

The Empire Club Presents



PETER LUONGO

MANAGING DIRECTOR,
ROTHMANS, BENSON &
HEDGES INC.

WITH: UNSMOKE CANADA: HEATING, VAPING AND THE END OF CIGARETTES

Welcome Address, by Mr. Michael Kobzar, Director of Sales, Ontario, Siemens Canada; First Vice President, Empire Club of Canada

May 28, 2019

Good afternoon, ladies and gentlemen, from the Sheraton Hotel in downtown Toronto, welcome, to the Empire Club of Canada.

For those of you just joining through either our webcast or podcast, welcome, to the meeting.

Today, we present Peter Luongo, Managing Director of Rothmans, Benson & Hedges. And today's topic is "#UnsmokeCanada: Heating, Vaping and the End of Cigarettes."

HEAD TABLE

Distinguished Guest Speakers:

Mr. Peter Luongo, Managing Director, Rothmans, Benson & Hedges Inc.

Guests:

Mr. John Carbone, Vice President, Sales and Marketing, Core-Mark International

Mr. Philippe Gervais, Principal, Navigator Ltd.

Mr. Mike Ghesquiere, Manager, National Key Accounts, Rothmans,
Benson & Hedges Inc.

Mr. Peter Hermant, Past President, Empire Club of Canada

Mr. Peter Kerr, Vice President, Business Development, Sobeys Inc.

Mr. Ziggy Krupa, Management Consulting, Cedar Croft Consulting Ltd.;
Treasurer, Empire Club of Canada

Ms. Julie Paise, Director, Reduced-Risk Products, Rothmans,
Benson & Hedges Inc.

Mr. Jan Westcott, President and Chief Executive Officer, Spirits Canada;
Director, Empire Club of Canada

These are certainly challenging times for traditional retail businesses. Even large companies and brands need to be acutely aware of changing dynamics, changing demographics, globalization, e-commerce, changing consumer attitudes, online retail, and the use of social media.

I am sure many people in this room work for organizations that are grappling with some of those challenges right now. I venture to say that a company like Rothmans, Benson & Hedges has a few more challenges layered on top of those. Knowing when and how to pivot makes all the difference in the world. It is the difference between Amazon or Barnes & Noble, Netflix or Blockbuster, Nikon or Kodak.

There are many examples of organizations which have simply refused to adapt. There is a famous nautical quote by Ella Wheeler Wilcox, and it goes like this, “One ship drives east and another drives west, yet the same winds blow.

It’s the set of the sail and not the gale that determines which way they go.” Today, this quote has far more resonance in the business world than it does in the Maritime world. Our guest, today, is acutely aware of this reality.

Peter Luongo served as the vice president of Treasury & Planning for Philip Morris International. In 2016, he was named Managing Director for the Canadian market.

Before joining Philip Morris, he was a partner at the investment banking firm, Centerview Partners LLC.

He has extensive experience in advising international clients across a range of sectors, and some of his clients were Heinz, Kraft, PepsiCO, Campbell’s and Anheuser-Busch.

Before I call Mr. Luongo to the stage, there are some cue cards in front of you. If you have a question that you would like to ask at the end, he is gracious enough to have agreed to take questions. Just fill those out, and, at some point, just wave them in the air, and they will be collected and brought up to me to the front.

He holds a Bachelor’s degree in economics from Princeton University. Please, welcome Mr. Peter Luongo.

Mr. Peter Luongo

Good afternoon everyone, and thank you for having me here today. As Michael said, I am Peter Luongo, and I am the Managing Director for Rothmans, Benson & Hedges, the Canadian affiliate of Philip Morris International.

Why am I here with you today? As an executive with the world's largest tobacco company, it may surprise you that I am here today to talk to you about our desire to stop selling cigarettes in Canada and about a future without cigarettes, a smoke-free Canada. Imagine that, a Canada where cigarettes are no longer sold by 2035—hopefully, even sooner—because our society is in transition in our workplace diversity, in the energy that we use to heat our homes and to power our cars, in the food we eat, in how we communicate and, yes, also in how we consume tobacco.

