environmental impact of tobacco farming includes adverse effects of pesticides and fertilisers, soil degradation, and significant water withdrawal for agricultural activities, with particular concern for water-stressed regions.

Additionally, the sector faces heightened human rights and labour risks. Investors should be mindful of the reputational risks associated with tobacco companies, especially regarding potential ties to child labour and modern slavery.

- Reportedly, the tobacco industry consumes an estimated 600 million trees, 200,000 hectares of land, 22 billion tonnes of water and emits 84 million tonnes CO_2 annually.[2]
- Tobacco is produced in 124 countries, including many of the world's poorest and least developed nations.[3]

Meanwhile, tobacco is an important source of tax for many governments. In countries like the UK and Australia, nicotine regulation has bipartisan support. In other regions, it has become a political issue. For instance, New Zealand enacted a flagship law in 2023 to reduce the nicotine levels in cigarettes, restrict sales locations, and prohibit sales to individuals born on or after 1st January 2009. However, a new administration moved to repeal the legislation, citing, among other reasons, the potential for revenue generation that could support wider tax cuts.[4]

Increased regulation and taxation, or regulation that is enforced inconsistently, can lead to unintended consequences. Australia,[5] the United States,[6] and the United Kingdom[7] have all reported on a growing illegal nicotine market. This undercuts legitimate business and exposes users to harmful, unregulated products, which are sometimes pushed by criminal organisations.

From a governance perspective, lobbying represents a significant area of focus for investors. In 2023, the tobacco industry invested over $28 million in lobbying activities within the US alone.

[1] Tobacco.
[2] WHO raises alarm on tobacco industry environmental impact.
[3] Stop tobacco farming, grow food instead, says WHO | UN News.
[4] New Zealand in U-turn on plans for historic ban on smoking | The Standard.
[5] The black market for cigarettes has exploded in plain sight and it's costing taxpayers billions - ABC News.
[6] Joint Federal Operation Results in Seizure of More Than $18 Million in Illegal E-Cigarettes | FDA.
[7] The 2024 Illegal Vaping Report.

Finally, it is important to note that NGPs, while promoted as a safer alternative by tobacco companies and initiatives such as the UK's NHS Swap to Stop scheme, also come with their own sustainability risks.

- In the US, a sudden epidemic of lung disease cases was observed where all those affected had used e-cigarettes.[8]
- In the UK, approximately 1.3 million disposable vapes are discarded weekly, representing the lithium required to manufacture about 1,200 car batteries.[9]

Why is this important for investors?

Although regulation surrounding the sale and promotion of cigarettes tends to be stringent, the regulatory curve is generally well understood. Furthermore, the significant tax revenue generated from tobacco means that any governmental changes are likely to be incremental, making sweeping outright bans unlikely.

However, the transition to NGPs present its own set of challenges, keeping tobacco companies in the political and media spotlight. This visibility carries reputational and regulatory risks, alongside increasing potential for litigation. The regulatory framework for NGPs is less defined, leading to the possibility for significant stock fluctuations. Reputational risks affect the entire value chain. The adverse effects of tobacco, which directly contradict the promotion of good health and well-being (Sustainable Development Goal 3), combined with concerns regarding the welfare of tobacco growers, exposes investors to human and labour rights risks.

Our view and approach to investments

All our pooled sustainability-focused funds have tobacco exclusions, which also capture NGPs. For many of these funds, we employ revenue thresholds to identify companies, and we also differentiate between producers and retailers. Our approach is subject to ongoing and active review to ensure we maintain appropriate sustainability standards and alignment with our clients' and regulators' expectations.

In 2019, we undertook an extensive study to assess whether the tobacco industry should be formally excluded from our potential investment universe. The sector's strong dividend income, taken with a full spectrum of client view on tobacco exclusion from around the world, results in a mixed investment view. The conclusion that neither client nor investment rationales were compelling enough to mandate such broad exclusions led us to decide not to implement a house-wide exclusion of tobacco from all our funds. For clients who feel they would like to exclude tobacco from their investment, we offer a range of tobacco-free funds.

Our approach and actions

Our sustainable investment approach has six areas of focus that we can use as levers to enable more sustainable investment where we believe there is a material financial concern or client interest in doing so. Not all topics will require, or be at the stage, where we are using all these levers. For transparency, we aim to show what activities we have or are currently using to support our positions.

Focus	Tobacco Activity	Investment outputs
Insights & data	We conducted internal re-search into the impact that external factors - especially regulation - could have on tobacco use and Next Gen-eration Products (NGPs), by reviewing company disclo-sure and information from public entities, such as The World Health Organisation and The US Food and Drug Administration.	Internal research shared with investment desks.
Investment integration/ tools	In active funds our analysts and portfolio managers will assess historic and forecast revenue-volume growth; the significance and likelihood of litigation and regulatory pressure on the company; its pricing power; and its pro-gress with NGPs and the up-take of these.	Aims to address regulatory risks arising from tobacco's public health impacts, how companies are adapting, and implications for the invest-ment thesis.
Client solutions	All our pooled-sustainability focused funds have tobacco exclusions, which also cap-ture NGPs. Our approach is subject to active review against appropriate sustain-ability standards and clients' and regulators' expectations.	The ability to provide tobacco-free investment funds aligned with sustainability-objectives.
Collaboration & influence		
Active ownership		
Disclosure		

Why do we have position statements?

Our position statements align to the Principles for Responsible Investment's guidance on what constitutes a responsible investment policy: "Responsible investment can be integrated into investment policies in many ways, including high-level public statements, codes of business practice, a standalone responsible investment policy or by embedding responsible investment considerations into an organisation's main investment policy". They cover specific sustainability topics to help our clients understand our view on those topics and the actions we are taking.

[8] WHO raises alarm on tobacco industry environmental impact.
[9] UK Tosses 1.3M Single-Use Vapes Weekly, Recycling Urged.

Important Information

Investment involves risk. The value of investments and the income from them can go down as well as up and an investor may get back less than the amount invested.

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