I am here today to talk to you about how, together, we can Unsmoke Canada. Before I unpack that word 'Unsmoke', I want to be very clear on one point. At Rothmans, Benson & Hedges, we want to help Unsmoke the world and that includes guarding youth against taking up smoking, vaping, heating or any other form of nicotine-containing products. I want to be emphatic on that point. We want to do everything possible to stop youth from taking up any of these types of products. That said, what does 'Unsmoke' mean for adults? Because it is an odd word, is it not?

I hope it gets you to pause, to turn your head and ask, "Tell me what it means." The idea to 'Unsmoke Canada'

does need a bit of reflection. That is the point, to prompt a pause, prompt the question, to spark a conversation.

For us, the meaning of ‘Unsmoke’ is clear. It means to rid your life of smoke. Quite simply, if you do not smoke, do not start. If you smoke, quit. If you do not quit, change.

It is hard to argue with those three simple sentences because if you smoke, and you do not quit, then change is a better choice.

This is not a message that people expect to hear from a big tobacco company. In fact, it is not a message that people may be willing to hear from a big tobacco company.

I think that is okay, and we should acknowledge that because we cannot have a meaningful conversation unless we acknowledge where we have come from and where we are today.

If we can be candid together, if we can be open-minded together, then we can have a powerful conversation about creating extraordinary change in the lives of Canadian smokers and in the lives of people who love them and that is how we can Unsmoke Canada. We cannot do it alone.

Quick show of hands. How many people in the room, today, consider themselves smokers? I am not surprised to see that. Smokers, today, often even hide the fact that they smoke, even from people they know well. Even from their loved ones. What we do not see, we do not think exists. Out of sight really is out of mind.

It may surprise you that many Canadians today still do smoke. In fact, nearly 5 million Canadians of all walks of

life are regular smokers of cigarettes today. In total around the world, there are more than 1.1 billion smokers out there.

That is around 18% of the world's population. That is despite fairly aggressive measures by governments around the world to reduce smoking rates over the years.

The World Health Organization believes that number is not going to change very much over the next decade.

A billion smokers today. A billion smokers ten years from now. How do we help those smokers?

Chances are, if you are like me, someone you know smokes. It could be a family member; it could be a friend; it could be a co-worker; but someone in your life is probably a smoker. Let us be honest: It probably bothers you. In fact, if you really admit it, you would really say that you hate it.

You hate the fact that that person smokes. You want them to stop, but deep down you know that they may not quit. So, you are torn because, on the one hand, you want them to stop smoking. On the other hand, you know they have not quit yet, and there is a good chance that they are not going to quit, so you would like for there to be a better way for them. At RBH, we share that feeling.

We all employ different strategies to deal with people who smoke. Some take the slow-and-steady-reminders-to-quit approach. Some believe in more of a tough-love approach to the situation. Others believe that you need to let the person figure it out for themselves. Let us be honest: We have all felt that internal conflict when it comes to these people whom we love, that conflict of whether to

leave them alone and let them be or whether to jump in and to make them stop.

If you think about anyone you know who smokes, you would probably agree that you care about that person, and you wish there was something you could do to get them to change, if they are not going to quit. You are right to be pragmatic about this. You are right to want an alternative for someone who does not quit. You are not alone because at RBH, we care, too, and we are doing something about it.

First, we need to define the problem. Any scientist will tell you that tobacco is not the main problem with the cigarette, and it is not the nicotine either. It is the smoke.

Contrary to popular opinion, tobacco is not the primary cause of smoking-related diseases, nor is it the nicotine.

Let me be clear, neither tobacco nor nicotine is risk-free. The main health risks from cigarettes come from the burning, the combustion process, the inhalation of smoke, which contains thousands of chemicals.

Public health authorities have identified many, many chemicals in the smoke of cigarettes that are related to causing diseases, such as lung cancer, cardiovascular disease and emphysema.

The big problem is the smoke and smoke comes from burning. In fact, any time you are around smoke it is not good for you, whether it comes from cars, from factories, from forest fires. Smoke is not good. Whether it is first-hand or second-hand, smoke is bad. With a cigarette it is the burning process that produces the largest amount of

harmful chemicals. While nicotine, as I said, is addictive, it is not nearly as dangerous as the smoke from cigarettes.

That is why you see, actually, nicotine replacement therapies in drug stores: nicotine patches, nicotine gum, nicotine sprays—you name it—because nicotine is not the main problem.

If we go back to the nearly 5 million people in Canada who smoke and the more than one billion people worldwide who smoke, we know that these nicotine products do not always result in people quitting. Why is that? It is pretty simple. When you are talking about a patch or a piece of gum, it is not going to create the same sensory experience that someone gets when they light a cigarette.

This made our colleagues at PMI actually ask the question: “What if there was a way to take the smoke out of a cigarette, to have a product that did not burn, that was smoke-free that could truly help people to break away from cigarettes if they are not going to quit? What if there was a way to Unsmoke the world and to help those who smoke make better choices?” People have been consuming tobacco in the same way for centuries, by burning it and inhaling the smoke. It is time for change. Technology is revolutionizing the way we live our lives. Now, new technology could mean the end of cigarettes. I am not going to bore you with the technical details, but, fundamentally, new technology is giving today’s smokers better options for the future.

The reality is simply this: It was industrial innovation that took tobacco into mass-produced cigarettes for smok-

ing, and it is innovation that is now taking the smoke out of tobacco.

Our parent company actually invested more than \$9 billion, and that is billions with a ‘B’, to find smokers a better alternative to cigarettes. We hired hundreds of the world’s best scientists, engineers and innovators, and we set up a state-of-the-art lab for them to work in. With breakthroughs in science and technology, PMI created a range of new, smoke-free devices that deliver nicotine without creating the same harmful smoke as cigarettes. PMI took this holistic approach because there is no one device that will work for everyone.

The first of these products to be marketed by us in Canada is called IQOS. It looks like a pen. It comes in a small, rechargeable battery case that fits in your pocket. Sold separately are tobacco sticks, and we call them ‘heat sticks’, actually, that the user inserts into the IQOS device. You then press the on button, and the battery heats up the tobacco to a temperature that is less than half of that of a combusted cigarette. What does that mean? What it means is that you release the flavour; you release the nicotine in a vapour, but without the smoke, without creating all of those harmful chemicals that I mentioned earlier—so not hot enough to burn and not hot enough to create microscopic solid particles, or ash, that comes with the burning process.

That is the key word, ‘create’ because, if the chemicals and the ash are not created, then they cannot go into your lungs in the first place, nor can those chemicals bother peo-

ple around you, so no more second-hand smoke.

It is a scientific breakthrough that, quite frankly, is being recognized around the world. Just this month, in fact, the U.S. Food and Drug Administration reached a milestone decision after reviewing extensive scientific research.

For the first time in its history, actually, the FDA authorized an electronically heated tobacco product for sale in the United States, and it was IQOS.

After two years of fulsome review, the FDA actually determined that authorizing IQOS for sale in the U.S. market was, and I quote, “appropriate for the protection of public health.” Let me repeat those words from the FDA, because I think they are important. They are allowing the sale of the product, because doing so is “appropriate for the protection of public health.”

Why did they make that determination? Among many considerations, looking at data from lots of different studies and lots of different angles, one of the things that they recognized—and this is, again, a direct quote from the news release—was that IQOS “produces fewer or lower levels of some toxins than combustible cigarettes.” That is the heart of the point: We are dramatically reducing the amount of chemicals that are produced because there is no smoke.

The truth is that better is not perfect. Let me be clear. No tobacco product is risk-free, but, at the same time, not all tobacco products are the same. I think that it is time for us to recognize that fact as a society, and it is time for a change.

Let me actually take a step back because I actually lived

this change myself. I think, as you heard in the introduction, six years ago, I was actually sitting as an investment banker. Philip Morris was a client. At the time I smoked. Working with Philip Morris, I started to see the first prototypes of these products, well before commercial sale.

I said, “Huh, this is kind of interesting. This is something that I think would benefit me, but also society, as a whole.” When I actually got the opportunity, I moved my family over to Switzerland to start working with Philip Morris full time and started to work on the initial launches for these products.

It was after that we started to launch these products, and it was in some early test markets that we started to get the insights, to get real data, real reactions from consumers, real scientific evidence and additional scientific evidence that we had not had when we first started. That was my real aha moment on these products. It is a time when you can actually see the future. I do not mean ‘see’ like a crystal ball, but I mean it is a time when you realize that there is a new technology, a new concept that is going to fundamentally change how our world works.

I think we heard some examples from Michael earlier. There are plenty of times where, in hindsight, you realize that technology is going to disrupt the way that we live our lives. You do not have to, if I take the example of cell-phones, have understood 20 years ago exactly what a smart-phone was going to look like in 2019 to appreciate that the massive availability of mobile devices was going to have

profound impacts for society. We do not know exactly the path, but we know change is coming. I think we have the same opportunity here. For me, the handwriting was on the wall. The future will be smoke-free. The only questions for me are: How do we get there, and who is going to lead the transformation?

When you are faced with these kinds of transformative opportunities—challenges even—there are really two options when you are in business. The first is to put your head in the sand, to try and stick with your old business model for as long as possible and hope for the best, or you can try to lead the change, to embrace the opportunity, to build a better business, and, hopefully, have a positive impact on society as you do it.

That is why I was actually extremely excited to move to Canada two years ago, to get out from behind my desk job in Switzerland and to be on the ground as we were launching IQOS for the first time here. I guess that is enough about me. You are probably sitting there asking, “I don’t work for the company, and I do not smoke, so what does that mean for me?” The truth is, we have all been impacted by smoking in one way or another. I think, to conclude here, it is important that we all recognize that change is happening.

In only a few years, we have more than 7 million smokers in almost 50 countries around the world who have quit cigarettes entirely and switched to IQOS—that is, 7 million smokers who have taken a decision to reduce their risk of

tobacco-related disease; 7 million smokers whose friends and family can feel better about the fact that despite the fact that they are still using nicotine, they have made a better choice for themselves and for their family and thousands more are changing every day. That is progress. That is a step to Unsmoke the world. In fact in Canada, we have set our target date: By 2035, we want to Unsmoke Canada.

We want to have a smoke-free future. What needs to happen in fact for us to Unsmoke Canada? Actually, it starts with a conversation, much like the one that I hope we are having here, today. It is a conversation with our friends and family; it is a conversation with healthcare professionals, with other industry stakeholders and with government regulators, because we need healthcare professionals and regulators to take a common-sense approach to these issues to understand that smokers need access to better information about the alternatives that are available to them.

The reality is that, today, there is a lot of confusion in the market. The restrictions that are in place for these products, like IQOS, are virtually identical to the restrictions that are in place for cigarettes.

That is just wrong because we know all of the scientific evidence that shows that switching to IQOS is a better choice than smoking cigarettes.

We also need you. We need you to believe that Canada should take a pragmatic approach to make better choices available to current adult smokers. It might not be perfect, but it is progress. Let us face it, smokers and the people

who love them do not need our judgment or our moralizing. They need our care, our compassion, our openness, and they deserve our help.

Our message is simple: There are alternatives, and, together, we can Unsmoke Canada. Thank you.

Questions & Answers

MK: As mentioned earlier, he is willing to take some questions. If you have any further questions, just raise your cards in the air, and we will have somebody collect them up. Some were brought to me already.

Rothmans, Benson & Hedges has been in Canada for a long time. Why now?

PL: It comes down to having the technology available to us. Actually, a lot of these ideas have been floating around for decades, even. It is only now that we have finally developed products that not only reduce risk, but also are accepted by adult smokers because, at the end of the day, if you have a product that is perfectly risk-free, but no one switches from cigarettes, it is not going to have the benefit to public health. It has really only been in the last few years that the technology has gotten to the point where it is interesting.

MK: What is the biggest hurdle to getting to smoke-free by 2035?

PL: Really, it is having people like regulators, so Health Canada, in particular as well as provincial governments and healthcare professionals understand that smoke-free alternatives like IQOS should be part of the solution. If we do it in a responsible way, if we focus on educating adult smokers in terms of what their options are, then it will be much more impactful.

The problem today, Michael, is that everyone knows what cigarettes are. Everyone knows where you can buy them. Everyone knows what they do.

They do not necessarily understand the alternatives, and, importantly, they do not necessarily understand the science between the alternatives and what the differences are. You have a lot of different options out there. You have a lot of vaping products; you have heated tobacco products like our IQOS. And I would almost guarantee that the number of people who actually understand the science and the difference between those two products is pretty limited today.

MK: Thank you. How do you expect to shift the mentality of the regular smoker? Education?

PL: This is something that will clearly take time, and I think we all understand that. The more that we can get out, explain our vision, the more that we can have those conversations and actually answer the tough questions, the more that we can have an impact and

slowly get people to understand what we are trying to do.

MK: I know a lot of the laws in Canada are with respect to where you can smoke. They have to do with isolating people from smoke, patios, outside umbrellas, things like that. Now, you have a product that does not smoke. Do the laws have to keep up, or are those laws irrelevant because there is no smoke?

PL: From a health perspective, because there is no smoke, the laws should largely be irrelevant. There is also the component, though, of just being polite to people around you and respectful.

There are some areas where, let us say, on an airplane, I think it would be reasonable to continue to restrict all forms of anything that is in the air in a closed space like that, but, when you get into places like public parks, I think that we should be looking at fewer restrictions on things like vaping or heated tobacco where we know you do not have the same impact on the others around you, from a health perspective.

MK: Can you, please, comment on vaping and youth in Canada? How does Unsmoke Canada address this issue?

PL: I think where—and I try to be extremely clear—we want to make sure that the right restrictions are in

place, so that youth do not get a hold of any of these products. It comes down to how they are available, the strictness of the age verification, and, frankly, some of the flavours that are used and how we can ensure that we are really targeting adult smokers. It goes to how you are communicating; it goes to where you are communicating; and it goes to the messages that you are using and the products that are being sold. Vaping is something that is a very viable alternative for adult smokers. I think that we need to recognize that and not over-react on the one hand. On the other hand, there definitely needs to be a balance there to make sure that it does not fall into the hands of the wrong people.

MK: Thank you very much. Thank you, Peter. Now, I am pleased to introduce my table mate and my new friend, Peter Kerr from Sobeys.

**Note of Appreciation, by Mr. Peter Kerr,
Vice President, Business Development, Sobeys**

It is certainly my honour here to thank you, Michael, and you as well, Peter, for speaking to us today and educating us on the plan going forward. As I was listening to your speech, I was particularly struck by the similarities between what is happening in your industry, driven by the transformation that your company has undertaken and the disruption that we have

seen in other industries with companies like Uber, Airbnb and Amazon. Challenging the status quo and challenging ourselves to do better can lead to innovative new opportunities.

I am heartened to hear the strides that you are making as an industry leader, and I am excited to see and learn more about the future that you envision for your organization.

Thank you very much for speaking to us today, and thank you to the Empire Club of Canada for organizing this opportunity. Thank you.

Concluding Remarks, by Michael Kobzar

Very quickly, we look forward to seeing you at some of our upcoming events. On June 10th, the CBC's there will be the "Power & Politics Panel," which is featuring Vassy Kapelos.

On June 13th, we will have "The Rise of White Nationalism in Canada." Also, on June 13th, in the evening, look forward to "Women Who Build," featuring the Honourable Mary Ng.

I declare this meeting adjourned. Thank you.